European Leveraged Finance Association

BRIEFINGS

LEGAL & REGULATORY

13 July 2021

Legal and Regulatory Updates

05/07/2021 – 09/07/2021

Key Highlights

- This Legal & Regulatory Update covers the week commencing **05/07/2021**.
- Bank of England, PRA and FCA set out plan to improve diversity and inclusion in regulated firms.
- FCA consults on reforms to improve the effectiveness of UK primary markets.
- FRC outlines necessary action for effective ESG reporting.
- EIOPA further contributes to sustainable finance.
- ECB presents action plan to include climate change considerations in its monetary policy strategy.
- Commission puts forward new strategy to make the EU's financial system more sustainable.
- Commission publishes its proposal for a Regulation on European green bonds (EuGBs).
- Commission adopts Delegated Act supplementing Article 8 of the Taxonomy Regulation, which requires financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities.
- BCBS publishes report assessing the effectiveness of post-crisis reforms in absorbing the shock caused by the Covid-19 pandemic.
- Autorité des Marchés Financiers publishes its 2021 Markets and Risk Outlook.
- Central Bank of Ireland publishes findings of review into market abuse risks.
- ICMA publishes its analysis of the European Commission's proposal for a regulation on European green bonds.
- FSB urges action to complete the transition away from LIBOR by end-2021.
- FSB Chair presents a comprehensive roadmap for addressing climate-related financial risks.
- In this update, we also cover some of the most important news on leveraged finance published by the Financial Times during the week.

Bank of England (BoE)

07 July 2021: BoE, PRA and FCA set out plan to improve diversity and inclusion in regulated firms

The Bank of England (BoE), Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) announced that they are seeking views on regulatory plans to improve diversity and inclusion in financial services. In a discussion paper, the regulators set out policy options including, among others, the use of targets for representation, measures to make senior leaders directly accountable for diversity and inclusion in their firms, linking remuneration to diversity and inclusion metrics and the regulators' approach to considering diversity and inclusion in non-financial misconduct. The discussion paper also focuses on the importance of data and disclosure in order to enable firms, regulators and other stakeholders to monitor progress. The regulators believe that increased diversity and inclusion will advance their statutory objectives by resulting in improved governance, decision-making and risk management within firms, a more innovative industry, and products and services better suited to the diverse needs of consumers.

To assess progress, the authorities are proposing collecting data from firms about their workforce. Prior to this, there will be a one-off, pilot survey later this year which will help to develop the proposals set out in the discussion paper and test how firms' can provide data with a view to considering regular reporting in the future. The regulators are also asking for views on how any changes could be tailored to specific categories of firms to ensure it is proportionate. The discussion paper is open until 30 September 2021. The feedback and data received will be used to develop detailed proposals, with a joint consultation planned for Q1 2022.

05 – 09 July 2021: Speeches, Letters & Publications

During the week, the BoE released the following speeches, announcements and other publications that might be of interest to our readers:

- PRA publishes CP15/21: Designating investment firms – the consultation Paper sets out the Prudential Regulation Authority's (PRA) proposals to make minor changes to its policy on designating investment firms. This includes a proposal to increase the base capital resources requirement for PRA-designated investment firms, thereby aligning it with changes to the same requirement for firms undertaking the same type of business that are only regulated by the Financial Conduct Authority (FCA) and not by the PRA – 'solo-regulated' firms
- PRA publishes supervisory statement setting out the PRA's expectations regarding firms' use of internal ratings based approaches

- Gender, age and nationality diversity in UK banks – Staff Working Paper No. 929
- The impact of machine learning and big data on credit markets – Staff Working Paper No. 930

Financial Conduct Authority (FCA)

05 July 2021: FCA consults on reforms to improve the effectiveness of UK primary markets

The Financial Conduct Authority (FCA) launched a consultation on a series of proposed reforms to improve the effectiveness of UK primary markets, alongside a discussion of how it might continue to develop the regime to ensure the UK remains a competitive and dynamic market. The FCA's proposals respond to the changing nature of companies coming to market. They aim to broaden investor access to companies in higher growth sectors by improving flexibility and accessibility in the FCA's listing regime as a gateway to the UK's main public markets. The FCA continues to prioritise high standards of corporate governance and shareholder protections and, in doing so, this review seeks feedback on the way some of the rules work and whether they could be refined and enhanced to support the sustainable growth of these companies.

The FCA is therefore consulting on the following measures:

- Allowing a targeted form of dual class share structures within the premium listing segment to encourage innovative, often founder-led companies onto public markets sooner, and so broaden the listed investment landscape for investors in the UK;
- Reducing the amount of shares an issuer is required to have in public hands (i.e. free float) from 25% to 10%, reducing potential barriers for issuers created by current requirements;
- Increasing the minimum market capitalisation (MMC) threshold for both the premium and standard listing segments for shares in ordinary commercial companies from £700,000 to £50 million. Raising the MMC will give investors greater trust and clarity about the types of company with shares admitted to different markets;
- Making minor changes to the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules to simplify the FCA's rulebooks and reflect changes in technology and market practices.

Alongside this, and as part of the same paper, the FCA has set out a discussion seeking views on the overall structure of its listing regime and whether wider-reaching reforms could improve the longer-term effectiveness of the regime. The discussion paper seeks to understand the value placed by market participants on different aspects of the FCA's current regime as well as to gather views on how the regime might be modernised.

The FCA is consulting for 10 weeks on these proposals with a closing date of 14 September 2021. Subject to consultation feedback and FCA Board approval, it will seek to make relevant rules before the end of 2021. On the discussion areas, the FCA will provide feedback and potentially consult further on wider listing regime changes in due course, if appropriate.

05 – 09 July 2021: Speeches, Letters & Publications

During the week, FCA released the following speeches, announcements and other publications that might be of interest to our readers:

- FCA highlights that fund managers falling short on assessing the value of their funds – a review of 18 fund managers between July 2020 and May 2021, covering different business models and sizes, found most had not implemented Assessments of Value (AoVs) arrangements that met FCA standards
- LIBOR 6 months to go – Keynote speech by Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, delivered at UK Finance's Commercial Finance Week on 5 July 2021

Financial Reporting Council (FRC)

07 July 2021: FRC outlines necessary action for effective ESG reporting

The Financial Reporting Council (FRC) published the FRC Statement of Intent on Environmental, Social and Governance challenges. This paper sets out areas in which there are issues with ESG information if companies are to report in a way that meets the demands of stakeholders, how to address some of these demands and the FRC's planned activities in this area. According to the FRC, there remains a range of underlying issues with the production, audit and assurance, distribution, consumption, supervision and regulation of ESG information.

In the FRC's view, there is a need for better:

- Production: to ensure that better internal information leads to better decisions and better insight for stakeholders;
- Audit and Assurance: so that the reported information is robust and reliable;
- Distribution: so that information is made accessible to interested parties;
- Consumption: to ensure this information leads to better decision making by stakeholders;
- Supervision: so that information and activity is appropriately monitored and requirements are enforced; and
- Regulation: as coordinated and coherent regulation leads to efficiency.

Additionally, the FRC highlighted that it supports global standards for non-financial reporting and welcomes the activity of the IFRS Foundation Trustees to set up an International Sustainability Standards Board. Last year, the FRC announced an expectation that public interest entities should report against the Task Force on Climate-related Financial Disclosures framework and the Sustainability Accounting Standards Board (SASB) sector-specific metrics relevant to the entity as building blocks towards this international approach and to assist investors to understand material ESG issues at companies. The FRC has assessed UK SASB reporting practice and also published a snapshot of market practice, showing an increase in uptake, but that more and better reporting is needed.

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the FRC released the following speeches, announcements, and publications that might be of interest to our readers:

- FRC revises UK quality management standards – the FRC issued revised quality management standards for an audit firm's responsibilities to design, implement and operate a system of quality management. These standards introduce a new quality management approach that is focused on proactively identifying and responding to risks to quality. This new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm, using an integrated approach that reflects upon the quality management system as a whole. The standards are effective for audits of financial statements for periods beginning on or after 15 December 2022

European Banking Authority (EBA)

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the European Banking Authority (EBA) released the following speeches, announcements, and publications that might be of interest to our readers:

- EBA publishes final draft technical standards to improve supervisory cooperation for investment firms – the EBA published final draft regulatory technical standards (RTS) and Implementing Technical Standards (ITS) on cooperation and information exchange between competent authorities involved in prudential supervision of investment firms. These draft standards, developed in consultation with the European Securities and Markets Authority (ESMA), provide a solid framework for (i) cooperation in the supervision of investment firm groups through colleges of supervisors and (ii) for information exchange for investment firms operating within the EU through branches or the free provision of services. These draft standards are part of the phase 2 mandates of the EBA roadmap on investment firms, and aim at improving cooperation and information exchanges between the supervisors of investment firms

European Securities and Markets Authority (ESMA)

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the European Securities and Markets Authority (ESMA) released the following speeches, announcements, and publications that might be of interest to our readers:

- ESMA consults on the review of transparency requirements under MiFIR – ESMA launched a Consultation Paper on the review of the regulatory technical standards, RTS 1 equity and RTS 2, non-equity transparency, on transparency requirements under MiFIR

European Insurance and Occupational Pensions Authority (EIOPA)

08 July 2021: EIOPA further contributes to sustainable finance

The European Insurance and Occupational Pensions Authority (EIOPA) issued three publications as part of its activities on sustainable finance. The work addresses key issues of climate change-related risk for the insurance sector and continues to encourage insurers to play their role of enabling climate change mitigation and adaption. EIOPA's deliverables support the EU Commission's new Sustainable Finance Strategy in striving for greater protection against climate and environmental risks through insurance coverage, and integrating sustainability risks in the prudential framework for insurers.

The three publications are:

- Pilot dashboard for the natural catastrophe protection gap: EIOPA's first pilot dashboard depicts the insurance protection gap for natural catastrophes in Europe. The pilot dashboard brings together data on economic and insured losses, vulnerabilities and exposure, as well as insurance coverage across the EU Member States. The data show that only 35% of the total losses caused by extreme weather and climate-related events across Europe are insured. The dashboard will help in identifying regions at risk, the drivers of a climate-related insurance protection gap, as well as defining proactive prevention measures;
- Methodological paper for integrating climate change in underwriting risk capital charge of the Solvency II standard formula: EIOPA proposes methodological steps which support the need to formalise an approach to re-assess and, where needed, recalibrate parameters for the natural catastrophe risk module of the Solvency II standard formula on a regular basis. The regular re-assessment or recalibration would integrate new considerations such as use of models, which explicitly consider climate change, as well as the possibility to include new countries. The paper also identifies the need to enhance the understanding on emerging perils such as wildfire or droughts. The methodology takes into account that the frequency and severity of natural catastrophes is expected to increase due to climate change; and
- Report on non-life underwriting and pricing in light of climate change: The report investigates the opportunity for (re) insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation, by supporting the insurability of climate change-related risks.

As the next step, EIOPA will focus on exploring a risk-based prudential treatment of insurance products related to climate change adaptation. EIOPA will also investigate the integration of climate change adaptation and mitigation requirements in insurance distribution and product oversight and governance requirements. Finally, EIOPA will consider investigating the potential for long-term non-life contracts, considering the need to develop innovative solutions.

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the EIOPA released the following speeches, announcements, and publications that might be of interest to our readers:

- EIOPA reports on key financial stability risks in the European insurance and pension sectors – EIOPA published its Financial Stability Report that addresses key financial stability risks in the European insurance and pension sector. The Financial Stability Report also includes two thematic articles, the first one focusing on the impact of EU-wide insurance stress tests on equity prices and systemic risk and the second one on the risks of climate change for the real economy and the potential mitigating role of insurance

European Central Bank (ECB)

08 July 2021: ECB presents action plan to include climate change considerations in its monetary policy strategy

The Governing Council of the European Central Bank (ECB) decided on a comprehensive action plan, with an ambitious roadmap (see annex) to further incorporate climate change considerations into its policy framework. With this decision, the Governing Council underlines its commitment to more systematically reflect environmental sustainability considerations in its monetary policy. The decision follows the conclusion of the strategy review of 2020-21, in which the reflections on climate change and environmental sustainability were of central importance. The ECB recognises the need to further incorporate climate considerations into its policy framework.

With this action plan, the ECB will increase its contribution to addressing climate change, in line with its obligations under the EU Treaties. The action plan comprises measures that strengthen and broaden ongoing initiatives by the Eurosystem to better account for climate change considerations with the aim of preparing the ground for changes to the monetary policy implementation framework. The design of these measures will be consistent with the price stability objective and should take into account the implications of climate change for an efficient allocation of resources. The recently established ECB climate change centre will coordinate the relevant activities within the ECB, in close cooperation with the Eurosystem.

These activities will focus on the following areas:

- Macroeconomic modelling and assessment of implications for monetary policy transmission;
- Statistical data for climate change risk analyses;
- Disclosures as a requirement for eligibility as collateral and asset purchases;
- Enhancement of risk assessment capabilities;
- Collateral framework; and
- Corporate sector asset purchases.

The implementation of the action plan will be in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting, including the Corporate Sustainability Reporting Directive, the Taxonomy Regulation and the Regulation on sustainability-related disclosures in the financial services sector.

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the ECB released the following speeches, announcements, letters and publications that might be of interest to our readers:

- Climate Change and Central Banks: Analysing, Advising and Acting – Speech by Christine Lagarde, President of the ECB, at the International Climate Change Conference in Venice
- The ECB's monetary policy strategy statement
- ECB Survey of Monetary Analysts (SMA) July 2021

European Commission

06 July 2021: Commission puts forward new strategy to make the EU's financial system more sustainable

The European Commission announced that it has a adopted a new Sustainable Finance Strategy, which sets out several initiatives to tackle climate change, and other environmental challenges, while increasing investment – and the inclusiveness of small and medium-sized enterprises (SMEs) – in the EU's transition towards a sustainable economy. The new sustainable finance strategy aims to support the financing of the transition to a sustainable economy by proposing action in four number of areas: transition finance, inclusiveness, resilience and contribution of the financial system and global ambition.

The Strategy includes six sets of actions:

- Extend the existing sustainable finance toolbox to facilitate access to transition finance;
- Improve the inclusiveness of small and medium-sized enterprises (SMEs), and consumers, by giving them the right tools and incentives to access transition finance;
- Enhance the resilience of the economic and financial system to sustainability risks;
- Increase the contribution of the financial sector to sustainability;
- Ensure the integrity of the EU financial system and monitor its orderly transition to sustainability; and
- Develop international sustainable finance initiatives and standards, and support EU partner countries.

The Commission will report on the Strategy's implementation by the end of 2023 and will actively support Member States in their efforts on sustainable finance.

06 July 2021: Commission publishes its proposal for a Regulation on European green bonds (EuGBs)

The European Commission published its proposal for a voluntary European Green Bond Standard (EUGBS), which will create a high-quality voluntary standard for bonds financing sustainable investment. This proposal will create a high-quality voluntary standard available to all issuers (private and sovereigns) to help financing sustainable investments. Green bonds are already used to raise financing in sectors such as energy production and distribution, resource-efficient housing, and low-carbon transport infrastructure. There is also a lot of investor appetite for these bonds. However, there is potential to scale-up and increase the environmental ambition of the green bond market. The EUGBS will set a 'gold standard' for how companies and public authorities can use green bonds to raise funds on capital markets to finance ambitious investments, while meeting tough sustainability requirements and protecting investors from greenwashing.

In particular:

- Issuers of green bonds will have a robust tool at their disposal to show they are funding green projects aligned with the EU Taxonomy; and
- Investors buying the bonds will be able to more easily see that their investments are sustainable, thereby reducing the risk of greenwashing.

The new EUGBS will be open to any issuer of green bonds, including issuers located outside of the EU. There are four key requirements under the proposed framework:

- Taxonomy-alignment: The funds raised by the bond should be allocated fully to projects aligned with the EU Taxonomy;
- Transparency: There must be full transparency on how bond proceeds are allocated through detailed reporting requirements;
- External review: All EU green bonds must be checked by an external reviewer to ensure compliance with the Regulation and that funded projects are aligned with the Taxonomy. Specific, limited flexibility is foreseen here for sovereign issuers; and
- Supervision by the European Securities Markets Authority (ESMA) of reviewers: External reviewers providing services to issuers of EU green bonds must be registered with and supervised by the European Securities Markets Authority. This will ensure the quality and reliability of their services and reviews to protect investors and ensure market integrity. Specific, limited flexibility is foreseen here for sovereign issuers.

The core objective is to create a new 'gold standard' for green bonds that other market standards can be compared to, and potentially seek alignment. This standard will aim to address concerns on greenwashing and protecting market integrity to ensure that legitimate environmental projects are financed. The Commission's proposal will be submitted to the European Parliament and Council as part of the co-legislative procedure. For further information, please check the Commission's Questions and Answers: European Green Bonds Regulation.

Further, this adopted act is open for feedback for a minimum period of 8 weeks and until the 7th of August 2021. All feedback received will be summarised by the European Commission and presented to the European Parliament and Council with the aim of feeding into the legislative debate.

06 July 2021: Commission adopts Delegated Act supplementing Article 8 of the Taxonomy Regulation, which requires financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities

The European Commission adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation, which requires financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities. Markets and investors need clear and comparable sustainability information to prevent greenwashing. This Delegated Act specifies the content, methodology and presentation of information to be disclosed by large financial and non-financial companies on the share of their business, investments or lending activities that are aligned with the EU Taxonomy.

Non-financial companies will have to disclose the share of their turnover, capital and operational expenditure associated with environmentally sustainable economic activities as defined in the Taxonomy Regulation and the EU Taxonomy Climate Delegated act, formally adopted on 4 June 2021, as well as any future delegated acts on other environmental objectives. Financial institutions, mainly large banks, asset managers, investment firms and insurance/reinsurance companies, will have to disclose the share of environmentally sustainable economic activities in the total assets they finance or invest in.

The Delegated Act will be transmitted for scrutiny by the European Parliament and the Council for a period of 4 months, extendable once by 2 months.

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the European Commission released the following speeches, announcements, letters and publications that might be of interest to our readers:

- Remarks by Commissioner McGuinness at the press conference on the New Sustainable Finance Strategy and a European Green Bond Standard
- Remarks by Executive Vice-President Dombrovskis at the press conference on the New Sustainable Finance Strategy and a European Green Bond Standard
- European Economic Forecast Summer 2021 – the European economy is forecast to rebound faster than previously expected, as activity in the first quarter of the year exceeded expectations and the improved health situation prompted a swifter easing of pandemic control restrictions in the second quarter

Basel Committee on Banking Supervision (BCBS)

06 July 2021: BCBS publishes report assessing the effectiveness of post-crisis reforms in absorbing the shock caused by the Covid-19 pandemic

The Basel Committee on Banking Supervision (BCBS) published an interim report assessing the effectiveness of post-crisis reforms. According to the report, regulatory reforms implemented since the financial crisis significantly helped banks absorb the shock caused by the Covid-19 pandemic. The report, titled Early lessons from the Covid-19 pandemic on the Basel reforms, indicates that the banking system would have faced greater stress during this period had the Basel III reforms not been adopted, and in the absence of extraordinary support measures taken by public authorities to mitigate the impact of the pandemic.

Overall, the report finds that the increased quality and higher levels of capital and liquidity in the global banking system since the adoption of the Basel III reforms helped banks absorb the significant impact of the Covid-19 shock, suggesting that the reforms have achieved their broad objective of strengthening the resilience of the banking system. It also notes that throughout the pandemic, banks continued to lend and provide other critical services. The interim report is part of the Committee's broader work programme to evaluate its post-global financial crisis reforms. It highlights a number of areas that the Committee intends to continue to monitor. The findings will also be reflected in the Financial Stability Board's interim report on financial stability lessons learnt from the Covid-19 pandemic, which is to be submitted to G20 Finance Ministers and Central Bank Governors.

Autorité des marchés financiers (AMF)

06 July 2021: Autorité des Marchés Financiers publishes its 2021 Markets and Risk Outlook

The Autorité des marchés financiers (AMF) published its 2021 Markets and Risk Outlook. The Outlook highlights the return to normal of market indicators despite continuing health, but also economic and financial vulnerabilities: the uneven nature of the recover, increase in public and private debt, the threat of rising interest rates and inflation, the proliferation of serious operational incidents in market infrastructures, and the risk of transition to new benchmarks. The transition to new risk-free benchmark rates, with the IBOR transition at the end of 2021, remains an element of short-term risk. With the support of the authorities, the financial industry is devoting significant resources to systematising the identification of IBOR exposures, implementing transition processes and developing the appropriate systems. However, some types of contracts, such as syndicated loans, cannot be automated and some non-financial companies appear to have adopted a wait-and-see attitude, although they are also concerned.

The document also highlights the complexity of reconciling the sovereignty and competitiveness of the European Union in the wake of Brexit. UK-based clearing houses remain essential for certain activities, such as euro-denominated derivatives, while Brexit has also resulted in a shift of some derivatives activity from the UK to the US. In addition to these unfavourable developments, there is the risk of regulatory divergence with the United Kingdom, such as the Financial Conduct Authority's decision to no longer apply the MiFIR double volume cap mechanism aimed at limiting the level of "dark pool" trading to EU equities on UK trading venues.

In asset management, the Outlook describes a return to structural trends with the rise of passive management in a low interest rate environment which is putting increasing pressure on costs and fees, and the development of private equity which continues at a sustained pace. The risks associated with these developments, which were already identified before the pandemic, have been accentuated, as have the ever-increasing leverage and valuations for private equity. Nevertheless, private equity is called upon to play a role in supporting the equity financing of SMEs at a time when the health crisis has accelerated profound changes in productive sectors, such as the digital and climate transition.

Commission de Surveillance du Secteur Financier (CSSF)

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the Commission de Surveillance du Secteur Financier (CSSF) released the following speeches, announcements, letters and publications that might be of interest to our readers:

- CSSF draws attention to ESMA's clarification on the reporting of risk measures under AIFMD – the CSSF drew attention to the publications dated 28 May 2021 concerning new ESMA Q&As and an updated Opinion "Collection of information for the effective monitoring of systemic risk under Article24(5), first subparagraph, of the AIFMD", in order to provide clarifications on the risk measures included in the AIFMD reporting (data fields 138 to 147 of the AIFMD reporting template). These publications aim at harmonising the calculation of these measures and ensure that they are consistent and comparable across the EU by defining notably the measurement unit, time reference and scope and by providing illustrative examples
- CSSF draws attention to ECB and ESRB's joint report on climate-related risk and financial stability – the CSSF highlighted that it echoes the words from the president of the ECB and ESRB chairwoman, Christine Lagarde, on the fact that the report's findings underline the urgent need for effective climate policies and economic transition. Notwithstanding the notable progress made on granular risk mapping covering physical and transition risk drivers, the CSSF stressed that there is a need to continue working on refining the tools to measure the impacts of climate change on financial stability

Central Bank of Ireland (CBI)

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, the Central Bank of Ireland (CBI) released the following speeches, announcements, letters and publications that might be of interest to our readers:

- Central Bank publishes findings of review into market abuse risks – the Central Bank published a series of findings and expectations from its industry-wide review of compliance with the Market Abuse Regulation (MAR). This review examined how regulated firms, issuers, and advisors who act on behalf of issuers are meeting their obligations to ensure organisational arrangements are effective in mitigating the risk of market abuse and ensuring market transparency
- The Outlook for the Irish Economy – Governor's Blog

International Capital Market Association (ICMA)

08 July 2021: ICMA publishes its analysis of the European Commission's proposal for a regulation on European green bonds

On 6 July 2021, the European Commission published its proposal for a Regulation on European green bonds (EuGBs), which will be negotiated in the European Parliament and among Members of the Council of the European Union as part of the co-legislative process. In response, the International Capital Market Association (ICMA) published its analysis of the draft EuGB regulation.

ICMA explained that it welcomes the proposed voluntary nature for the EuGB and the Commission's intention to ensure its co-existence with the existing European and international green bond market. ICMA also noted that many of the recommendations of the Technical Expert Group (TEG) to which ICMA contributed as a member have been adopted. The provision allowing for Taxonomy alignment within a 5-year period is a strong positive allowing for the use of EuGBs in transition-enabling projects.

According to ICMA, there are however areas of concern notably the absence of any of the flexibility provisions recommended by the TEG for alignment with the Taxonomy. ICMA explained that this may hinder among other things the potential for international uptake of the label. There is also only partial grandfathering for an EuGB if the Taxonomy criteria change during the life of the bond. This creates a number of significant challenges that ICMA details in its published analysis, which could very likely hinder the success of the label.

05 – 09 July 2021: Speeches, Letters & Other Publications

During the week, ICMA released the following speeches, announcements, letters and publications that might be of interest to our readers:

- ICMA publishes its Quarterly Report Third Quarter 2021 – ICMA's Quarterly Report for the Third Quarter of 2021 begins with a Message from ICMA's Chief Executive, Martin Scheck, on key ICMA initiatives. The Quarterly Assessment is on the orderly wind-down of LIBOR in the bond market. There are international capital market features on: regulatory policy work of the new ICMA representative office in Brussels; suggested improvements to China's bond repo market; a clearer pathway to carbon neutrality in Japan; and supporting frontier money markets in the pandemic year. The Quarterly Report also covers ICMA's market practice and regulatory policy work in the primary markets, secondary markets, repo and collateral markets, sustainable finance, asset management, FinTech, the transition from LIBOR to risk-free rates, and capital market developments in China
- ICMA publishes CSDR-SD technology directory, focusing on cash penalties solutions for repos and cash bonds – the initial focus of ICMA's CSDR-SD technology directory is toward those solutions assisting firms in the management of cash penalties. This is intended to provide a consolidated overview on the functionalities of market solutions, such as calculation, aggregation, reconciliation, invoicing, reporting, and appeals or claims management processes. The directory also lists supported connectivity and additional services offered by providers

Financial Stability Board (FSB)

06 July 2021: FSB urges action to complete the transition away from LIBOR by end-2021

The Financial Stability Board (FSB) published a progress report to the G20 on LIBOR transition and remaining issues. With timelines for cessation of LIBOR panels now confirmed, there should be no remaining doubts as to the urgency of the need to transition away from LIBOR by the end of 2021. The FSB encourages authorities to set globally consistent expectations and milestones that firms will rapidly cease the new use of LIBOR, regardless of where those trades are booked or in which currency they are denominated. Market participants are urged to cease new use of LIBOR in all currencies as soon as practicable, respecting national working group timelines and supervisory guidance where applicable, and in any case no later than the end of 2021.

Given the extent of risks associated with a failure to prepare adequately for LIBOR transition, the onus is now on firms to act. With limited time available until end-2021, the FSB strongly urges market participants to act now to complete the steps set out in its Global Transition Roadmap. Financial and non-financial institutions need to accelerate adoption of robust benchmark rates in new contracts, as well as active conversion of legacy LIBOR-referencing contracts to directly reference risk-free rates and/or insert robust fallback language.

Supervisory authorities should also step up their efforts for active and adequate communication to increase awareness of the scope and urgency of relevant IBOR transitions for all clients. The FSB, through its Regional Consultative Groups, will undertake work to support transition in emerging market and developing economies, where engagement with financial institutions on transition planning is in general lagging.

07 July 2021: FSB Chair presents a comprehensive roadmap for addressing climate-related financial risks

The FSB published a letter from its Chair, Randal K. Quarles, to G20 Finance Ministers and Central Bank Governors ahead of their 9-10 July meeting. The letter notes mounting evidence of global recovery, even if uneven across regions. However, some risks to financial stability remain elevated. The global financial system has weathered the COVID Event thus far, thanks to greater resilience brought about by the G20 financial regulatory reforms, and the swift, bold and determined international policy response. But there are areas where there is a need to understand better whether the reforms have functioned as intended, and others where the COVID Event has surfaced vulnerabilities that need to be addressed with urgency, notably in non-bank financial intermediation, including in money market funds.

The Chair's letter stresses the need for coordinated action to address financial risks posed by climate change, noting the large, and growing, number of international initiatives underway. The FSB has submitted to the G20 for endorsement a comprehensive roadmap to address climate-related financial risks. The roadmap outlines the work underway and still to be done by standard-setting bodies and other international organizations over a multi-year period in four key policy areas: disclosures, data, vulnerabilities analysis, and regulatory and supervisory approaches.

In total, the FSB published three climate-related reports, alongside this letter:

- The FSB roadmap for addressing climate-related financial risks;
- A report on availability of data with which to monitor climate-related financial stability risks and remaining data gaps; and
- A report on promoting climate-related disclosures.

Finally, The Chair's letter reiterates the importance of completing the transition way from LIBOR to robust alternative rates by end-2021 and strongly urges market participants to act now to complete the steps set out in the FSB's Global Transition Roadmap.

13 July 2021

In the News

During the week, the Financial Times published the following news that might be of interest to our readers.

Financial Times

- Green bonds soar past analysts' lofty expectations
  "At the outset of 2021 we told you analysts were expecting a bonanza for sustainable, social and green bonds. It is safe to say they were right by a wide margin. In fact, after just six months, more ESG-related bonds were issued than in all of 2020. And while the sector still represents a minuscule slice of the bond market overall, it is quickly gaining ground. More than 17 per cent of all the bonds issued in June were labelled as being some flavour of social, sustainable or green, according to new research from Bank of America"
- Climate change should already be in the company accounts
  "That a project aimed at clarity manages to be quite so confusing in its genesis is less than ideal. But having a robust set of standards to track corporate emissions, water usage or other social or environmental factors is important, given that the world of ESG data and sustainable investing is a bit of a mess. A separate, but related, question is to what extent consideration of climate change is already factored into accounts today, particularly the financial statements. Bottom line: it should be, but largely isn't"
- Letter: Companies that spurn ESG will be punished
  "Sustainable companies are, in the long term, likely to be the only ones that will deliver genuinely sustainable profit streams. Why? Because regulation and consumers will increasingly punish those companies that don't pursue positive ESG policies, whether that means reducing carbon emissions or adhering to decent work standards"
- Investment industry at 'tipping point' as $43tn in funds commit to net zero
  "The investment industry has reached a tipping point, with almost half the world's assets under management now pledged to meet climate change goals in a shift that could have huge corporate implications. Amundi, Franklin Templeton, Sumitomo Mitsui Trust Asset Management and HSBC Asset Management are among the latest big investors to sign up to the Net Zero Asset Managers initiative launched last December. The latest signatories mean $43tn in assets, or almost half of the asset management sector globally in terms of total funds managed, are committed to a net zero emissions target"
- For sustainable finance to work, we will need central planning
  "Instead of waiting for the market to speak, a planning body — whose composition and accountability require careful consideration — should formulate plans for each of the five systems, which should then be translated into project-level criteria for sustainable investments. The EU's sustainable finance strategy represents this approach in embryonic form"
- ESG outperformance looks set to end, study suggests
  "Investors who believe that investing sustainably will also deliver higher returns over the long run should be prepared for an imminent change in that narrative, academic research suggests. Abraham Lioui, professor of finance at Edhec Business School and an expert in the strategy of investing according to good environmental, social and governance principles, believes he and his co-authors have found signs that the ESG market is reaching maturity and could become a victim of its own success"
- Carney defends plans for carbon offset market with oversight board
  "Mark Carney defended plans for a new market for carbon offsets with a proposal for a governance committee to oversee what the former Bank of England governor has estimated will be worth at least $50bn by 2030. Environmental groups have accused the Carney-led initiative of greenwashing and complained that the latest plan to address those concerns fell short. The market initiative backed by more than 250 companies and organisations, known as the Taskforce on Scaling Voluntary Carbon Markets, released its proposals for a new governance board and new standards for trading carbon offsets"
- Global carbon pricing: too important to leave to governments
  "For the scheme to work, two conditions must apply. The first is that developed economies would have to adopt national trading schemes that covered most industries — and stop handing out emissions certificates gratis to their chums. Free traders understandably distrust border tariffs. But these would be needed to forestall offshoring of pollution via higher imports. The second requirement would be an independently compiled global price index. No such benchmark is mentioned in the report. But it is hard to see how the scheme could work without the visibility this provides. Its allied function would be to support futures trading of a world carbon price"
- The case for 'truly-long-term' debt ratings
  "The time has come to make long-term ratings truly long term. One solution would be a regulatory requirement for agencies to issue "truly-long-term" sovereign ratings, distinct from their current so-called long-term ratings. Failing to do so would bar them from rating government bonds above a certain initial maturity, eg 10 years"
- BP finds 'mismatch' between net-zero pledges and Paris goals
  "Even with a record number of companies publicly committing to net zero in June, pledges are still not being implemented fast enough to hit the Paris climate change goals"

13 July 2021

- Private equity's swoop on UK plc
  "Rather than restricting ownership, it may be better to restrict buyers' tools. Both the UK and US impose caps on interest's tax-deductibility. Britain could also look at limiting the amount of leverage deployed, which magnifies private equity's profits but can saddle companies with unsustainable levels of debt. One model might be the limit imposed by the European Central Bank on lenders extending riskier loans to six times a company's earnings before interest and other costs"
- Schroders chief urges reform of UK rules to thwart private equity raids
  "Private equity groups will continue their raid on UK plc unless there is a sweeping reform of City rules to lighten the load on public companies, according to the chief executive of one of Britain's largest asset managers"

Regulators and Associations Monitored

1. **FCA**
2. **BoE**
3. **The Pensions Regulator**
4. **FRC**
5. **ESMA**
6. **EBA**
7. **EIOPA**
8. **ESRB**
9. **ECB**
10. **European Commission**
11. **BCBS**
12. **Autorité des Marchés Financiers (AMF) of France**
13. **CSSF**
14. **FINMA**
15. **CBI**
16. **ICMA**
17. **IOSCO**
18. **FSB**

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