Sustainable finance: Presidency and Parliament reach political agreement on low carbon benchmarks

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The EU is delivering on its objective to fight climate change.

The EU is building a regulatory framework to encourage investors to be more aware of the impact of their business on the environment.

The Romanian Presidency of the Council and the European Parliament reached today a preliminary agreement on a proposal creating a **new category of financial benchmarks** aimed at giving greater information on an investment portfolio's carbon footprint.

> The transition to a low-carbon, sustainable economy requires us to rethink how we do business, where we invest our money. Thanks to today's agreement, it will be easier for investors to select climate-conscious projects, infrastructure and technologies, so as to re-orient capital flows towards green assets.
>
> *Eugen Teodorovici, minister for finance of Romania*

An increasing number of investors seek to ensure that their investments have a positive impact on the environment. To do so, they take investment decisions based on the **carbon footprint generated by the projects or assets** they consider, using indices that reference or measure the performance of investment portfolios. However, a wide variety of such indices currently exists, with different objectives and degrees of quality and integrity.

Therefore, the Presidency and the Parliament agreed today on a harmonised, reliable tool to pursue low-carbon investment strategies by establishing a new category, comprising two types of financial benchmarks:

- **EU climate transition benchmarks**, which aim to lower the carbon footprint of a standard investment portfolio. More precisely, this type of benchmarks should be determined taking into account companies that follow a measureable, science-based "decarbonisation trajectory" by end-2022, in light of the long-term global warming target of the Paris

agreement.
- **EU Paris-aligned benchmarks**, which have the more ambitious goal to select only components that contribute to attaining the 2°C reduction set out in the Paris climate agreement.

In addition, the text provides an obligation for all benchmarks or families of benchmarks to provide an explanation of how environmental, social and governance factors are reflected in their investment strategy, as well as how the methodology aligns with the target of reducing carbon emissions.

Finally, the text reviews existing provisions of the benchmarks regulation by providing an extension of the transition regime for critical and third-country benchmarks until the end of 2021.

Next steps

Subject to technical finalisation of the text, the political agreement will now be submitted to EU ambassadors for endorsement. It will then undergo a legal linguistic revision. Parliament and Council will be called on to adopt the proposed regulation at first reading.

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