

Interview with Michael Maldener, Managing Director and Conducting Officer of Nordea Investment Funds S.A., and Cecilia Siegbahn, Regulatory Expert

EU ESG Regulation

Please note that the conference call occurred on the 19th of August 2020. All market commentary and information refers to the period before then.

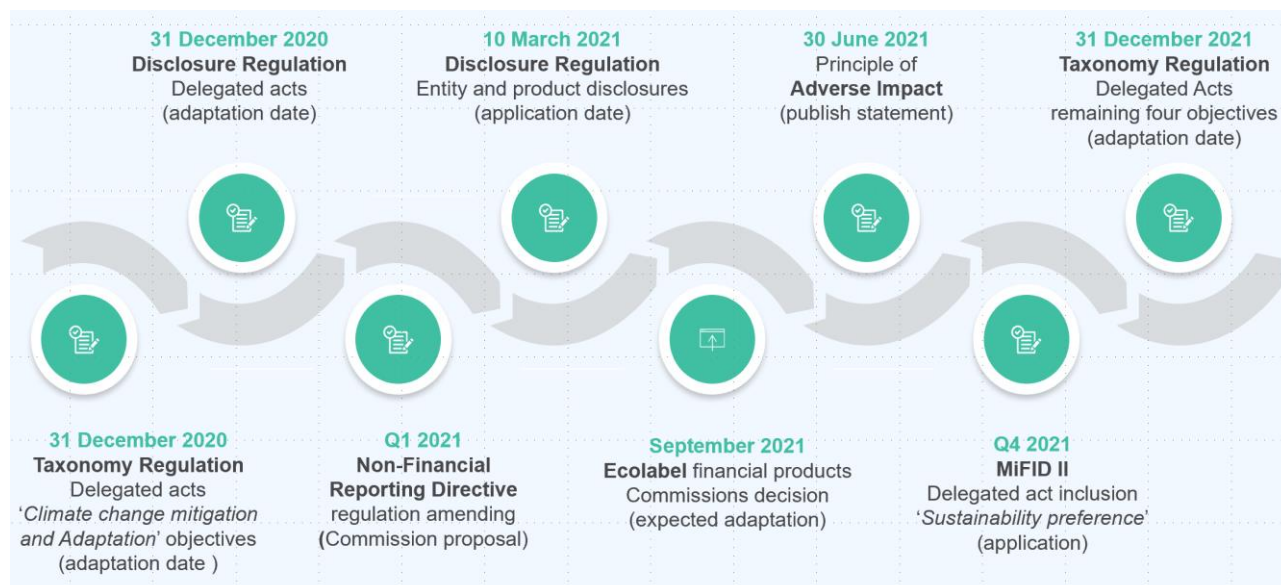
Key takeaways

- Product classification will be a central factor of distribution
- Sustainability preferences in the MiFID II update are under review and will impact distribution
- The ESG data gap is a key concern and must be solved
- The time horizon is changing, and implementation dates need to be followed closely

We spoke previously about the wave of regulatory initiatives heading our way, is there a realistic timeline for these changes?

There are many changes coming, so a timeframe is challenging, but full clarity might take another one and a half to two years. I would say it is both a marathon and a sprint to follow the developments. We are on a regulatory journey and it is important to stay updated on all changes, as they are interlinked.

Later this year, we will get the first delegated act of the taxonomy regulation, which will support us when setting the technical screening criteria for the first two environmental objectives – climate change mitigation and climate change adaptation. At the same time, we will also get the delegated act of the disclosure regulation, which will provide further support on how the market will disclose this information in a more unanimous way than what is done today. There will also be a number of proposals and disclosures announced throughout 2021.



What do distributors broadly need to be aware of?

To recap, the providers of products or services in the areas of ESG/sustainability/responsibility need to categorise and classify these products moving forward. While these requirements are not yet fully clear, these changes are significant for distributors, as there will be requirements to assess, document and regularly review the product selection process of a sustainability offering.

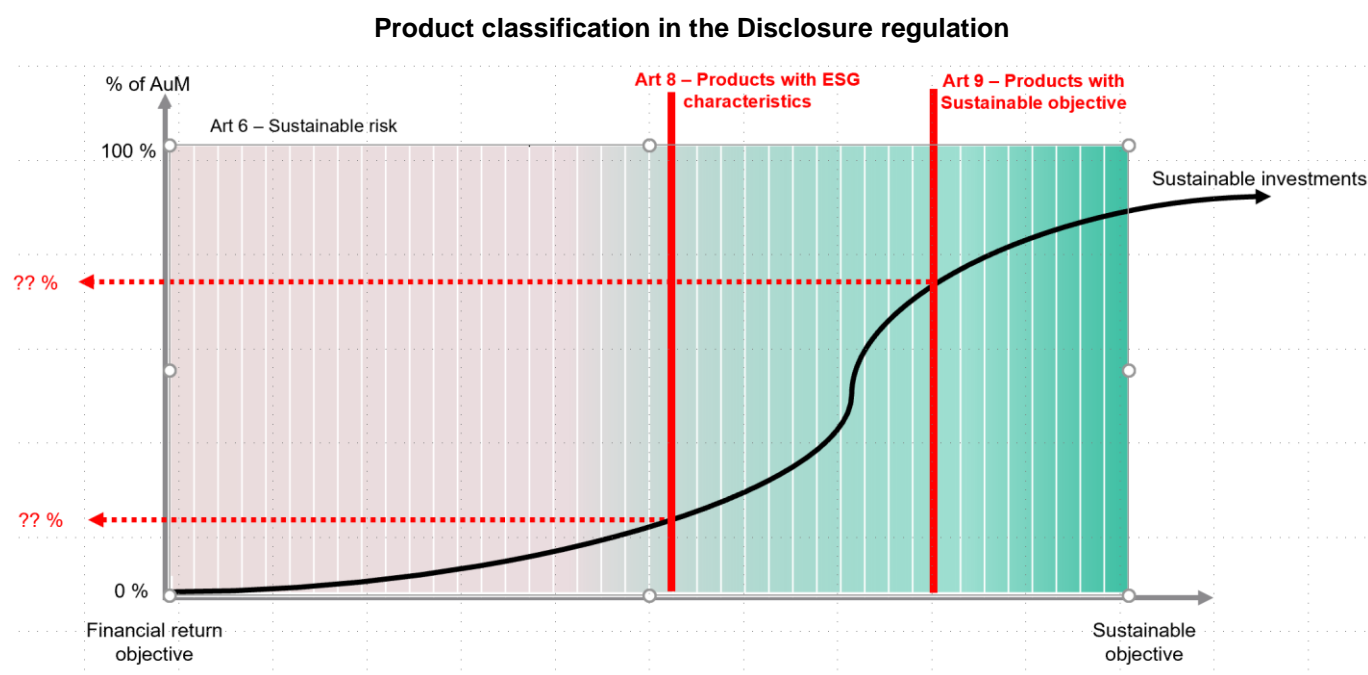
If they have not taken any action so far, distributors need to start right away to familiarise themselves with the different regulatory initiatives – especially those with a direct effect. It is crucial to understand interdependencies of the initiatives and the impact on value, change and processes.

In simple terms, can you describe how product classification will work?

The terminology we see today commonly refers to light green and dark green products. However, 'green' is only used as an illustration, and should not be misunderstood as simply catering to the E in ESG. According to the disclosure regulations, it includes those products looking at S and G elements also.

Essentially, there are three categories of products. The first are basic products. These may follow basic ESG considerations, but the investment objective is primarily focused on delivering returns. The second category is light green. These are dedicated ESG strategies, which include elements such as exclusion and measures on how to ensure governance practices. The third category, dark green products, have a sustainability objective alongside delivering a financial return.

It is important to stress, investors are not sacrificing returns to move higher into the green, it simply means the sustainability requirements are higher. The main challenge for the market is how to decide what the thresholds are.



How do these classifications impact distributors?

In terms of distribution, the devil really will be in the detail – as only the light green and dark green categories are considered sustainable products. If a client desires a sustainable product, you cannot simply offer a basic solution. Providers will be confronted by many challenges along this journey and we at Nordea are committed to making it easier for distributors. We encourage you to reach out and continue the dialogue.

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