

Frequently Asked Questions

EU Low Carbon Benchmark Regulation

The [EU Low Carbon Benchmark Regulation](#) requires administrators of benchmarks (other than interest rate and FX) to comply with new requirements to disclose ESG factors in their methodology documents and benchmark statements. The delegated regulations ((EU) [2020/1816](#) and (EU) [2020/1817](#)) for ESG disclosure (“Delegated Regulations”) are effective as of Dec. 23, 2020.

EU LOW CARBON BENCHMARK REGULATION

- 1. What are the regulations, and what do they aim to achieve?** The EU Low Carbon Benchmark Regulation amends the [EU Benchmark Regulation](#) in two ways: first, it introduces two new benchmark classifications—EU Climate Transition Benchmarks (EU CTB) and EU Paris-Aligned Benchmarks (EU PAB)—and second, it requires administrators of ESG benchmarks to publish certain information. Administrators of benchmarks that pursue ESG objectives must (i) publish an explanation of how key elements of the methodology reflect ESG factors; and (ii) explain in the benchmark statement how ESG factors are reflected for each benchmark or family of benchmarks. The aims of the Delegated Regulations are to:
 - Create a common framework of requirements that promotes consistency, leading to greater comparability between benchmarks;
 - Clearly state if a benchmark pursues ESG objectives, helping investors to identify them; and
 - Generate greater transparency of a benchmark’s objectives to help investors understand them more easily.
- 2. When did the Delegated Regulations come into effect?** The Delegated Regulations are effective as of Dec. 23, 2020.
- 3. Where does the EU Low Carbon Benchmark Regulation originate from?** The European Commission published its action plan for financing EU sustainable growth in March 2018.¹ A primary objective of the sustainable finance action plan is to channel private investment into the transition to a climate-neutral economy. One of the initiatives that the EU has implemented to help achieve this goal is the amendment of the EU Benchmark Regulation. This amendment enhances the ESG transparency of benchmark methodologies and specifies minimum methodology standards for low carbon benchmarks in the EU.
- 4. What are the disclosures required by the Delegated Regulations?** The EU Low Carbon Benchmark Regulation requires benchmark administrators to make ESG disclosures in two separate documents: the benchmark methodology and the benchmark statement. In addition, the Delegated Regulations mandate the use of specific disclosure templates.

¹ https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en.

- a. **Explanation on how ESG factors are reflected in the benchmark methodology:**² Administrators of ESG benchmarks are required to use a specific template, to be appended to the benchmark methodology, to disclose information, such as whether the benchmark methodology takes ESG factors into account and if so, which ESG factors are considered and how. The disclosures also require a description of the sources of ESG data used by the methodology, such as whether the data are provided by internal or external sources and whether the data are modeled or reported.
- b. **Explanation in the benchmark statement on how ESG factors are reflected in each benchmark:**³ Administrators of ESG benchmarks are also required to append a specific template to each benchmark statement with information, such as whether the series of benchmarks governed by the benchmark statement take ESG factors into account and if so, which ESG factors are considered and how; whether the series of benchmarks contain any EU CTBs or EU PABs; the disclosure of specified index-level ESG metrics for the benchmark's asset class; information on the source of ESG data used by the methodology like whether the data are provided by internal or external sources and whether the data are modeled or reported.

There is significant overlap between the disclosures required to be made in the methodology document and the benchmark statement.

- c. **Disclosures for EU CTBs and EU PABs:** For benchmark statements containing any EU CTBs or EU PABs, additional disclosures are required: the forward-looking year-on-year decarbonization trajectories; the extent to which the benchmarks have achieved the levels of decarbonization required by the minimum standards set for EU CTBs and EU PABs; the level of active share for each EU CTB or EU PAB; the alignment of the benchmarks with the greenhouse gas emissions reductions and objectives of the Paris Agreement; and information regarding the climate models, temperature scenarios, data sets, and methodology used to measure the alignment of the benchmarks with their required decarbonization trajectory.

The Delegated Regulations allow benchmark administrators to provide data, such as the ESG and EU CTB- or EU PAB-specific index-level metrics in other formats, such as in files or documents provided via a public-facing website.

5. **Which benchmarks need to have these disclosures?** All benchmarks⁴ are subject to the ESG disclosure requirements. In addition, administrators must also use the specified templates for non-ESG benchmarks. Note that non-EU administrators have until Dec. 31, 2021,⁵ to comply with the EU Benchmark Regulation.

² Commission Delegated Regulation (EU) 2020/1817 is available via https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_2020.406.01.0012.01.ENG&toc=OJ%3AL%3A2020%3A406%3ATOC.

³ Commission Delegated Regulation (EU) 2020/1816 is available via <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1816&from=EN>.

⁴ As defined in Article 3(1)(3) Regulation (EU) 2016/1011.

⁵ Article 51(5) of the EU Benchmark Regulation. The third country transition period is expected to be extended until Dec. 31, 2023.

- 6. Where can I find out more information about the EU Low Carbon Benchmark Regulation and the EU Benchmark Regulation?** The [Regulatory Information](#) page on S&P DJI's website contains more information on the EU Benchmark Regulation. On this page there is also an area with resources relating to the EU Low Carbon Benchmark Regulation.

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