



# The EU Sustainable Finance framework

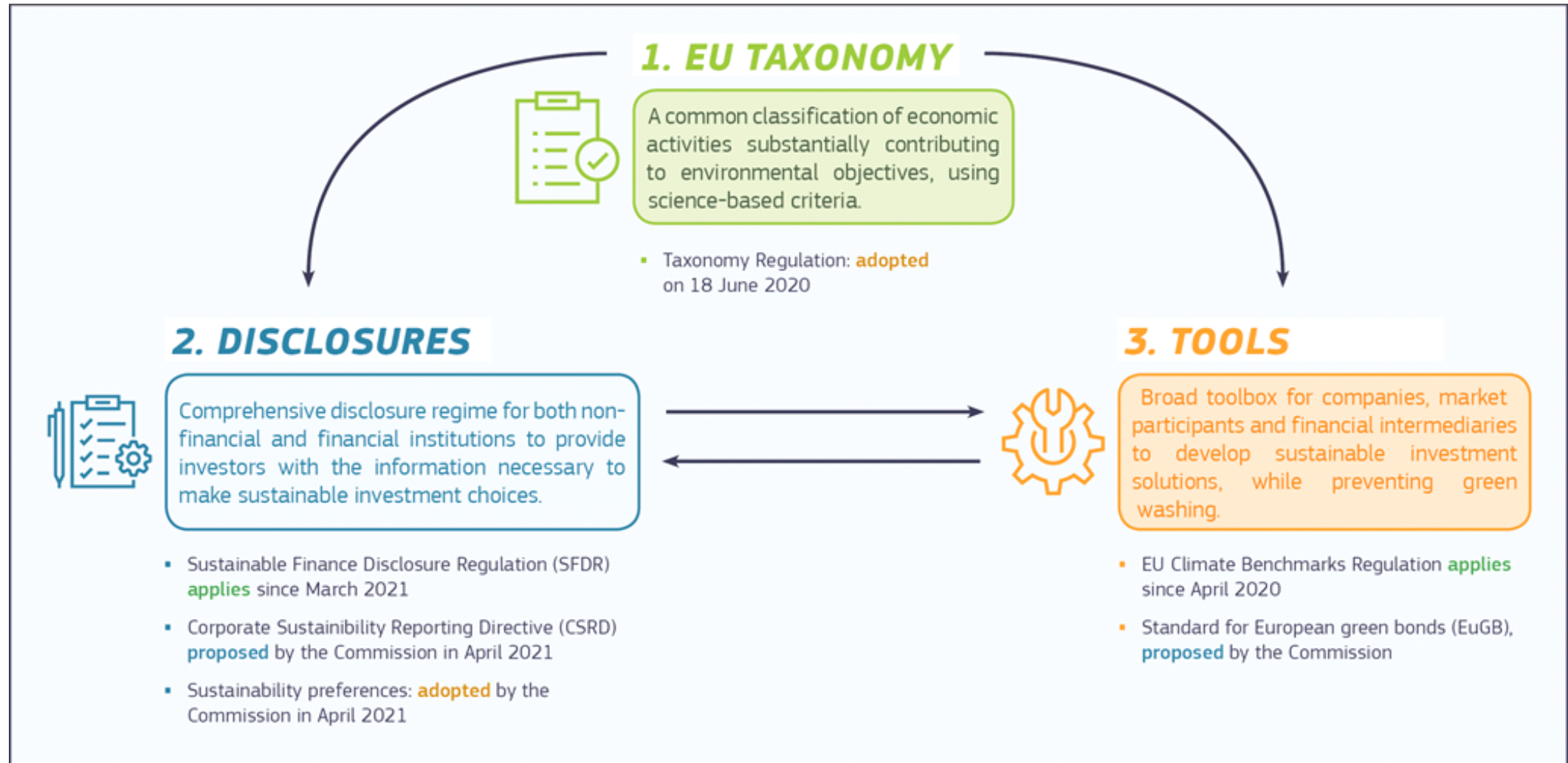
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*The views in this presentation are my own and do not necessarily reflect those of the EC*

# The foundations of the EU sustainable finance framework



# The EU Taxonomy – defining sustainable



## A classification system

Provides clarity on what is an environmentally sustainable activity and under which circumstances.



## A measuring tool

Measures the degree of sustainability of an investment and the degree of green activities of companies



## A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

**Ultimately, it helps raise the needed investments to build a net zero, resilient and environmentally sustainable economy.**

# The Taxonomy is ...



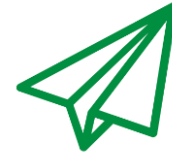
## Set out in EU law

- Taxonomy Regulation
- Delegated Regulation



## Evidence & science-based

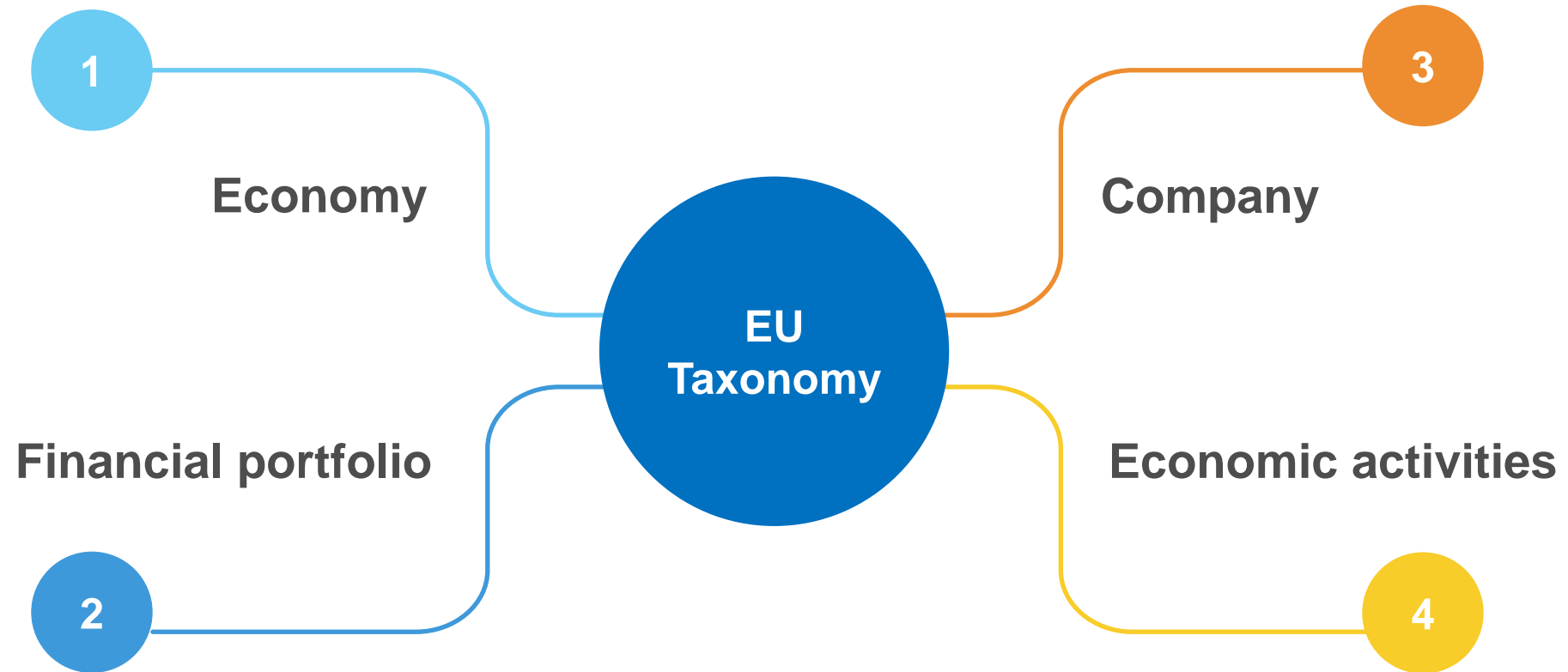
- Clearly spelled-out rationales for any choice (prioritization of activities, setting of criteria...)
- Robust conceptual framework and methodology



## Dynamic

- Criteria need regular update
- The sets of activities covered for each objective need to become more comprehensive over time

# Transition of what?



# 6 environmental interlinked objectives

## CLIMATE CHANGE

Mitigation

Adaptation

***First Technical Screening Criteria  
in the Climate Delegated Act (April  
2021)***

## OTHER OBJECTIVES

Transition to a circular economy

Pollution prevention and control

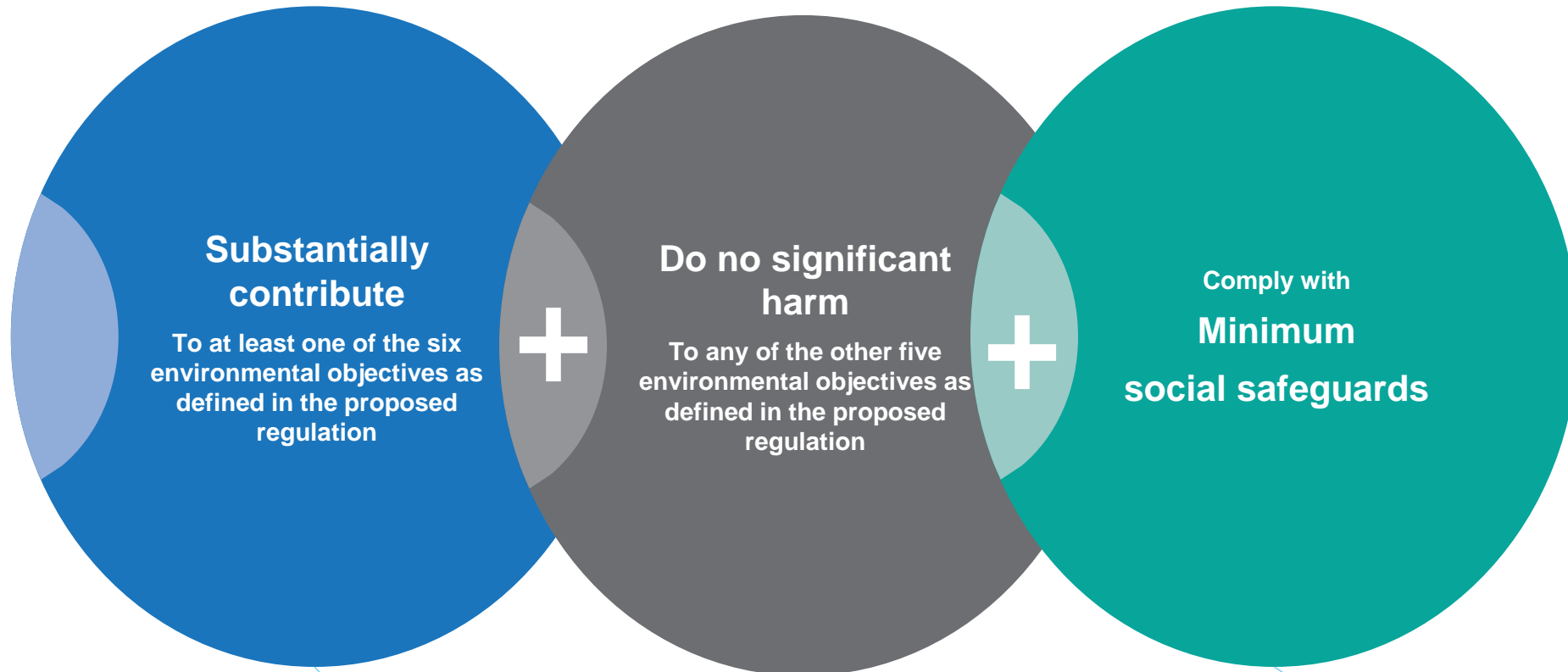
Sustainable use and protection of  
water and marine resources

Protection and restoration of  
biodiversity & ecosystems

***Technical Screening Criteria  
under development***

# Basic conditions

Activities are green if they...

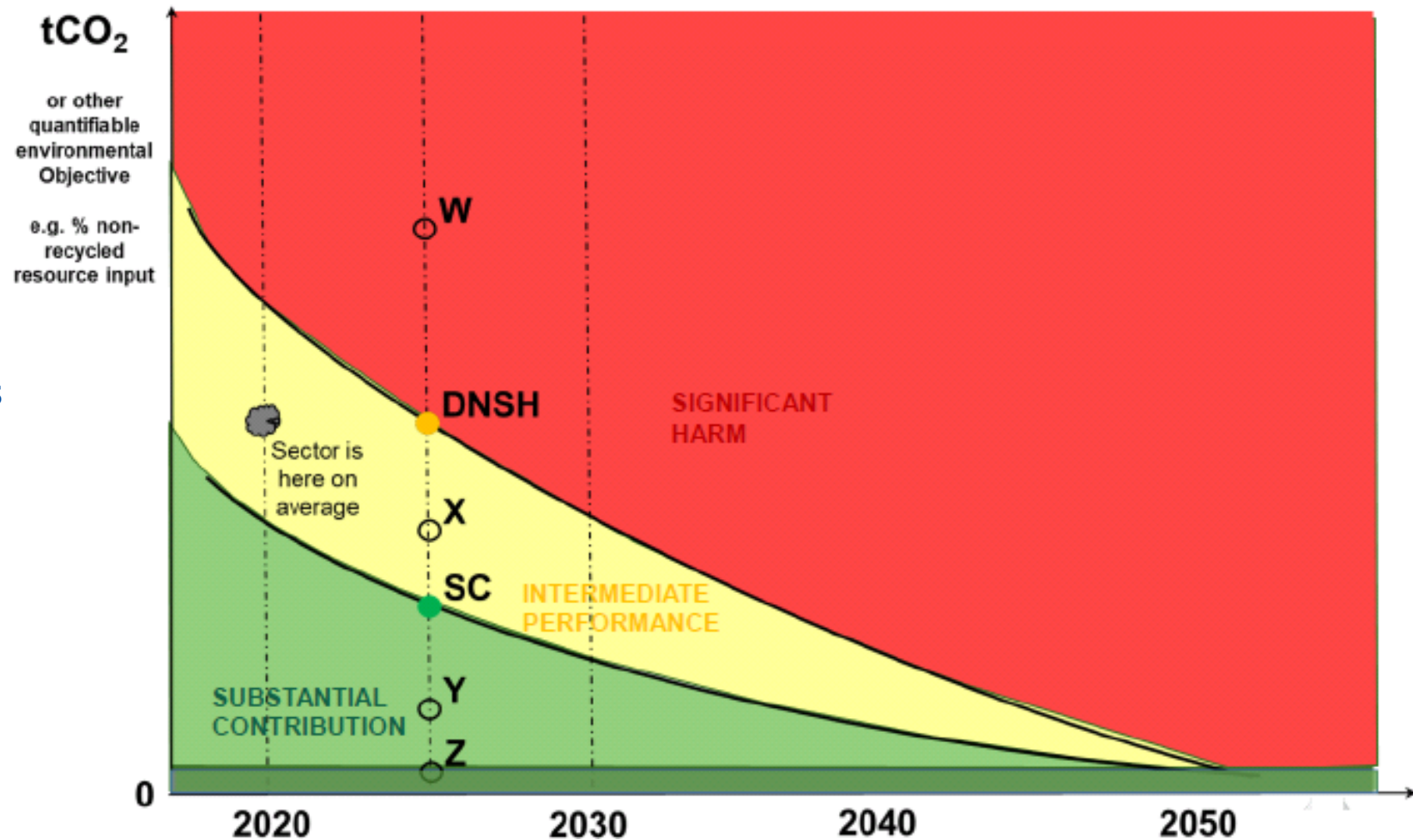


Comply with quantitative or qualitative  
**Technical Screening Criteria**

UN Guiding Principles and OECD Guidelines

# The Taxonomy technical screening criteria are dynamic

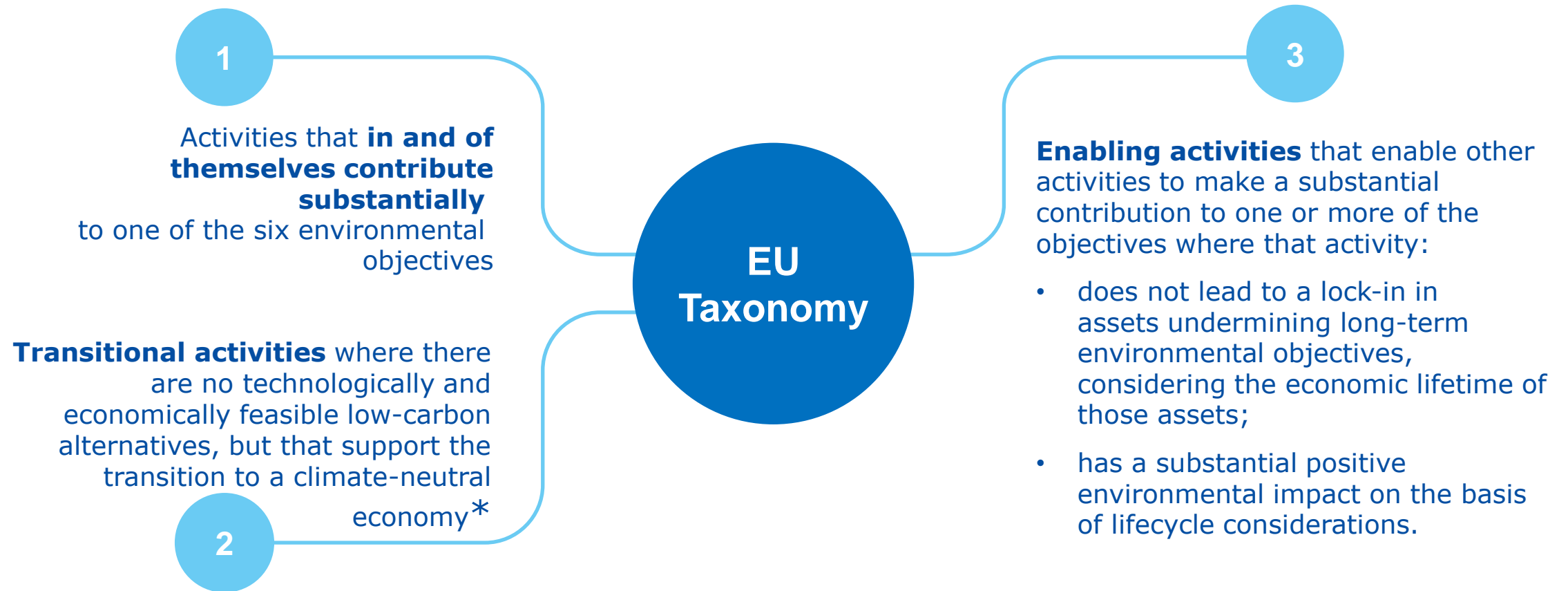
This graphic represents a high impact sector/activity with transition to net zero by 2050.





# Types of activities

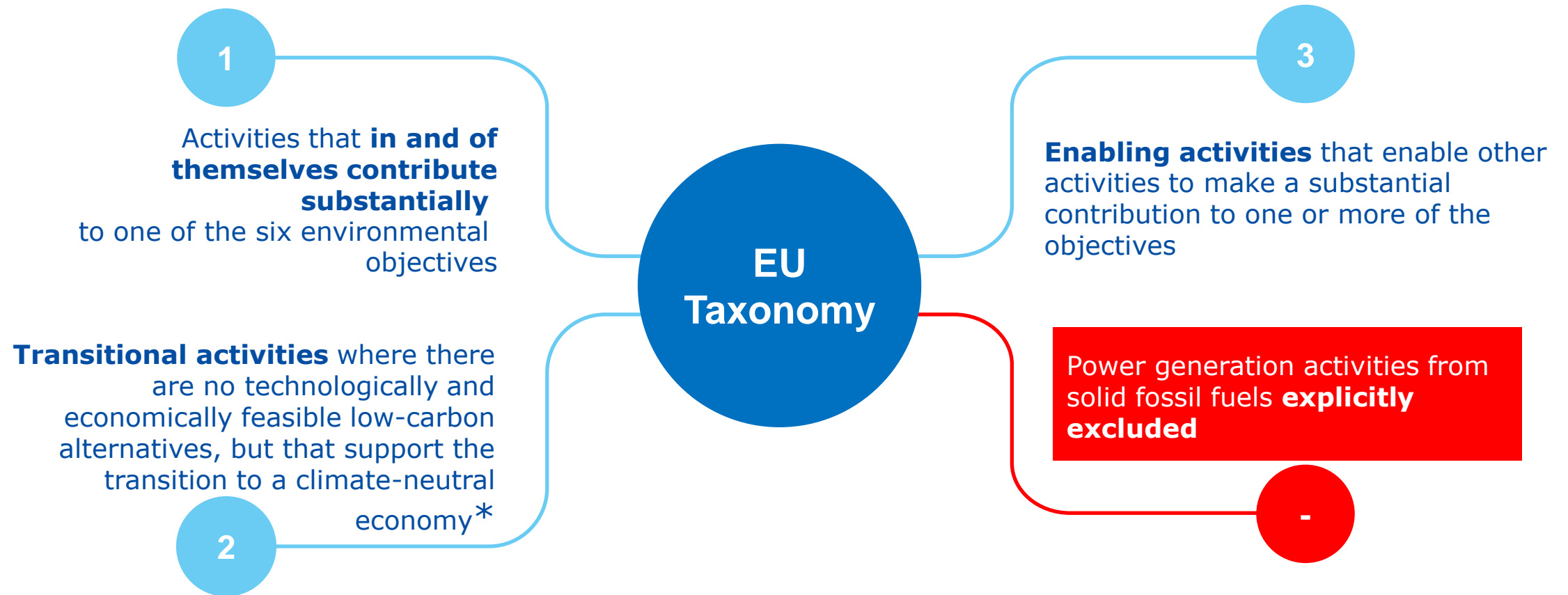
Activities not included are not necessary harmful activities



9 \*Transitional activities for climate change objective only.

# Types of activities

Activities not included are not necessary harmful activities



10 \*Transitional activities for climate change objective only.

# An example of criteria

## Production of electricity from geothermal energy

	<b>Climate change mitigation</b>
<b>SUBSTANTIAL CONTRIBUTION</b>	<b>Life cycle emissions lower than 100gCO<sub>2</sub>e/kWh</b>

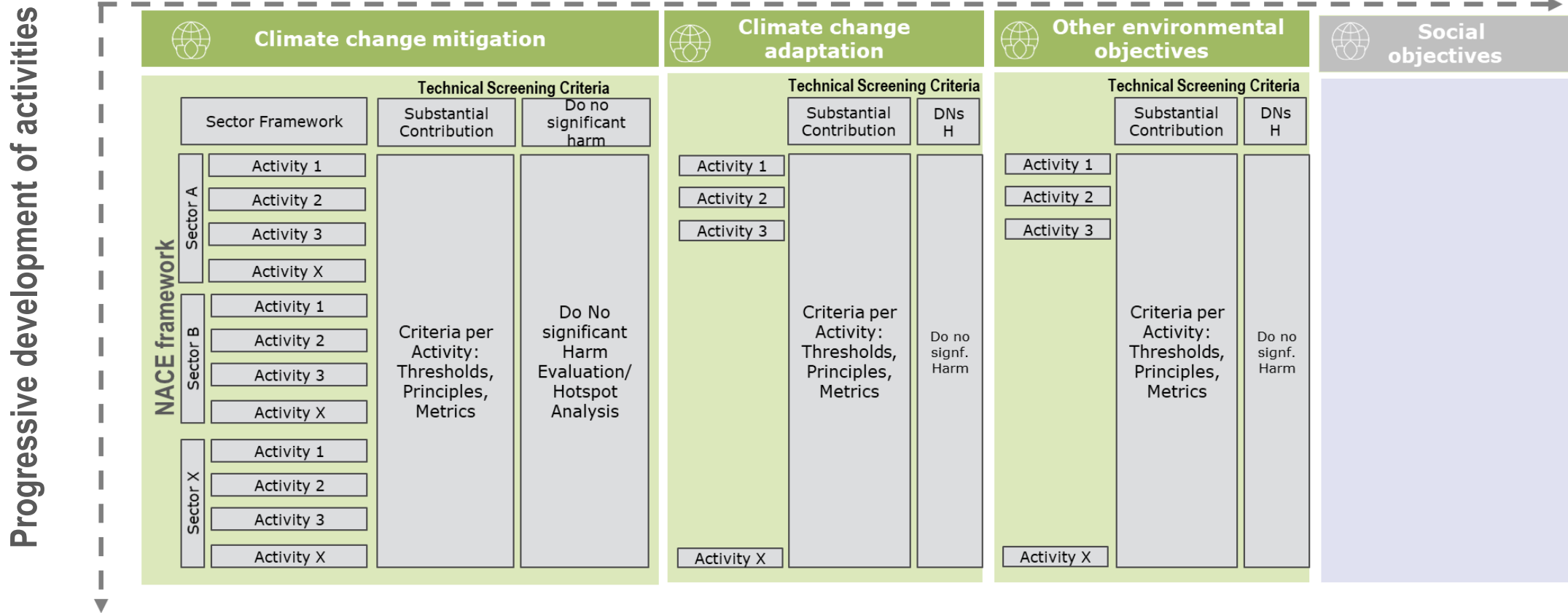
*Shortened from Climate DA  
(illustrative example only)*

*Italics: EU regulatory requirements*

	<b>Climate change adaptation</b>	<b>Water and marine resources</b>	<b>Circular economy</b>	<b>Pollution prevention and control</b>	<b>Biodiversity and ecosystems</b>
<b>DO NO SIGNIFICANT HARM CRITERIA</b>	<ul style="list-style-type: none"> <li>- Performing a robust climate risk and vulnerability assessment</li> <li>- An adaptation plan for the implementation of solutions and integrating the adaptation solutions</li> </ul>	<ul style="list-style-type: none"> <li>- Water use and protection management plans</li> <li>- <i>EU water legislation requirements</i></li> </ul>	n/a	<i>Adequate abatement systems in place to reduce emission levels in order not to hamper the achievement of air quality limit values set out in EU legislation</i>	<ul style="list-style-type: none"> <li>- <i>Environmental impact assessment carried out and mitigation measures implemented</i></li> <li>- <i>Appropriate assessment in/near biodiversity-sensitive areas</i></li> </ul>

# The EU taxonomy – what could it look like?

Progressive development of activities per environmental (and potentially social) objectives



# Wide emissions and economic coverage

First set of activities in Climate DA

**Electricity generation**  
Solar, wind, geothermal,  
hydro, non-fossil gas,  
transmission



**Buildings**  
New, existing and  
renovations  
Supply chain / SMEs

**Transport**  
Very low emissions, to zero  
tailpipe by 2025: electric,  
hydrogen



**ICT**

**Forestry**  
Maintaining carbon  
Improving carbon  
performance  
Best practice farming



**OVER 80%**  
of direct  
greenhouse gas  
emissions in the  
EU

**40%** of EU  
listed company  
activities are  
Taxonomy  
eligible\*



**Manufacturing**  
Transition  
Components  
Aluminium, Steel,  
Concrete, Plastics



Energy efficiency, adaptation

\*Bloomberg company activity analysis conducted for Platform on Sustainable Finance

# Taxonomy Regulation

## Delegated regulation

### Delegated Act on CC mitigation and adaptation criteria

- Adopted in April 2021
- Nuclear on hold

### Complementary Delegated Act

- Adoption in 2021 (?)
- Agriculture and gas (if and when green)

### Delegated Act on criteria for objectives 3-6

- Adoption in 2022

### Delegated Act on disclosure obligations (Art. 8)

- For **larger** (NFRD) financial and non-financial companies
- Adopted in July 2021
- 2022: disclosures on **CC** mitigation and adaptation (covering FY2021) – only eligibility reporting
- 2023: disclosures on **all objectives** (covering the FY2022)
- Turnover, CapEx and OpEx KPIs for NFCs
- GAR and GIR for financial institutions

# Sustainable Finance Disclosure Regulation

Obligations for financial market participants

## Product-level disclosures as amended by Taxonomy Regulation

SFDR		Taxonomy	
Art. 9	Financial products that <b>contribute to an environmental objective</b>	Art. 5	Need to disclose: i) info on the environmental objective(s) ii) how and in what proportion the investments are Taxonomy-aligned activities
Art. 8	Financial products that <b>promote environmental characteristics</b>	Art. 6	Art. 5 applies + statement: <i>For the part not aligned with the Taxonomy, the Taxonomy is not considered (incl. DNSH)</i>
Art. 7	<b>All other</b> financial products	Art. 7	Statement: <i>The Taxonomy is not taken into account + info on sustainability risks (Art. 6 SFDR)</i>

ESAs published relevant RTSs on Oct 22, will apply as of July 2022

# Sustainable Finance Disclosure Regulation

Obligations for financial market participants

## Entity-level disclosures

- Level 1 applies as of March 2021
- ESAs published relevant RTS in Feb. 2021, will apply as of 1 July 2022.
- Principal adverse impacts (SH) that investment decisions have on sustainability factors
- Statement on due diligence policies in relation to:
  - climate and the environment
  - social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
- No explicit link with Taxonomy



# Capital Requirements Regulation

## Investment Firms Regulation

- Pillar 3 disclosures under Art. 449a CRR2
- Scope: large listed banks
- Applicable from June 2022 on an annual basis during the first year and biannually thereafter
- Coverage:
  - qualitative disclosures on ESG risks
  - quantitative disclosures on climate change transition and physical risks
  - quantitative information and KPIs on climate change mitigating measures, **including the green asset ratio (GAR) on taxonomy-aligned activities**

EBA consultation on draft ITS closed on 1/6

# Corporate Sustainability Reporting Directive

Replaces Non-Financial Reporting Directive

- SCOPE

- all large and all listed companies (incl. listed SME, but no micro-SME). Up from 11K to 49K firms.

- AUDITING

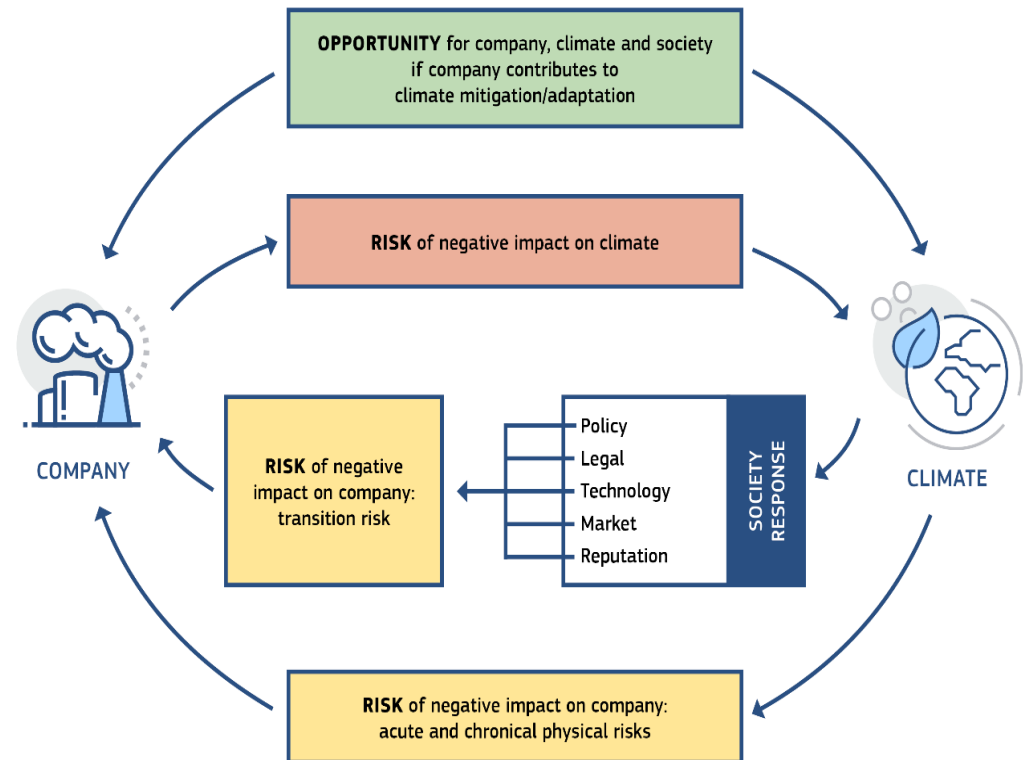
- limited assurance, with an option to move towards reasonable assurance at a later stage

- STANDARDS

- will be developed by the EFRAG. First set planned by Oct 2022, second set (incl. simplified standards for SMEs) by Oct. 2023, first company reports expected in 2024

- machine-readable information

## Double materiality perspective



# EU Climate benchmarks

and benchmarks' ESG disclosures

## EU Climate Transition Benchmarks

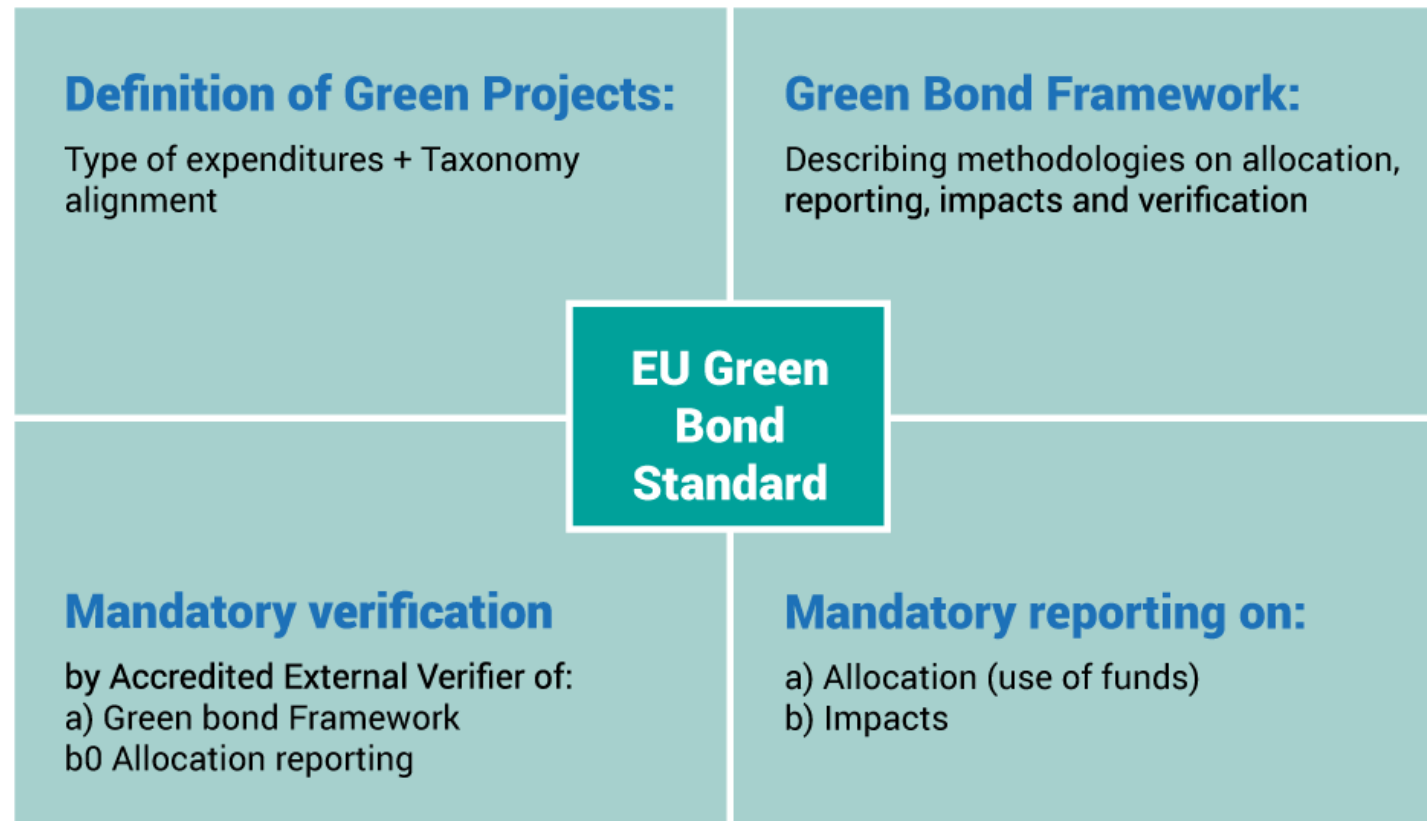
The portfolio is on a **de-carbonisation trajectory**, meaning a **measurable, science-based and time-bound trajectory to reduce carbon emissions**.

## EU Paris-aligned Benchmarks

The portfolio's carbon emissions are **in line with the Paris Climate Agreement goal to limit the global temperature to 1.5°** compared to pre-industrial levels.

# EU Green Bond Standard

Legislative proposal adopted in July 2021



# EU Ecolabel for financial products

Adoption of Commission decision in 2022

## Scope

- ✓ Investment funds (UCITS and RAIFs)
- ✓ Life insurance products
- ✓ Deposit accounts

## Criteria

1: Investment in environmentally sustainable economic activities

2: Exclusions based on environmental aspects

3: Social and governance aspects

4: Engagement

5: Measures taken to enhance investor impact

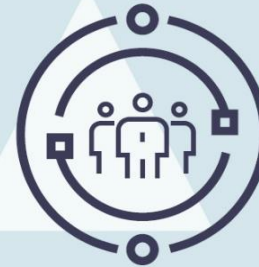
# The European Green Deal announced a 'Renewed Sustainable Finance Strategy'

- Complete the work started under the 2018 Action Plan on Financing Sustainable Growth
- An evolved context provides need for additional measures in four key areas



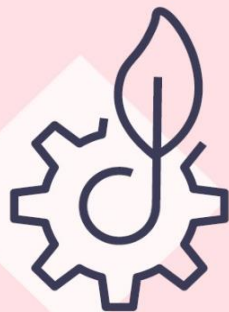
## **FINANCING THE TRANSITION TO SUSTAINABILITY**

This strategy provides the tools and policies to enable economic actors across the economy to finance their transition plans and to reach climate and broader environmental goals, whatever their starting point.



## **INCLUSIVENESS**

This strategy caters for the needs of, and provides opportunities to individuals and small and medium companies to have greater access to sustainable finance.



## **FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION**

This strategy sets out how the financial sector itself can contribute to meet Green Deal targets, while also becoming more resilient and combatting greenwashing.



## **GLOBAL AMBITION**

This strategy sets out how to promote an international consensus for an ambitious global sustainable finance agenda.

# Financing the transition and improving inclusiveness

## *I. Financing the transition of the real economy towards sustainability*

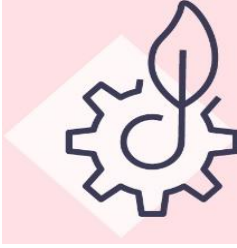
***Action 1: Develop a more comprehensive framework and help the financing of intermediary steps towards sustainability***

Recognise transition efforts  
Include additional sustainable activities in the EU Taxonomy  
Extend the framework of SF standards and labels

## *II. Towards a more inclusive sustainable finance framework*

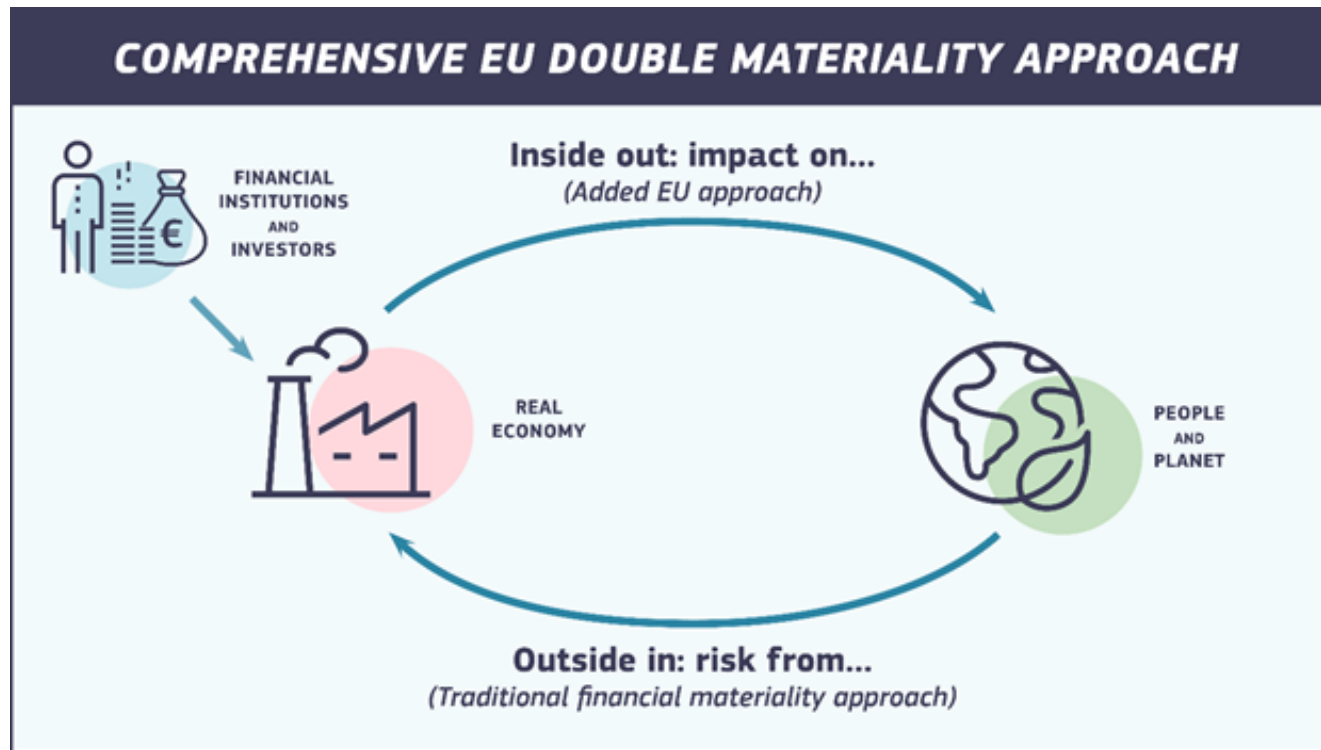
***Action 2: Improve the inclusiveness of sustainable finance***

Empower retail investors and SMEs to access sustainable finance  
Leverage the opportunities digital technologies offer for sustainable finance  
Offer greater protection from climate and environmental risks  
Publish a report on a social taxonomy  
Support green budgeting and risk-sharing mechanisms



# The EU double materiality approach

## III. Improving the financial sector's resilience and contribution to sustainability



The **double materiality** approach consists of the systematic integration of both financially material sustainability risks (outside-in) and sustainability impacts (inside-out) in financial decision-making processes.

It is crucial that both angles of the materiality concept are duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal.



# Strengthening financial sector's resilience and contribution to sustainability

## *Action 3: Enhance economic and financial resilience to sustainability risks*

Reflect sustainability risks in **financial reporting standards and accounting**  
Identify and managing sustainability risks by **banks and insurers**  
Manage sustainability risks at **system level**

## *Action 4: Increase the contribution of the financial sector to sustainability*

Improve science-based target setting, disclosure and monitoring of the **financial sector's commitments**  
Clarify the **fiduciary duties and stewardship rules** of investors to reflect sustainability impacts  
Improve the availability, integrity and transparency of **ESG market research and ratings**

## *Action 5: Monitor an orderly transition and ensure the integrity of the EU financial system*

Monitor **greenwashing risks** and assess and review the current supervisory and enforcement toolkit to address greenwashing  
Develop a robust **monitoring framework** to measure capital flows and assist Member States in assessing the investment gap  
Establish a **Sustainable Finance Research Forum**.

# Fostering global ambition

## *IV. Fostering global ambition*

***Action 6: Set a high level of ambition in developing international sustainable finance initiatives and standards and to support EU partner countries***

### **Seek an ambitious consensus in international forums**

- Seek an ambitious consensus in international forums, mainstream the concept of double materiality, stress the importance of disclosure frameworks, and agree on objectives and principles for taxonomies.

### **Advance and deepen the work of the IPSF**

- Propose to expand the work of the IPSF to new topics and strengthen its governance.

### **Support low- and middle-income countries in scaling up their access to sustainable finance**

- Support our low- and middle-income partner countries in scaling up their access to sustainable finance by developing a comprehensive strategy and by promoting sustainability-related financial instruments.

# Conclusion and discussion

- Based on the 2018 action plan on sustainable finance, the Commission has taken unprecedented steps to **establish the foundations for sustainable finance**.
- This strategy sets **how the objectives of the European Green Deal are translated throughout the financial system** and ensures actors across all sectors of the economy are able to finance their transition regardless of their starting point.
- These policies build aim at **fostering financial sector leadership towards achieving EU sustainability goals**.

# Thank you

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