

PRESS RELEASE

EUROSIF'S WELCOMES THE PROPOSAL ON THE TAXONOMY AND THE CORPORATE SUSTAINABILITY REPORTING

BRUSSELS, 22ND OF APRIL 2021



Yesterday, as the EU institutions reached an agreement on the landmark EU Climate Law enshrining the 2030 and 2050 GHG reduction objectives in law, the European Commission unveiled an important package on Sustainable Finance legislations [\[link\]](#) which will further enhance investors' ability to contribute to the European Green Deal by reorientating capital toward sustainable investments.

EUROSIF'S VIEWS ON AN AMBITIOUS PACKAGE

1. The EU Taxonomy – it's not perfect, but we need to start

Yesterday the Commission proposed draft technical rules to identify economic activities deemed sustainable because they align with the climate objectives of the EU. This proposal is obviously the result of compromises between the wishes of EU Member States, Members of the European Parliament and certain economic sectors.

Examining it through a scientific lens, we acknowledge that it is probably not the perfect outcome for every single sector and that the decision on controversial sectors like natural gas, nuclear energy and agriculture has been postponed. However, we feel it is now important to make the Taxonomy operational, so that companies and investors can get familiar with its working and start applying it. This will hopefully also take away many myths surrounding it which we have sought to call out and explain our paper '[EU Taxonomy: Fostering an Honest debate](#)'. And there will be future opportunities to review the treatment of particular sectors if scientific evidence demands it.

2. Corporate Sustainability Responsibility Directive – the missing linchpin to make sustainable work

The flagship policies such as the Taxonomy, SFDR, and the EU Climate Benchmark proposed under the EU Action Plan, can only work if investors have access to high quality sustainability data from the companies they invest in. Therefore, the CSRD proposal is very timely as it will enable to render the

Taxonomy and SFDR fully affective. All these measures will yield their benefit once high-quality data is available. We believe that the European Commission proposal on Corporate Sustainability Directive (CSRD) published yesterday addresses some of those mayor challenges. For Eurosif, these are the key points of the proposal:

- **Double Materiality Principle**

The proposal confirms that sustainability reporting should be based on double materiality considerations around how sustainability matters affect them, and information necessary to understand the impact they have on people and the environment. Financial materiality will tend to focus on financially material sustainability matters while avoiding matters linked to unpriced negative externalities which by definition are not financially material. Reporting on impact may help capture vital information on the unpriced negative externalities which are at the heart of all sustainability challenges we face across social, environmental and governance issues. This principle also underpins the SFDR and EU Taxonomy.

- **Net Zero 1.5**

The proposal provides a clear mandate to require companies in scope to report on how companies plan to adapt their business models and strategies to make them compatible with a 1.5 °C in line with the Paris Agreement and the EU Climate Law agreed yesterday. However, this requirement is seem to be insufficiently reflected in the provisions on European Sustainability Reporting Standards (ESRS). They only refer to standards that should address climate change mitigation and adaptation, without further specifications. While we see an increasing number of net-zero commitments by non-financial and financial companies around the world, we need to ensure that basic requirements around the quality of these statements are included, such objectives, interim targets and metrics, transparency on scenarios and pathways used and under which circumstances carbon offsetting tools are eligible. As time is of the essence especially with regards to the climate transition, we need sustainability reporting standards to be ambitious, with the first set adopted by October 2022.

- **European sustainability reporting standards (ESS)**

It is essential that the core principles laid down in the CSRD will be complemented by detailed European Sustainability Reporting Standards (ESRS), to be develop on the basis of Technical Advice from EFRAG. We are supportive of the fact that these standards will look at backward- more importantly forward-looking qualitative and quantitative information across sector agnostic, sector specific and entity specific indicators. It is important that the ESRS is developed in a constructive two-way cooperation with leading international initiatives, and they should align with those

initiatives as far as possible while taking into account European specificities. However, international alignment should not override European specificities nor limit the EU's ambitions to reach the objectives of the EU Green Deal. Furthermore, to safeguard much needed regulatory coherence and consistency in this area, we are delighted that the ESRS will focus first on information required by financial market participants under the SFDR (by October 2022) and later on information relevant to the application of the EU Taxonomy and the EU Paris-Aligned and Climate Transition Benchmarks.

- **The scope**

We support the revised scope including all companies with securities listed on EU regulated markets and all large privately held companies, with a threshold lowered to 250 employees. The estimate is that the number of reporting companies will grow from 11.000 currently to approximatively 50.000.

- **Assurances**

The accuracy and reliability of sustainability data relies as much on adequate reporting standards as on a proper audit and verification process. We therefore support the proposals that limited assurance should be provided on the reported sustainability information in conformity with the sustainability reporting standards. Where possible, reasonable assurance should be provided as offering better guarantees for the user of information.

- **Electronic and machine readable**

We support the proposal that companies are required to report their financial statements and management report in single, comparable and verifiable electronic format, using digitally tagged information. This will greatly improve the usability and dissemination of ESG data and is essential for the creation of European Single Access Point.

Victor van Hoorn, Executive Director of Eurosif:

On the EU Taxonomy:

"We are supportive of the European Commission's proposal on the Taxonomy. While we recognise the regulatory treatment of some sectors is not based solely on scientific evidence, we do believe the overall package strikes a careful balance. It is obvious that this tool will be dynamic, and the regulatory treatment of sectors will have to evolve in line with new scientific evidence. We hope that the European Parliament and Council can now swiftly adopt the delegate acts to ensure the Taxonomy becomes operational and that companies and investors get increasingly familiar with its functioning. Only once it starts applying and we see evidence of its impact can we counter some of the fierce and unfounded criticism".

On the CSRD Proposal:

"Access to high-quality, comparable and verified data from companies remains the main barrier for investors in rolling out sustainable investment practices further. It is also the major break on the full and effective application by financial markets of the SFDR, the Taxonomy and the EU climate benchmarks. We therefore wholeheartedly welcome the CSDR proposal, building on the principle of double materiality, the promise of ambitious sustainability reporting standards taking into account European specificities and greater attention around companies claims and promises on aligning their business and strategy with a +1,5C global warming scenario in line with the Paris Agreement and EU Climate law. Probably further will be needed to bolster the quality and accuracy of net-zero claims to ensure they build on credible objectives and targets, underpinned by robust scenarios and sectoral transition pathways".

CONTACT

For any questions or comments, you can contact Eurosif's executive director Victor van Hoorn

- Email: victor.vanhoorn@eurosif.org

For scheduling an interview, you can contact Eurosif's PR & Communication associate Delphine De Potter

- Email: delphine.depotter@eurosif.org

www.eurosif.org

ABOUT EUROSIF

Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment making a measurable impact in meeting long-term sustainability goals of the EU and the UN.

T: +32 473 13 19 80
E: contact@eurosif.org
Rue Belliard 40,
B-1000 Brussels