

EU Sustainable Finance Update

7 October 2021



PROMOTING SUSTAINABILITY THROUGH
EUROPEAN FINANCIAL MARKETS

Agenda

- Report by the European Court of Auditors (ECA) on the implementation of Sustainable Finance
- EU Taxonomy – State-of-play
- SFDR – Delay to technical standards
- Solvency II's sustainability provisions
- EFRAG technical work on climate-related disclosures

A large, solid dark blue circle containing the text "An overview" in a white, sans-serif font. The circle is positioned in the center-right of the slide, overlapping a background image of a golden-brown agricultural field. In the lower right of the field, a small tractor is visible, moving from left to right and kicking up a cloud of dust. The field has distinct horizontal furrows, and the overall scene is captured from a high angle under bright, warm light.

ECA Report on Implementation of Sustainable Finance (1/3)

Policy assessment

On 20 September, the European Court of Auditors (ECA) published a [special report](#) on the extent to which the EU institutions had succeeded in implementing the 2018 Sustainable Finance Action Plan. The report also analysed the contribution of EU funds to sustainable projects.

Main observations:

- The ECA observes that regulation to promote sustainable finance has primarily focused on **enhancing the transparency of ESG investments**.
- The implementation of the sustainable finance agenda has suffered from **significant delays** – with flagship legislation such as the Taxonomy still pending application.
- The ECA highlights that the European Commission has done little to **price negative externalities**, or to increase the **bankability** of sustainable investments – which often entail higher risks and lower returns.
- Moreover, the European Commission could do more to generate a **pipeline of sustainable investments**.
- In terms of EU funding of sustainable projects, the **European Investment Bank (EIB)** has been the only EU institution to systematically apply consistent sustainability criteria to its investments.



ECA Report on Implementation of Sustainable Finance (2/3)

Policy assessment



Main observations:

- From 2012-2020, the EIB provided EUR 197 billion to sustainable projects, associated with a wider private investment volume of EUR 670 billion. From 2021-2030, the EIB plans to provide a further EUR 292 billion in support of sustainable projects.
- More broadly, the financing of sustainable projects from the EU budget, the **Multiannual Financial Framework (MFF)** has not been subject to consistent sustainability criteria nor always been consistent with the EU's own climate goals.
- Under the 2021-2027 MFF, 30% of the EU budget will be allocated to climate action amounting to approximately EUR 350 billion. In addition, Member States are required to allocate 37% of the funds they receive under the **Recovery & Resilience Facility (RRF)** to support climate action. This amounts approximately to a further EUR 268 billion.
- In view of the resources being allocated to climate action under the EU budget and RRF, the ECA believes that clear sustainability criteria – such as those provided by the EU Taxonomy – should be applied systematically to budget allocations.
- The ECA report included a number of **recommendations** to encourage sustainable finance;



ECA Report on Implementation of Sustainable Finance (3/3)

Policy assessment



ECA Recommendations:

- **Recommendation 1** – Complete the measures envisaged by the 2018 Sustainable Finance Action Plan and clarify compliance and audit arrangement.
- **Recommendation 2** – Better contribute to sustainable finance by pricing greenhouse gas emissions
- **Recommendation 3** – Report on climate & environment-related results of InvestEU
- **Recommendation 4** – Generate a pipeline of sustainable projects
- **Recommendation 5** – Apply the do no significant harm principle & EU Taxonomy criteria consistently across the EU budget
- **Recommendation 6** – Report on progress implementing the Sustainable Finance Action Plan & any future strategy



EU Taxonomy – State-of-Play

Status of Climate Delegated Act

- **Scrutiny period for the Climate Delegated Act (DA) has been extended to the 7th December at the request of the Council of the EU.**

On 15th September, a simple majority of Member States in the Council, including both Germany & France, voted to extend the scrutiny period on the Climate DA by 2 months.

Originally due to end on 7th October, the scrutiny period was extended by the Council in an effort to apply pressure to the Commission as it finalises the so-called Complimentary Delegated Act (DA) that will clarify the treatment of natural gas & nuclear energy in the Taxonomy.

- **In the EP - on 27 September - three objections to the Climate DA tabled by MEPs were rejected by the ECON Committee.**



EU Taxonomy – State-of-Play

Status of Climate Delegated Act

- **In the EP - on 6 October - the Plenary session in Strasbourg voted in favour of the Climate Delegated Act, leaving only the Council's approval outstanding.**
- **According to our intelligence the European Commission will now delay the publication of the Complimentary DA until Q1 2022.**
- **The Complimentary DA is likely to classify the use of natural gas & nuclear energy as sustainable to some degree.**
- **At the insistence of Germany and France respectively, natural gas & nuclear energy will both qualify as sustainable.**



Mairead McGuinness ✓ @McGuinnessEU · 7h

Congratulations to the @Europarl_EN on approving the #EUTaxonomy Climate Delegated Act - providing clarity and certainty to the market on what is sustainable.

#SustainableFinanceEU #InvestGreen



SFDR – Further delay to technical standards (1/2)

Joint ESAs Final report on Taxonomy-related product disclosures

- **Issue** - The publication of the ESAs' Final Report on [Regulatory Technical Standards](#) (RTS) on Taxonomy-related product disclosures, originally due to be finalised by 1 June 2021, has been further delayed.
- **Cause of the delay** – The Joint Committee, consisting of ESMA, EIOPA & EBA, have been unable to finalise the RTS due to a disagreement over the **treatment of sovereign exposures** (which are not reflected in disclosures of financial institutions of Taxonomy-alignment at entity level as per Article 8 of the Taxonomy) at product level.
- ESMA fears that not representing sovereign exposures in product-level disclosures will be **misleading to investors**. By contrast, EIOPA is concerned that the higher sovereign exposures of insurers, and the **low Taxonomy-assessability** of sovereign issues, may reflect poorly on insurance products.



SFDR – Further delay to technical standards (2/2)

Joint ESAs Final report on Taxonomy-related product disclosures

- **Status** – On 5th October, the RTS were submitted to the Boards of Supervisors (BoS) of EIOPA and the EBA for approval by **written procedure**. The deadline for objections is **Tuesday, 12th October**. Once the EIOPA & EBA BoS have approved the RTS, it will be passed to ESMA for final approval and published soon thereafter.
- The European Commission plans to consolidate the RTS on Taxonomy-related product disclosures with the already finalised RTS on ESG disclosures into a single Delegated Act to be published in **February 2022 (indicative timing)**.
- On 8 July, in a [letter](#) to the ECON Committee, the Commission outlined its plan “to bundle all 13 regulatory technical standards into a single Delegated Act and **defer dates of application of 1 January 2022 by six months to 1 July 2022.**”
- Despite this, significant confusion has emerged as to the application dates for multiple provisions of the SFDR. Many of the application dates are stipulated in the Level I text and it is not clear whether the Commission can legally disapply these provisions through a simple letter to ECON.
- Most immediately, as of 1 January 2022 – FMPs subject to SFDR are required to publish the first entity-level **PAI statement** (excluding data from a prior reference period) and disclose the Taxonomy-alignment of products subject to Articles 5 & 6 of the Taxonomy Regulation.

Review of Solvency II

Climate scenario analysis & new prudential treatment based on sustainability

On 22 September the EU Commission put forward a comprehensive **review of the Solvency II Directive**, which regulates the insurance & reinsurance industry in Europe.

The review consists of 2 elements:

- a legislative proposal to amend the Solvency II Directive (Directive 2009/138/EC)
- a Communication on the review of the Solvency II Directive.

Why it is relevant for sustainable finance?

1. **Climate risk management** → Insurers and reinsurers will be required to conduct long-term climate scenario analysis (new Article 45a)
2. **Dedicated prudential treatment of exposures related to assets or activities associated with environmental or social objectives** → EIOPA will assess the opportunity to introduce a **green supporting factor (GSF)** OR a **brown penalising factor (BPF)** (new Article 304a)

Background

- Measures announced in the Sustainable Finance Strategy (July 2021)
- Introduction of GSF/BPN is contentious → EIOPA's advice is due by June 2023 and it will be analysed by the next EU Commission



EFRAG: PTF-ESRS Climate Standard Prototype

EFRAG's project task forces have started drafting sustainability reporting standards under CSRD

Three broad disclosure areas at company level:

- 1) **Strategy** – Business Strategy & Climate; Climate Impacts, Risks & Opportunities; Climate Governance
- 2) **Implementation** – Policies & Targets (incl. disclosures on **net-zero targets and decarbonisation pathways**); Actions & Resources
- 3) **Performance measurement** – Energy Consumption & Mix; Scope 1, 2 & 3 GHG Emissions (incl. optional disclosure of removals, offsets, avoided emissions); EU Taxonomy for Sustainable Activities (incl. disclosures pursuant to Art. 8 DA); Financial Exposure to Physical & Transition Risks & Opportunities



Next steps:

- **Internal** commenting and discussions (currently no public consultation)
- Review and input by **external** expert working groups
- Aiming to have **preliminary** pre-exposure draft versions ready by **mid-October**
- Aiming to deliver **full set** of draft standards (covering all CSRD sustainability issues) in **mid-2022**

- [Climate Standard Prototype Working Paper](#) (8 September)
- [Accompanying basis for conclusions](#) (24 September)
- PTF RNFRO Report [Towards Sustainable Businesses: Good Practices in Business Model, Risks and Opportunities Reporting in the EU](#) (4 October)

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