

3 March 2022

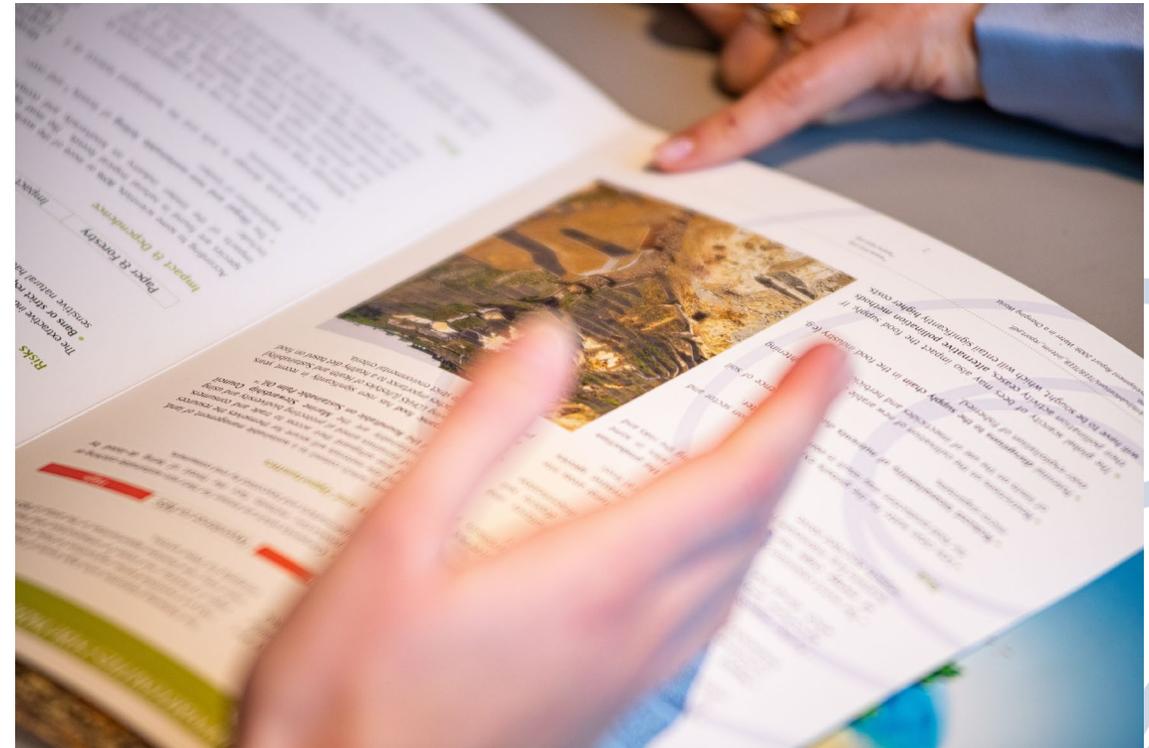
EU SUSTAINABLE FINANCE UPDATES

Eurosif
The European Sustainable Investment Forum

Agenda of this edition

3 March 2022

- Platform Social Taxonomy report
- EU Corporate Sustainability Due Diligence
- CSRD developments in Council and EP
- 2nd batch EFRAG working papers
- ESMA Sustainable Finance Roadmap



EU Social Taxonomy report

The Platform on Sustainable Finance has published its Social Taxonomy report

Key takeaways:

- On 28 February 2022, the Platform published its final report, proposing a **structure for a Social Taxonomy** within the present EU legislative environment
- Objectives target one or more of **3 broad stakeholder groups**: entity's own **workforce (including value chain workers)**, end users or **consumers**, affected **communities**
- **Three broad social objectives (each with sub-objectives) are:**
 - Decent work
 - Adequate living standards and well-being for end users
 - Inclusive and sustainable communities and societies
- Types of **substantial contributions**: additional inherent social **benefits** of the activity itself; **avoiding** and addressing negative impacts; **enabling** activities
- Do no significant harm criteria + minimum safeguards



Next steps:



- Clarification of minimum safeguards
- Study on impacts of a social taxonomy
- Definition rationale for prioritization + prioritization of objectives
- Definition substantial contribution + DNSH criteria

EU Social Taxonomy report

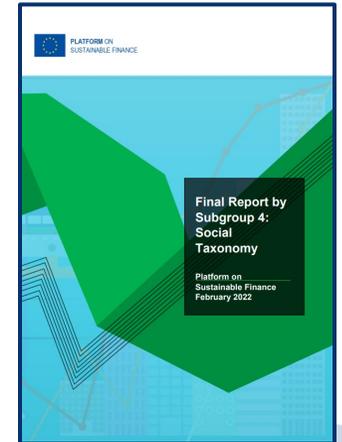
The Platform on Sustainable Finance has published its Social Taxonomy report

Key takeaways:

- In its final report, the Platform decided to align the structure of the Social Taxonomy with that of the Environmental Taxonomy to render it easier to apply and report against (if adopted).
- Accordingly, the so-called Vertical Dimension and Horizontal Dimension have been removed in favour of a simpler regime encompassing both dimensions depending on the social objective pursued.
- In the words of the Platform;

*“Process-related (horizontal) criteria have now been framed as reducing negative impact on workers, consumers & societies.” – *Avoiding & addressing negative impacts constitutes a substantial contribution to social objectives.*

Ultimately, the Social Taxonomy remains at a conceptual stage and the complexity of developing technical screening criteria for social objectives (and sub-objectives) across a wide range of economic sectors is clear.



EU Corporate Sustainability Due Diligence

Commission lays down rules for companies to respect human rights and environment in global value chains



Context & aim:

- On 23 February 2022, European Commission adopted proposal for a **Directive** on corporate sustainability due diligence
- Aims to foster sustainable and **responsible corporate behavior** throughout global value chains
- More **legal certainty** for businesses + more **transparency** for consumers and investors
- Applies to both EU companies (Group 1, Group 2) and non-EU companies active in the EU

Companies need to:

- integrate **due diligence** into policies;
- identify actual or potential **adverse** human rights and environmental **impacts**;
- prevent or **mitigate potential** impacts;
- bring to an end or **minimize actual** impacts;
- establish and maintain a **complaints** procedure;
- monitor the **effectiveness** of the due diligence policy and measures;
- and publicly **communicate** on due diligence.

Group 1 companies need to adopt 1.5°C **transition plan**

Next steps:



- Proposal presented to European Parliament and Council for approval
- Once adopted, Member States have two years to transpose Directive into national law

CSRD developments in Council and EP

The Council of the EU has adopted its general approach on CSRD



Key developments in Council;



- On 24th February, the Council adopted its [general approach](#) on the CSRD proposal.
- The French Presidency now has a mandate to begin legislative negotiations with the European Parliament once the latter's position is finalized.

Council General Approach

- The Council has adjusted the original implementation timeline envisaged by the Commission proposal.
- MS now have **18 months to transpose Directive** following its entry into force.
- Companies already subject to NFRD will report data as of 2025.
- Companies not currently subject to NFRD will report as of 2026, and listed SMEs as of 2027.

Key developments in the European Parliament:



- The process in the European Parliament is more complex and yet to be concluded.
- There are several Committees involved in the process. The JURI Committee is nominally in the lead with ENVI as an associated Committee, and ECON & EMPL as Committees for Opinion.
- Votes are being held in each of these Committees on their respective amendments to the CSRD.
- ECON held a vote on 28th February. ENVI & EMPL will vote on their amendments on 3rd March. The final JURI vote will occur on 15th March.

EU sustainability reporting standards

EFRAG has published a second batch of working papers for information

What happened in February:

- EFRAG published **4 draft standards**
- The **topics** covered are:

ESRS E2
Pollution

ESRS E3
Water and Marine Resources

ESRS E5
Resource Use & Circular Economy

ESRS SEC1
Sector Classification

- These are **work-in progress documents**, that were published to provide transparency to stakeholders on the standard setting process
- Background: In Jan. EFRAG published a **first batch of working papers**: standard on climate, cross-cutting standards, and conceptual

Next steps:

- The working papers will be considered and **discussed** by PTF-ESRS members, review panel, expert working groups.
- The exposure drafts will be submitted to **public consultation** (expected in March/April).
- EFRAG will finalise the standards and send a **technical advice to the EU Commission**.
- The EU Commission will adopt **delegated acts** containing the standards by: **October 2022** (first set); **October 2023** (second set).*

* CSRD approval pending



ESMA Sustainable Finance Roadmap

ESMA published its Sustainable Finance Roadmap, setting priority areas for 2022-2024



Key priorities for 2022-2024:

- Tackling greenwashing and promoting transparency
- Building NCAs' and ESMA's sustainable finance capacities
- Monitoring, assessing and analysing ESG-related markets and risks

Selection of planned actions and deliverables:

- Contribution to Commission's efforts to develop **EU-wide labels** for SF products
- Contribution to work on **minimum sustainability criteria** for SFDR Art. 8 products
- Contribution to EU and international **sustainability reporting standards**
- Contribution to work on creation of **ESG benchmark label**



Thank you!

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