

# EU Sustainable Finance Update

7 October 2021



PROMOTING SUSTAINABILITY THROUGH  
EUROPEAN FINANCIAL MARKETS

# Agenda

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- 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

An aerial photograph of a vast, golden-brown agricultural field, likely a wheat or corn field, showing distinct rows and furrows. In the lower right quadrant, a small tractor is visible, moving across the field and kicking up a trail of dust. The image is partially obscured by a large, dark blue circle containing the text "An overview".

An overview

# 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 7<sup>th</sup> December at the request of the Council of the EU.**

On 15<sup>th</sup> 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 7<sup>th</sup> 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.**



# 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 5<sup>th</sup> 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, 12<sup>th</sup> 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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