

Orgalim Presidents' meeting – 21 April 2021

On EU Sustainable Finance progress in general and Corporate Sustainability Reporting Directive

- In just a few years, **we have collectively achieved substantial steps to make our financial system greener**. The private sector has demonstrated a growing commitment to making their practices more sustainable, in line with the expectations of our citizens and the climate and environmental urgencies.
- Policy makers are now fully aware of the key role of the financial system for the transition. In 2018 the EU was the first and most comprehensive jurisdiction to table a roadmap for sustainable finance.
- As very often for finance, you need a comprehensive and consistent set of measures. The 2018 Action Plan laid the foundations to transform our financial system. Three essential dimensions: reporting by firms; obligations for intermediaries; and common instruments like taxonomy and labels.
- For intermediaries, manufacturers of financial products and financial advisers, the Disclosure Regulation (SFDR) sets out sustainability disclosure obligations towards end-investors. It entered into application recently, on 10th of March.
- Today we have presented our proposal for a new Corporate Sustainability Reporting Directive. It will revise and strengthen the EU's corporate sustainability reporting rules, as a central element of the Green Deal and Europe's sustainable finance agenda.
- And also today we have adopted the implementing rules on the EU Taxonomy. I will come back to this later. Let me focus on disclosure/reporting – but let me note that the various pieces are linked.
- With the Corporate Sustainability Reporting Directive our aim is to simplify the situation for reporting companies and for users of sustainability information. The current situation – with lots of different standards, frameworks and expectations – is costly and inefficient for everyone.
- Better sustainability reporting by companies is crucial if we are to address the systemic financial risks coming from climate change and other sustainability issues.
- The financial system also needs better data from companies about their sustainability impacts, so that more capital can flow to companies that have positive social and environmental effects.
- We have carefully considered the need to extend the scope of reporting requirements to additional categories of companies. This includes large non-listed companies, as well as all listed companies (with the exception of listed micro-enterprises).
- The information that issuers report must be reliable. It is in everyone's interest that investors and others can trust the data. That is why we have proposed an audit (assurance) requirement.
- We will also propose mandatory sustainability reporting standards. The speed and ambition of Europe's Green Deal and the need for coherence with the EU legal framework mean that we need to move ahead with European standards.

On Taxonomy

- One key piece of the EU sustainable finance agenda is the EU Taxonomy.
- The EU taxonomy is a framework to define sustainable economic activities for investment purposes.

- Qualifying activities have to contribute substantially to one of the environmental objectives (climate change mitigation and adaptation, water preservation, pollution prevention, circular economy, biodiversity), and not cause significant harm to any of the other environmental objectives.
- The taxonomy will be a reference point for further policy actions, such as the creation of standards and labels for financial products.
- Today, the Commission has adopted the first Delegated Act for the EU Taxonomy that sets out the economic activities for climate change mitigation and adaptation. It covers economic activities in sectors which are responsible for almost 80% of direct greenhouse gas emissions in Europe.
- Companies (both financial and non-financial companies) that are within the scope of the Non-Financial Reporting Directive need to use the criteria of the Taxonomy to disclose what share of their activities count as environmentally sustainable and contribute the most to the Green Deal objectives.
- In addition, financial market participants will need to use the criteria to disclose what share of their financial products are aligned with the EU taxonomy.
- Companies are not obliged to align their activities with the criteria, but they might decide to use it as a compass to guide their transition towards sustainability.

Transition finance

- The transition to a climate neutral and sustainable economy is not a one-off event but a process. For companies, this transition means to reduce greenhouse gas emissions, become resilient and reduce environmental harm over time. For investors, transition means to improve the environmental performance of a portfolio over time. Member States must also plan and incentivise this transition.
- All companies can invest in green activities. As part of their corporate strategy, companies can use the EU Taxonomy to make plans to transition specific activities to meet Taxonomy thresholds. Other science-based metrics may help them to set sustainability performance targets for the company as a whole. The Taxonomy Climate Delegated Act and the CSRD are two important tools among others that help navigate the transition.
- Companies currently without any Taxonomy-aligned activities can decide to plan and finance projects that either upgrade an existing activity to meet Taxonomy criteria, or to set up a new activity that is Taxonomy-aligned. What counts is the environmental performance of the activity, which facilitates the gradual transition of a company as a whole.
- The Taxonomy also aims to provide incentives to investors to finance transition projects. By clearly defining what is recognised as green, the Taxonomy aims to incentivise and inspire companies to launch new projects, or upgrade existing ones, to meet these criteria. The Taxonomy will not block funding for activities that do not fulfil the Taxonomy criteria.
- In this context, we very much welcome the report by the Platform on transition finance delivered in March.

On the Renewed Strategy

- Indeed, we are working on a Renewed Sustainable Finance Strategy to be unveiled this summer. It's early time, so I will mention three broad issues we will be addressing:
- First, put our financial system and the real economy on track to reach the targets of the European Green Deal. The financial sector has a central role to play to accelerate the financing of the transition in the real economy at the scale expected. A systemic transformation is needed to align financial institutions and companies with the overall targets.

- Second, increase the resilience of the financial system and financial institutions to climate and environmental risks. Financial institutions should already now take the necessary steps to reduce their exposure to sustainability risks, including transition and physical risks.
- Finally, duly reflect the international dimension, in particular Paris Agreement, in our sustainability objectives. This is not a battle that we can win alone, we need all willing parties to take an active role, hence our leading role in the International Platform on Sustainable Finance and our active role in other fora, such as the G7 or the G20.
- The strategy will support companies to transition to sustainable activities and unlock private funds necessary to reach the overall investment target for 2030 and beyond.
- All new actions will be anchored in tools and frameworks we have developed as part of the 2018 Action Plan. For instance, we will use the taxonomy and the disclosure regulation as foundations for further initiatives.