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There is still a long way to go

Sustainable Finance is considered as a central tool to drive the real economy towards sustainability targets such as carbon neutrality by 2050. There is still however a long way to go. The share of ESG financial assets is currently less than two percents of total financial assets. Time is also running out, if we want to meet the carbon neutrality target by 2050 then the required infrastructure investments which are long term by nature must be fully sustainable by 2025.

Significant investments and progress are therefore needed within the next five years. A key underlying building block of sustainable finance is however missing. The transition of the 98% remaining financial assets can not be achieved without the availability of appropriate ESG data. There is a wide recognition among financial institutions that ESG data are incomplete, not comparable and of poor quality. This is true for all categories of ESG data, environment, social and governance, and it also true for all categories of companies although the issue is more acute for climate related data and for SMEs.The gap between financial institutions regulatory requirements on climate risk and the ability of these institutions to comply with them based on the information they have at their disposal will be hard to close. The transmission mechanism can then be broken and instead of steering transition, finance might ultimately exclude those companies that need most support on a fair transition journey: environmental sensitive companies and smaller companies.

No one would think of a financial ecosystem operating without financial statements. We need a non financial reporting framework of the same quality as the financial reporting framework. This would be beneficial for the development of sustainable finance, but it will also be key to structure the transition journey of the real economy. Non financial information is actually more diverse, granular and complex than financial information. It requires a reporting on a set of relevant exposure indicators, ideally by sector, location and company, and even ultimately measuring the impact of such indicators through the whole value chain. It took hundreds of years to build the financial statements that we currently use, by capitalizing on best practices and adopting progressive standardization. We only have five years ahead of us.

The revision of Non Financial Reporting Directive is a unique opportunity in that respect, provided it includes a binding standardization of a minimum set of ESG indicators and an appropriate accountability framework. Given its leadership on sustainability and its political legitimacy, the European Union is best placed to build on the multiple existing reporting frameworks and find a solution. This solution can later be refined and form the basis of a global reporting framework. It is not a matter of sovereignty, perfection or excessive regulation. It is a matter of urgency and efficiency. ●