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Sustainable finance: a finance agenda for the transition

Sustainable finance is key to mobilising the massive investments needed to meet the objectives of the Paris Agreement and the UN 2030 Agenda on sustainable development goals (SDGs). In the EU, in particular, sustainable finance is vital to reach our targets under the European Green Deal, our strategic growth agenda for a climate-neutral Europe by 2050. The pandemic has not altered this necessity: the recovery needs to support the Green Deal and to catalyse the green transition.

To mobilise private investors, regulators need to set the targets, provide clarity on the direction of travel, and put in place credible and usable tools and frameworks. The EU Taxonomy will play a key role. It provides investors with a robust and evidence-based tool to identify opportunities for green investments in line with our 2050 environmental target. The Taxonomy Regulation adopted in June provides for a general framework that will be further refined through the adoption of delegated acts specifying the technical criteria for an economic activity to be included in the EU Taxonomy. It will be expanded and updated as technology and research evolve.

The first delegated act, defining activities that substantially contribute to the objectives of climate change mitigation and adaptation, will be adopted in April 2021 and enter into force at the beginning of 2022. A second delegated act defining activities that make a substantial contribution to the other four environmental objectives, namely protection of water resources, biodiversity and ecosystems, circular economy and prevention of pollution, will be elaborated once the Platform submits its technical input in autumn.

Furthermore, a separate delegated act will specify the taxonomy-related disclosures by which companies falling under the scope of the Non-Financial Reporting Directive (NFRD) will have to disclose their key performance indicators, i.e. share of turnover and capital expenditure, in respect of sustainable economic activities. This delegated act is planned to be adopted in Q2 2021 building on the technical advice submitted by the European Supervisory Authorities (ESAs) on 1 March.

The legislative proposal of the revision of the NFRD, to be adopted by the Commission in April 2021, is critical to the success of the sustainable finance agenda. By improving the environmental, social and governance

(ESG) information that companies report, it will enable investors and assets managers to better understand the sustainability related risks to the entity (outside-in), and will enable civil society organisations to hold companies accountable for their social and environmental impacts (inside-out).

The Commission is assessing the EFRAG's recently issued recommendations on sustainability reporting standards. Currently, standards represent the best solution to address the lack of relevance and comparability of the non-financial information, as well as to ensure consistency with other pieces of sustainable finance legislation, such as the Sustainable Finance Disclosure Regulation and the EU Taxonomy. However, we recognise the importance of applying proportionate sustainability reporting requirements to SMEs: we are considering a simplified non-financial reporting standard for smaller companies to be applied probably on a voluntary basis.