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Accompanying the

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Strategy for Financing the Transition to a Sustainable Economy

{COM(2021) 390 final}

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Introduction

This staff working document sets out the EU's achievements since 2018 in the implementation of its domestic and international sustainable finance agenda. It provides an overview of the foundation that the new Strategy on Financing the Transition to a Sustainable Economy ('the Strategy') is built on. This stock take and the summary of the public stakeholder consultation conducted in mid-2020[1] are key background documents accompanying the Strategy.

The EU sustainable finance agenda supports the implementation of different key European Green Deal initiatives, including the Farm to Fork Strategy[2], the New Circular Economy Action Plan[3], the Renovation Wave for Europe[4], the Biodiversity Strategy for 2030[5], the Adaptation Strategy[6], the Smart and Sustainable Mobility Strategy[7] and the EU's industrial strategy[8] and the SME strategy[9].

The Action Plan on Financing Sustainable Growth was adopted by the Commission in March 2018.[10] It builds on the final report[11] of the High-Level Expert Group on Sustainable Finance (HLEG), which sets out strategic recommendations for a financial system that supports sustainable investments. The 2018 Action Plan aimed to achieve three main goals, divided into actions across the whole investment chain. These goals were: (a) reorienting capital flows towards a more sustainable economy; (b) mainstreaming sustainability into risk management; and (c) fostering transparency and long-termism.

With the 2018 Action Plan, the Commission created the foundations for a sustainable finance system. The Commission is committed to completing the implementation (Section 1, complemented by the Annex 1 detailing the implementation of the different actions).

Many EU sustainable finance initiatives relate to the EU Taxonomy, which provides common definitions for sustainable economic activities. This document aims to provide clarity on the many connections between the different pieces of the sustainable finance framework and the EU Taxonomy (Section 2). While crucial, the EU Taxonomy is not the only reference framework used in the

[1] For the Summary Report of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy, see here.
[2] Communication from the Commission, 'A Farm to Fork Strategy', COM/2020/381 final, 20.5.2020. see p. 17.
[3] Communication from the Commission, 'A new Circular Economy Action Plan For a cleaner and more competitive Europe', COM/2020/98 final, 11.3.2020, see p. 12.
[4] Communication from the Commission, 'A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives', COM/2020/662 final, 14.10.2020, see p. 5.
[5] Communication from the Commission, 'EU Biodiversity Strategy for 2030 Bringing nature back into our lives', COM/2020/380 final, 20.5.2020, see p. 18.
[6] Communication from the Commission, 'Forging a climate-resilient Europe - the new EU Strategy on Adaptation to Climate Change', COM/2021/82 final, 24.2.2021, see p. 17.
[7] Communication from the Commission, 'Sustainable and Smart Mobility Strategy – putting European transport on track for the future', COM/2020/789 final, 9.12.2020, see p 18.
[8] Communication from the Commission, 'A New Industrial Strategy for Europe', COM (2020) 102 final & Updating the 2020 'Industrial Strategy: Building a stronger Single Market for Europe's recovery', COM (2021) 350 final.
[9] Communication from the Commission, 'An SME strategy for a sustainable and digital Europe', COM(2020) 103 final.
[10] Communication from the Commission, 'Action Plan: Financing Sustainable Growth', COM(2018) 97 final, 8.3.2018.
[11] High Level Expert Group on Sustainable Finance, final report "Financing a sustainable European economy", 31.1.2018, available here.

sustainable finance agenda. It is complemented by concepts, benchmarks and criteria laid out in other regulations, such as the Sustainable Finance Disclosure Regulation (SFDR) or the proposal for the Corporate Sustainability Reporting Directive (CSRD).

In addition, the 2018 Action Plan aimed to be a blueprint for launching discussions in international forums. Building up on its own domestic achievements, the EU is at the forefront of global efforts and is leading on the sustainable finance agenda at international level. The European Commission- together with seven other jurisdictions across the globe[12] - launched **the International Platform on Sustainable Finance (IPSF)** in October 2019[13]. The IPSF is now acknowledged as one of the key international sustainable finance initiatives (Section 3)**.**

1. The foundations for a sustainable financial system

Starting in 2018, the EU has gradually laid the foundations for a sustainable finance agenda to make the transition to sustainability and a carbon neutral economy by 2050 possible. This is based on providing investors and companies with relevant, reliable information on sustainability opportunities and risks throughout the financial value chain.

The common language for this agenda is the EU Taxonomy, which sets out criteria for identifying economic activities substantially contributing to climate and environmental objectives. The Taxonomy Regulation, adopted on 18 June 2020[14], created a robust, science-based reference system, providing a clear and consistent set of criteria for the evaluation of economic activities in terms of their environmental sustainability. The EU Taxonomy allows investors to share a common understanding of the environmental sustainability impacts of their investment choices, ensuring the market efficiently channels finance to sustainable activities and providing safeguards against greenwashing. Its technical screening criteria will be regularly updated and strengthened. The work of the Commission in the development of technical screening criteria for the climate and environmental objectives of the Taxonomy Regulation is described in Action 1 of the Strategy.[15]

To provide investors with the information necessary to make sustainable investment choices, the EU has put in place a comprehensive disclosure regime for both non-financial and financial institutions. This disclosure regime will increase transparency about Environmental, Social and Governance (ESG) impacts, risks and opportunities, as well as strengthen market discipline, discourage greenwashing and foster innovation in the design of financial products.

[12] Founding members: Argentina, Canada, Chile, China, India, Kenya, Morocco and the EU.
[13] The European Commission represents the EU and provides the Secretariat of the IPSF. See all the details about the IPSF, its objectives, membership and work plan in the Section 3 of this document.
[14] Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation 2019/2088, OJ L 198, 22.6.2020, p. 13.
[15] For more information on the EU Taxonomy, see the FAQ on ‘What is the EU Taxonomy and how will it work in practice?’ available here. The Commission has also developed the EU Taxonomy Compass, available here, which provides a visual representation of the contents of the EU Taxonomy, starting with the Delegated Act on the climate objectives, as adopted on 4 June 2021.

- **Basic information must be provided by non-financial institutions engaged in economic activities that have an impact on sustainability and are exposed to sustainability factors.** Therefore, companies will be required to report improved sustainability information under the proposal for a Corporate Sustainability Reporting Directive (CSRD), proposed by the Commission in April 2021[16]. The CSRD proposal will revise and strengthen the rules introduced in the Non-Financial Reporting Directive (NFRD)[17]. If adopted, it would ensure that all large companies and all listed companies, including listed SMEs (except listed micro enterprises), disclose relevant, reliable and comparable sustainability information. The proposal for the CSRD will be considered by the co-legislators and is expected to apply from 2023.
- **Financial market participants are required to disclose to their end investors the sustainability impact of their investment products, activities and processes**. This obligation is enshrined in the Sustainable Finance Disclosure Regulation (SFDR)[18], which applies from 10 March 2021. The SFDR increases the level and quality of information provided by financial market participants on sustainability, including adverse impacts. In addition, the SFDR requires products with certain sustainability-related ambition to disclose their degree of Taxonomy-alignment.
- **Large non-financial and financial companies[19] must meet additional disclosure requirements under the Taxonomy Regulation**. Article 8 of the Taxonomy Regulation specifies the content of the disclosures to be made by large institutions on Taxonomy-alignment. A delegated act on Article 8 disclosures, adopted on 6 July[20], provides the content, methodology and presentation of the disclosures that large European companies (including financial institutions) will need to make against the EU Taxonomy.
- As a complement to the sustainability disclosure regime, **sustainability preferences are to be included in investment and insurance advice**. This will give retail investors more information and more choice. It will also empower retail investors to decide where and how their savings should be invested and make a tangible positive impact on the climate, environment and society, if they wish to do so. The change will increase the demand for sustainable investments and those that consider adverse impact on sustainability. To this end, the Commission adopted a number of delegated acts on 21 April 2021[21].

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[16] Proposal for a directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards sustainable corporate reporting by certain undertakings, COM (2021) 189 final, 21.4.2021.

[17] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance, OJ L 330, 15.11.2014, p. 1.

[18] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p. 1.

[19] Undertakings which are subject to publish non-financial information pursuant to Art 19a and 29a of Directive 2013/34/EU.

[20] Commission Delegated Regulation supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Article 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, adopted on 6 July 2021 and to be published in the Official Journal. .

[21] Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (OJ L 87, 31.3.2017, p. 1) and Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the

Easily accessible data will increase transparency for investors. The European Single Access Point (ESAP), as foreseen by the Capital Markets Union action plan, aims to create an EU-wide mechanism offering easily accessible and digitally usable information based on companies' public reporting requirements. As part of the ESAP project, the Commission is considering how to improve access to ESG information, especially to information to be reported under the proposed CSRD, including Taxonomy-related information within such reporting. Easier access to and use of ESG information will enable a better integration of sustainability aspects in investment decision making. As such, the ESAP will support the objectives of the European Green Deal.

Finally, the EU implemented a broad toolbox for companies, market participants and financial intermediaries to develop sustainable investment solutions, while preventing greenwashing.

- **The EU Climate Benchmarks Regulation**, adopted on 27 November 2019, introduced the EU Climate Transition Benchmarks and the EU Paris-aligned Benchmarks, as well as sustainability-related disclosures for all benchmarks[22]. The use of credible, reliable climate and sustainability benchmarks provide investors with further investment opportunities aligned with climate and environmental goals, by providing transparency to investors and preventing greenwashing.
- **The Commission presented a legislative proposal for a standard on European green bonds on 6 July 2021**[23] to create a high-quality standard available to all green bond issuers on a voluntary basis. The standard would give issuers a reliable means to demonstrate the Taxonomy-alignment of green projects to be financed and to support the transitioning of economic activities to sustainable outcomes.
- **An EU green label for retail financial products** is envisaged under the 2018 Action Plan and is currently being developed by the Commission, based on the EU Ecolabel Regulation 66/2010. It will be adopted in 2022 and will provide retail investors with a credible, reliable and widely recognised label for retail financial products.

These policy foundations provide a framework for private investments to flow to sustainable economic activities on an efficient, consistent basis. While considerable progress has been made on these building blocks, further work is required in the coming years. In moving forward with this Strategy, there will be a particular need to ensure that the framework is comprehensive and flexible enough to accommodate a successful transition to Green Deal objectives.

Thematic Box: Biodiversity in the sustainable finance agenda

The **loss of biodiversity and depletion of natural resources** are accelerating and action must be scaled up. The conservation, sustainable use and restoration of biodiversity can provide significant business opportunities, including long-term viability of business models and increases in operational efficiency and market share. At the same time, businesses and financial institutions are impacting

Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products (OJ L 341, 20.12.2017, p. 8).

[22] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, OJ L 317, 9.12.2019, p. 17. Further information is available here.

[23] Proposal for a Regulation of the European Parliament and of the Council on European green bonds, COM/2021/391 final, 6.7.2021.

biodiversity and ecosystems with their business and financing decisions. Businesses and financial institutions should integrate biodiversity factors in their operations, supply chains and investment decisions[24].

The **EU Biodiversity Strategy** provides a comprehensive, long-term plan to protect nature and reverse the degradation of ecosystems. The strategy aims to put Europe's biodiversity on a path to recovery by 2030, noting the post-COVID-19 context. It is launched in the context of the upcoming **UN Biodiversity Conference** (Biodiversity COP15), hosted by China in October 2021, where governments will convene to agree on a new set of goals for nature over the next decade.

Biodiversity is also an important feature of the EU sustainable finance agenda. One of the six environmental objectives laid out by the **Taxonomy Regulation** (Article 9) is the protection and restoration of biodiversity and ecosystems. Article 15 of the Taxonomy Regulation notes how an economic activity can substantially contribute to this objective[25]. In this regard, the Commission will adopt a delegated act establishing technical screening criteria for this objective, together with the other environmental objectives (sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control). The **SFDR** defines 'sustainable investment' as 'an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators […] on its impact on biodiversity'[26]. Furthermore, the legislative proposal for a **Corporate Sustainable Reporting Directive (CSRD)** identifies the environmental factors that should be addressed by sustainability reporting standards, including biodiversity and ecosystems.

Another initiative supported by the Commission is the ALIGN project - 'Aligning Accounting Approaches for Nature' to support businesses in developing standardised accounting practices for natural capital and biodiversity. It will establish a dedicated natural capital management accounting platform for facilitating the exchange of best practices among business practitioners as well as a business driven discussion and alignment process. In the context of the EU Business and Biodiversity Platform, the Commission is also intensifying its engagement with the industry with the aim to align their approaches to better take into account their relationship with nature.

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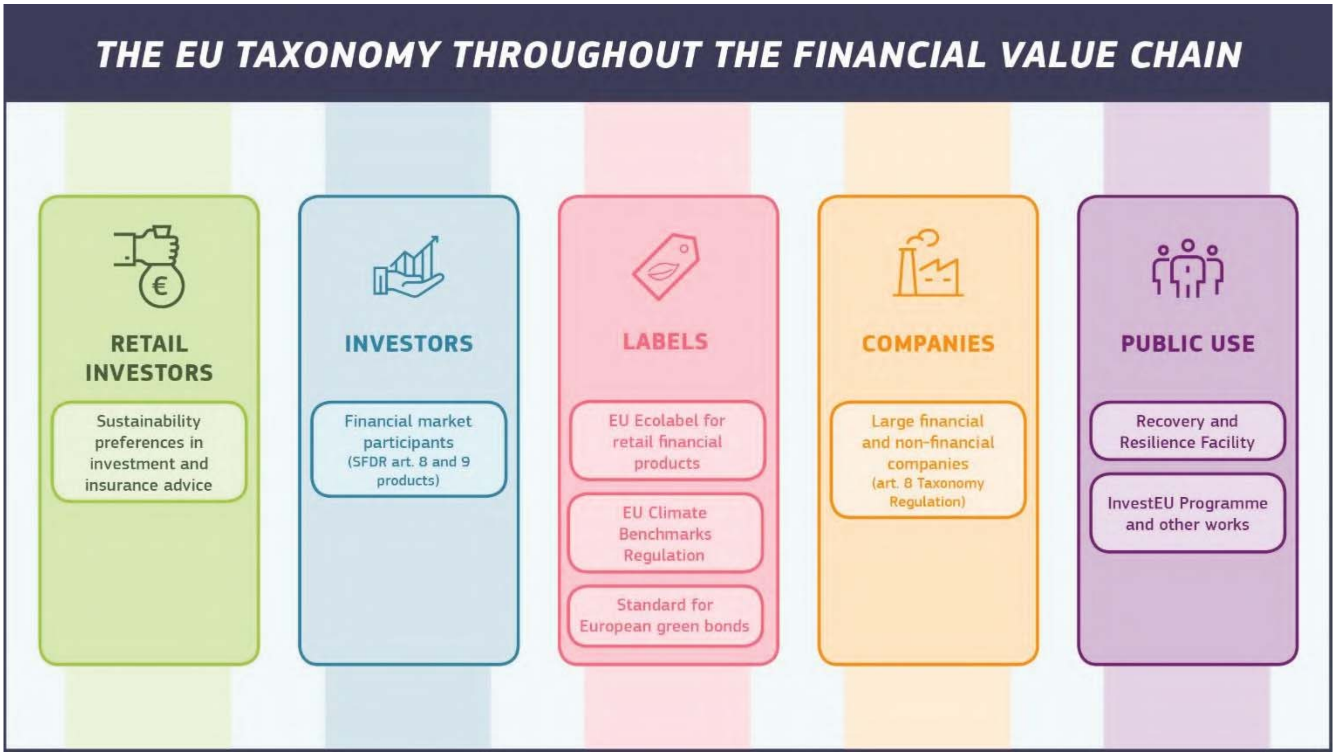
[24] Organization for Economic Co-operation and Development (2019), 'Biodiversity: Finance and the Economic and Business Case for Action', report prepared for the G7 Environment Ministers' Meeting, 5-6 May 2019.

[25] Article 15(1) of the Taxonomy Regulation: '[…] (a) nature and biodiversity conservation, including achieving favourable conservation status of natural and semi-natural habitats and species, or preventing their deterioration where they already have favourable conservation status, and protecting and restoring terrestrial, marine and other aquatic ecosystems in order to improve their condition and enhance their capacity to provide ecosystem services; (b) sustainable land use and management, including adequate protection of soil biodiversity, land degradation neutrality and the remediation of contaminated sites; (c) sustainable agricultural practices, including those that contribute to enhancing biodiversity or to halting or preventing the degradation of soils and other ecosystems, deforestation and habitat loss; (d) sustainable forest management, including practices and uses of forests and forest land that contribute to enhancing biodiversity or to halting or preventing degradation of ecosystems, deforestation and habitat loss; or (e) enabling any of the activities from (a) to (d) […]'.

[26] Article 2(17) of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector, OJ L 317, 9.12.2019, p. 8.

2. How the taxonomy enables transition finance and connects to other sustainable finance initiatives



The policy tools in the 2018 Action Plan are interconnected and rely on common definitions.

This section aims to provide an overview of how different sustainable finance policies connect with the EU Taxonomy to create a comprehensive, coherent landscape. The EU Taxonomy will play an important role in creating a standard for European green bonds and the EU Ecolabel for retail financial products.

1) Taxonomy and retail investments: sustainability preferences as a top up to the suitability test in investment and insurance advice[27]. Clients' sustainability preferences can be addressed in several ways, including by offering financial instruments which are invested, at least to some extent, in taxonomy-compliant activities or in sustainable investments, or that consider the adverse impact of investments on the environment or society. The amendments to the suitability test do not state how much a given instrument should be invested in taxonomy-compliant activities: this should be the result of a dialogue between an adviser and a potential client. The client should ultimately determine their specific environmental ambition.

2) Financial market participants[28] creating a financial product that promotes environmental or social characteristics (Article 8 of the SFDR- Regulation) or pursues sustainable investments (Article 9 of the

[27] More details on the April package and the amendments to the suitability test are available here.

[28] 'Financial market participant' means an insurance undertaking which makes available an insurance- based investment product (IBIP); an investment firm which provides portfolio management; an institution for occupational retirement provision (IORP); a manufacturer of a pension product; an alternative investment fund manager (AIFM); a pan- European personal pension product (PEPP) provider; a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; a manager of a qualifying social entrepreneurship fund registered in

SFDR- Regulation) must describe how and to what extent the investments underlying the financial product are taxonomy-aligned activities (Article 5 to 7 of the Taxonomy Regulation). In addition, the Taxonomy Regulation empowers the European Supervisory Authorities (ESAs), by implementing the SFDR, to develop further regulatory technical standards (RTS) on 'Taxonomy-related product disclosures'.

3) The EU Ecolabel for retail financial products would require the use of the Taxonomy for financial products eligibility criteria.

4) The EU Climate Benchmarks Regulation laid down minimum standards for the creation of two types of climate benchmarks: EU Climate Transition and EU Paris-aligned Benchmarks. By 31 December 2022, the Commission shall review the minimum standards for both EU Climate Benchmarks to ensure that the selection of the underlying assets is coherent with sustainable investments to ensure consistency with the EU Taxonomy.

5) The legislative proposal on a standard for European green bonds, adopted by the Commission on 6 July[29], would require that issuers using the standard fully align investments financed by bond proceeds with the EU Taxonomy.

In addition, the Taxonomy Regulation requires Member States and the EU to use the EU Taxonomy as the basis of any measure setting out requirements for financial market participants or issuers in respect of financial products or corporate bonds that are made available as environmentally sustainable.

6) Large financial and non-financial companies (undertakings under article 19a and 29a of the Directive 2013/34/EU[30]) will have to disclose on how and to what extent the activities they carry out meet the criteria set out in the EU Taxonomy. The delegated act on Taxonomy disclosures under article 8 of the Taxonomy Regulation adopted on 6 July 2021 specifies the content and presentation of the information to be disclosed by these companies[31].

In addition to the mandatory uses in the Taxonomy Regulation outlined above, there are other EU or national policies that may refer to the Taxonomy Regulation. Such uses are not defined or mandated in the Taxonomy Regulation itself but may look for coherence with the EU Taxonomy.

7) The Recovery and Resilience Facility[32] uses the 'do no significant harm' principle of the EU Taxonomy, which is applied within the meaning of Article 17 of the Taxonomy Regulation but without

accordance with Article 15 of Regulation (EU) No 346/2013; a management company of an undertaking for collective investment in transferable securities (UCITS management company); or a credit institution which provides portfolio management;

[29] Proposal for a Regulation of the European Parliament and of the Council on European green bonds, COM/2021/391 final, 6.7.2021.

[30] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ L 182, 29.6.2013, p.19.

[31] Commission Delegated Regulation (EU) supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Article 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, adopted on 6 July 2021 and to be published in the Official Journal.

[32] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17.

requiring the use of the delegated acts and related technical screening criteria. On 12 February 2021 the Commission published a technical guidance document[33], providing more details on how to apply the 'do no significant harm' principle for the purposes of the RRF.

8) The InvestEU programme takes into account, where appropriate, the EU Taxonomy criteria in the two guidance documents for InvestEU implementing partners on climate and environmental tracking as well as on the sustainability proofing. This will act as an incentive for public financial institutions to use the EU Taxonomy framework when assessing the sustainability of potential investments.

In addition, the objectives of the **EU regional, cohesion and social funds** for the period of 2021-2027 shall be pursued in line with the 'do no significant harm' principle within the meaning of Article 17 of the Taxonomy Regulation but without requiring the use of the delegated acts and related technical screening criteria.

Thematic Box: The role of sustainable finance for cities

Cities account for more than 65% of energy consumption and more than 70% of CO2 emissions worldwide: they should be at the forefront of EU efforts to deliver on the European Green Deal. The Sustainable and Smart Mobility Strategy[34] set a target for 100 European cities to be climate neutral by 2030. The planned EU Mission for 'Climate neutral and smart cities' aims to help 100 cities reach this goal and to pave the way for all other European cities to follow suit by 2050. A wide array of funding and financing instruments will be needed, as public spending will not be sufficient to address cities' financial needs. Cities are key actors in a circular economy.

Sustainable finance offers an opportunity for investors to see the tangible benefits of their investment locally and to create viable business models to secure funding with citizen support. Green financial instruments, such as green municipal bonds, sustainability-linked bonds and retail green bonds can help increase the quantity and quality of spending in cities while redirecting resources toward green investment. Communication and promotion activities must also be explored to increase the impact of local investment on climate neutrality and increase ownership of the transformation process.

3. The Commission's global outreach for sustainable finance

Climate change is a global threat to our environment, economy and society. Addressing the financing needs for the transition internationally requires, on the one hand, the development of policy initiatives and tools to support the scale up of sustainable finance and, on the other hand, the coordination of these initiatives among international policymakers.

It is against this background that the EU, represented by the Commission, created the International Platform on Sustainable (IPSF) along with seven other jurisdictions. The IPSF was

[33] European Commission, Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation, C(2021) 1054 final, 12.2.2021.

[34] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Sustainable and Smart Mobility Strategy – putting European transport on track for the future', COM(2020) 789 final, 9.12.2020.

launched in October 2019 with the objective of promoting integrated markets for sustainable finance and thereby facilitating the mobilisation of international investors. The IPSF today has 17 members[35], more than doubling its membership in one year, and firmly features in international discussions on sustainable finance initiatives.

The IPSF focuses on areas that allow investors to seize sustainable investment opportunities such as taxonomies, sustainability-related disclosures and labels and standards for financial products. It is complementary to other international networks, such as the Network for Greening the Financial System (NGFS) and the Coalition of Finance Ministers, which joined forces by taking up an observer role in the IPSF, together with other key international organisations and public financial institutions[36].

The first annual report published in October 2020 confirmed the promising growth in sustainable finance markets worldwide and the importance of these tools for continuing to scale up volumes to meet global environmental challenges. To this end, dedicated IPSF working groups are underway on green taxonomies and on sustainability-related disclosures. The IPSF, as a knowledge partner, will also be a key contributor to the G20 Sustainable Finance Working Group.

By autumn 2021, the IPSF will deliver three public reports:

- **The report on a common ground Taxonomy** will compare the approaches, criteria and outcomes of existing taxonomies for environmentally sustainable investments developed by public authorities.
- **The report on sustainability-related disclosures** will provide a comprehensive and holistic (i.e. ESG and double materiality) comparison of disclosure requirements across jurisdictions for companies (including banks), asset managers and institutional investors and will identify similarities and differences in their approaches and outcomes.

[35] Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR of PRC), Indonesia, Japan, New Zealand, Norway, Senegal, Singapore, Switzerland and the United Kingdom also joined the IPSF. Together, the 17 members of the IPSF represent 55% of greenhouse gas emissions, 50% of the world population and 55% of global GDP.

[36] The IPSF has 12 observers: the Coalition of finance ministers for climate actions, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the European Development Finance Institutions (EDFI), the International Financial Reporting Standards Foundation (IFRS), the International Monetary Fund (IMF), the Network for Greening the Financial System (NGFS), the International Organisation of Securities Commissions (IOSCO), the Organisation for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank Group.

- **The annual report** will provide an overview of the activities of the IPSF for the preceding year.

Alongside the IPSF, the Commission continues to play an important role in other international forums. To promote the EU sustainable finance agenda, the Commission actively participates in different international work-streams:

- The G20 and its Sustainable Finance Working Group and the G7 Finance Track;
- The Financial Stability Board (FSB) work-stream on Climate Disclosures and the working group on climate risk;
- The Basel Committee on Banking Supervision (BCBS) Task Force on Climate-related Financial Risks;
- The Coalition of Finance Ministers for Climate Action across the different Helsinki Principles.

EU action on sustainable finance, both domestically and internationally, will also support the objectives of the upcoming United Nations Climate Change Conference (COP26) in November 2021.

Annex I. Stocktake of the 2018 Action Plan implementation

Action 1: Establishing a classification system for sustainable activities (EU Taxonomy)

1.1. Subject to the outcome of its impact assessment, the Commission will table a legislative proposal in Q2 2018 that will ensure the progressive development of an EU taxonomy for climate change, environmentally and socially sustainable activities.

On 24 May 2018, the Commission published a legislative proposal for a Regulation on the establishment of a framework to facilitate sustainable investment, creating a unified EU classification system of sustainable economic activities[37]. **The Taxonomy Regulation was adopted on 18 June 2020** and published in the Official Journal on 22 June 2020.

The Taxonomy Regulation foresees three implementation steps:

- **An EU Taxonomy delegated act on activities contributing substantially to the two climate change objectives**[38], based on the final recommendations by the Technical Expert Group on Sustainable Finance (see below) and stakeholder inputs received from the 4-week 'Have your say' feedback that closed on 18 December 2020. The delegated act was adopted on 4 June 2021 and is now subject to a four plus two-month period of scrutiny by the co-legislators. If the co-legislators do not object, the delegated act will enter into force on 1 January 2022.
- **A delegated act on activities contributing substantially to the remaining four environmental objectives**[39], to be adopted in the first half of 2022 and to apply from the start of 2023, based on the advice of the Platform on Sustainable Finance[40].
- **A delegated act adopted on 6 July 2021 specifying the information companies** subject to the non-financial reporting directive (NFRD)[41] will have to disclose to the public on how, and to what extent, their activities are associated with environmentally sustainable economic activities (taxonomy-aligned) under the EU Taxonomy[42].

[37] For additional information on the EU Taxonomy, please see here.

[38] Article 9 of the EU Taxonomy Regulation specifies the following six climate and environmental objectives: (a) climate change mitigation, (b) climate change adaptation, (c) the sustainable use and protection of water and marine resources, (d) the transition to a circular economy, (e) pollution prevention and control, and (f) the protection and restoration of biodiversity and ecosystems.

[39] Commission delegated regulation (EU), supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, C/2021/2800 final, 4.6.2021.

[40] Further information on the Platform on Sustainable Finance is available here.

[41] The Commission advanced a revision of the NFRD with the proposal for a Corporate Sustainability Reporting Directive (CSRD) on 21 April 2021, extending its scope of application.

[42] The delegated act builds on the technical advice by the European Supervisory Authorities (ESMA, EBA, EIOPA) published 1 March 2021 and a call for feedback.

The Commission announced additional steps in the Communication 'Directing finance towards the European Green Deal' on 21 April 2021[43].

The Taxonomy Regulation also requires the creation of the Platform on Sustainable Finance[44]. The Platform was set up in October 2020 as a Commission expert group. It has been mandated to advise the Commission on future EU Taxonomy developments and sustainable finance policies more generally. This includes advising the Commission on the technical screening criteria for the remaining four environmental objectives, updating and reviewing existing technical screening criteria and exploring the merits of extending the EU Taxonomy framework to other sustainability objectives and environmental performance levels.

1.2. Report of the Commission technical expert group providing a taxonomy for climate change mitigation activities.

1.3. Report of the Commission technical expert group providing a taxonomy for climate change adaptation and other environmental activities.

The Technical Expert Group (TEG) on Sustainable Finance is the predecessor of the Platform on Sustainable Finance. Composed of 35 members, it was created in 2018 to assist the Commission in developing some of the actions of the Action Plan[45]. During its mandate (from July 2018 to September 2020), the TEG produced a report on the EU taxonomy[46], with recommendations relating to the overarching design of the EU Taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose against the EU Taxonomy. The report is supplemented by a technical annex[47] containing recommended technical screening criteria for the climate objectives of the Taxonomy Regulation.

Action 2: Standards and labels for green financial products

2.1. Report of the Commission technical expert group on a standard for green bonds.

The TEG published its final report on an EU Green Bond Standard[48] and a usability guide[49] on the use of the proposed standard and the set-up of a market-based registration scheme for external verifiers. On the basis of the TEG report, the Commission considered the feasibility and legal requirements for the development of a voluntary standard based on market best-practice, with the key requirement that the proceeds of the bond should be spent in line with the EU Taxonomy.

On 6 July, the Commission adopted a proposal for a Regulation on a standard for European green bonds, which will constitute a voluntary standard. The proposed standard is aligned with the Taxonomy Regulation and market best practices on disclosures and external review requirements. It will cater to

[43] Communication from the Commission on "EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal", COM(2021) 188 final, 21.4.2021.
[44] More details on the work and deliverables of the Platform on Sustainable Finance is available here.
[45] More details on the deliverables of the Technical Expert Group are available here.
[46] Technical Expert Group on Sustainable Finance, Final report on the EU taxonomy, 9.3.2020, available here.
[47] Technical Expert Group on Sustainable Finance, Technical annex to the TEG report on the EU taxonomy, 9.3.2020, available here.
[48] Technical Expert Group on Sustainable Finance, Report on EU green bond standard, 18.6.2019, available here.
[49] Technical Expert Group on Sustainable Finance, Usability guide on EU green bond standard, 9.3.2020, available here.

issuers who are transitioning towards taxonomy-aligned economic activities, or whose economic activities are already taxonomy-aligned. The proposal also includes a regime for ESMA to register and supervise those companies that wish to provide review services for European green bonds.

2.2. Commission delegated act on the content of the prospectus for green bond issuances.

The Commission has not yet addressed this. It is explored in the Strategy.

2.3. Assessment of applying the EU Ecolabel to retail financial products.

In 2018, the Commission concluded that the EU Ecolabel Regulation (66/2010) can include retail financial products. In autumn 2018, the Joint Research Centre (JRC) was mandated to provide technical support in the development of the criteria. It consequently undertook research and organised several rounds of consultations.

The work on the EU Ecolabel for retail financial products is ongoing and will be adopted in 2022.

Action 3: Fostering investments in sustainable projects

Building on the ongoing efforts to reinforce advisory capacity, including for developing sustainable infrastructure projects, the Commission will take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.

To further support investments in sustainable projects, the Commission proposed the specific use of the InvestEU Programme under the Multiannual Financial Framework (MFF) 2021-2027, which was adopted and published on 24 March 2021[50]. The aim of the InvestEU Programme is to bring together the multitude of EU financial instruments under the previous MFF 2014-2020 to bolster future-oriented investments across the European Union over the period 2021-2027. Part of its budget was frontloaded to support companies in the COVID-19 recovery period. It will help mobilising private investments for the EU's policy priorities, such as the European Green Deal and the digital transition.

The InvestEU Programme consists of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. These components represent tools to provide funding, technical support and assistance. They aim to bring together investors and project promoters to support the four policy areas of the Programme: (i) sustainable infrastructure; (ii) research, innovation and digitisation; (iii) small and medium-sized businesses; and (iv) social investment and skills.

The InvestEU Fund financed from the EU budget and NextGenerationEU will provide a budgetary guarantee of €26 billion, which is expected to trigger investment on the ground estimated at around €370 billion over the next 7 to 10 years. In line with the InvestEU climate target, 30% of the investment mobilised (around €110 billion) should contribute to meet EU climate goals. In parallel, the InvestEU Fund is expected to mobilise investments related to natural capital and circular economy.

[50] Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017, OJ L 107, 26.3.2021, p. 30.

A dedicated Just Transition Scheme will also be set up under InvestEU to generate additional investment that will benefit Just Transition territories (i.e. those most affected by the socio-economic consequences of the green transition). This will complement the Just Transition Fund and the public sector loan facility.

The Commission will organise a Sustainable Investment Summit ahead of the COP26. It will include all relevant stakeholders and take stock of progress across the different EU initiatives, included in the Sustainable Europe Investment Plan.

Action 4: Incorporating sustainability in financial advice

4.1. Subject to the results of its impact assessment, Commission delegated acts (MiFID and IDD) on the suitability assessment.

4.2. ESMA to include sustainability preferences as part of its guidelines on the suitability assessment.

On 21 April 2021, the Commission adopted amendments to the delegated acts under the Markets in Financial Instruments Directive (MiFID II)[51] and the Insurance Distribution Directive (IDD)[52], which aim to integrate clients' sustainability preferences into the existing suitability assessment[53]. Under the current rules, advisers obtain information about the client's investment knowledge and experience, ability to bear losses and risk tolerance (i.e. they conduct a suitability assessment). With the amendments, advisers will also obtain information on the sustainability preferences of their clients.

The **assessment of retail investors' sustainability preferences** is an addition to the suitability assessment. The sustainability preferences include three categories of products that are material in terms of sustainability: (i) products that are invested, at least to some extent, in Taxonomy-compliant activities or, (ii) at least to some extent, in sustainable investments as defined in SFDR, or (iii) that consider negative externalities of investments on the environment or society (also called 'principal adverse impacts on sustainability matters'). Following the adoption, amendments are under the scrutiny of the European Parliament and the Council and apply 12 months after publication in the Official Journal.

In May 2018, ESMA published its Guidelines on certain aspects of the MiFID II suitability requirements[54], including good practice for firms addressing the issue of sustainability (pending changes to the legal framework).

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[51] Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, OJ L 87, 31.3.2017, p. 1

[52] Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products, OJ L 341, 20.12.2017, p. 8.

[53] This call for feedback was published together with the one on the amendments to delegated acts under UCITS, AIFM and Solvency II, to clarify the integration of sustainability risks in the fiduciary duty (see Action 9.3.).

[54] European Securities and Markets Authority, Final Report on Guidelines on certain aspects of the MiFID II suitability requirements, 28.5.2018, available here.

Action 5: EU Climate Benchmarks and Benchmarks' ESG Disclosures

5.1. Commission delegated acts on the transparency of the methodology of benchmarks and on the features of the benchmarks.

5.2. Subject to the results of its impact assessment, an initiative creating a designated category of benchmarks comprising low-carbon issuers.

5.3. Report of the Commission's technical expert group on the design and methodology of the low-carbon benchmark.

In May 2018, the Commission presented a proposal for a regulation amending the Benchmark Regulation[55]. The amendment creates a new category of EU Climate Benchmarks, comprising EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks and underpinned by a methodology linked to the commitments laid down in the Paris Agreement. The Regulation also lays down a number of ESG disclosure requirements for benchmark administrators, incorporating the TEG report of September 2019. The Regulation amending the Benchmark Regulation[56] was adopted by co-legislators and published in the Official Journal on 9 December 2019. It entered into application on 30 April 2020.

The Regulation envisages three delegated acts to be adopted by the Commission to define minimum standards. This includes sustainability criteria for a benchmark to be labelled as an EU Climate Transition Benchmark or EU Paris-aligned Benchmark. It also covers the ESG disclosure requirements for the benchmarks statement and the benchmark methodology of benchmarks provided in accordance with the BMR (with the exception of interest rate, foreign exchange and, for the methodology, also commodity benchmarks). The Technical Expert Group published a report on climate benchmarks and benchmarks' ESG disclosures[57], followed by a complementary handbook[58] on climate benchmarks and benchmarks' ESG disclosures, to clarify the recommendations contained in the final report. On this basis, the Commission prepared the delegated acts[59] that entered into application on 23 December 2020.

Looking forward, the Climate Benchmark Regulation requires that the Commission:

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[55] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks, COM/2018/355 final, 24.5.2018.

[56] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, PE/90/2019/REV/1, OJ L 317, 9.12.2019, p. 17.

[57] Technical Expert Group on Sustainable Finance, Interim report on EU climate benchmarks and benchmarks' ESG disclosures, 18.6.2019, available here.

[58] Technical Expert Group on Sustainable Finance, Handbook of climate transition benchmarks, Paris-aligned benchmarks and benchmarks' ESG disclosures, 20.12.2019, available here.

[59] Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020), Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology (OJ L 406, 3.12.2020, p. 12), Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

- review the minimum standards for EU Climate Transition Benchmarks and for EU Paris-aligned Benchmarks to ensure consistency with the EU Taxonomy, by 31 December 2022; and
- present a report to the European Parliament and to the Council on the impact of this regulation and the feasibility of an 'ESG benchmark' (broader than the current climate approach) before 31 December 2022.

Action 6: Better integrating sustainability in ratings and research

6.1. Commission services report on progress made on the actions involving credit rating agencies.

6.2. ESMA to assess current practices in the credit rating market; ESMA to include ESG information in its guidelines on disclosure for credit rating agencies.

ESMA communicated its advice on the current practice around sustainability considerations within the credit rating market in July 2019[60]. ESMA concluded that credit rating agencies are considering environmental, social and governance factors in their credit ratings, according to the importance assigned to those factors by credit rating agencies' methodologies. ESMA also concluded that it is important to strengthen disclosure on how ESG factors are being considered in credit ratings.

As a first step, ESMA updated its guidelines on disclosure requirements for credit ratings in July 2019[61] and has started checking how credit rating agencies apply these new guidelines in April 2020, when they entered into force. The impact of the guidelines on how credit rating agencies disclose information on sustainability considerations in credit ratings is being currently assessed.

6.3. Study on sustainability ratings and research.

In December 2019, the Commission launched a study on sustainability-related ratings, data and research. The aim was to take stock of how the market is functioning and to provide an inventory and classification of the types of products and services that are offered. It identified the main players and provided information on data sourcing. The objectives of the study were also to look into the level of transparency of methodologies and potential shortcomings in the market.

The Study on Sustainability-related ratings, data and research was published in January 2021[62]. The study identified a number of issues pertaining to the functioning of the market of ESG ratings providers. It revealed issues in transparency around data sourcing and methodologies, as only few firms disclose the underlying indicators or the actual weights. The study also highlighted issues in terms of timeliness, accuracy and reliability of some of ESG ratings. Another issue identified related to potential biases based on the size and location of companies. Finally, it highlighted potential conflicts of interest associated with certain aspects of their work, including where providers both assess companies and offer paid advisory services or charge companies to see their own reports.

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[60] European Securities and Markets Authority, Technical advice to the European Commission on sustainability considerations in the credit rating market, ESMA 33-9-321, 18.7.2019.

[61] European Securities and Markets Authority, Final report on guidelines on disclosure requirements applicable to credit ratings, ESMA33-9-320, 18.7.2019.

[62] European Commission and Environmental Resources Management, Study on sustainability-related ratings, data and research, 6.1.2021, available here.

Action 7: Disclosures by financial market participants

Subject to the results of its impact assessment, Commission legislative proposal to clarify institutional investors' and asset managers' duties on sustainability and to increase transparency of end-investors, including transparency on their strategy and climate-related exposures.

In May 2018, the Commission published a proposal for a Regulation on disclosures relating to sustainable investments and sustainability risks and amending the Institutions for Occupational Retirement Provision (IORP) Directive. On 9 December 2019, the Regulation on sustainability-related disclosures in the financial services sector (SFDR) was published in the Official Journal[63]. The SFDR applies, with certain exceptions, as of 10 March 2021. This regulation foresees three separate areas of disclosures:

- **On sustainability risks (Articles 3 and 6)**: Disclosure requirements for all financial products on sustainability risk policies, and on how sustainability risks are integrated in the investment decisions/advice (as part of their duties towards investors).
- **On adverse impact (Articles 4 and 7)**: Requirement for financial market participants to disclose how they consider principal adverse impacts of investment decisions on sustainability factors, i.e. negative externalities of investments caused to environment and society. The rules distinguish between disclosures at entity and financial products levels.
- **By financial products with certain sustainability-related ambition (Articles 8, 9, 10 and 11)**: Disclosure requirements for financial products with sustainable investment as their objective (often referred to as 'dark green' financial products) and for financial products with environmental and social characteristics (often refereed as to 'light green' financial products). They have to prove, via disclosures, their sustainable investment objective/characteristics and the related sustainability related 'positive' impacts.

The SFDR empowers the European Supervisory Authorities (ESAs) to jointly prepare seven draft Regulatory Technical Standards (RTS) (Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4)), which were delivered to the Commission in February 2021[64].

In addition, the Taxonomy Regulation empowers the three ESAs - by amending the SFDR - to jointly develop further RTS on 'Taxonomy-related product disclosures'. On 17 March 2021, the ESAs published a consultation paper seeking input on draft RTS for disclosures of financial products investing in economic activities that contribute to an environmental investment objective. The closing date for responses to the consultation is 12 May 2021[65].

[63] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019.
[64] Joint Committee of the European Supervisory Authorities, Final report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088, JC 2021 03, 2.2.2021.
[65] For more information about the joint consultation on taxonomy-related sustainability disclosures and its results, see here.

Action 8: Sustainability in prudential requirements

8.1. Work towards incorporating climate risks into institutions' risk management policies and on the potential calibration of banks' capital requirements in the Capital Requirement Regulation (CRR) and Directive (CRD) to take into account climate change-related risks while safeguarding financial stability and ensuring coherence with the EU Taxonomy.

In the context of the last banking package (CRR II/CRD V) adopted in May 2019, co-legislators agreed on three actions dedicated to sustainable finance:

- A requirement for large, listed institutions to **disclose ESG risks** as from June 2022 (Article 434a and 449a of the CRR), with first disclosure reference date as of 31 December 2022;
- A mandate for the EBA to assess the potential inclusion of environmental, social and governance **(ESG) risks in the supervisory review and evaluation process** (SREP) and report on its findings to the Commission by June 2021 (Article 98(8) of the CRD); and
- A mandate for the EBA to **assess whether a dedicated prudential treatment of exposures** related to assets or activities associated substantially with environmental and/or social objectives would be justified by June 2025 (Article 501c of the CRR)[66].

For the first action, the EBA has consulted on technical standards for prudential disclosures on ESG risks by large listed institutions, including proposals on quantitative information on climate related risks and risk mitigating actions, and on qualitative information on the broader scope of E, S and G related risks. The EBA plans to submit the technical standards to the Commission by the end of 2021. The EBA has developed these proposals in parallel with the advice to the Commission on KPIs and methodology for disclosure by banks and investment firms of disclosure of information on taxonomy-aligned activities under Article 8 of the Taxonomy Regulation.

For the second action, in its report published on 23 June 2021[67], the EBA provides institutions with common definitions of ESG risks and their transmission channels and identifies evaluation methods that are needed for effective risk management. The EBA also recommends integrating ESG risks into business strategies, governance and risk management as well as supervision in a timely manner.

For the third action, considering the complexity and potential impact of this work, the EBA plans to conduct this assessment in two phases, by firstly publishing a discussion paper and then considering feedback received to prepare the final report.

A study on the development of tools and mechanisms for the integration of ESG factors into the EU banking prudential framework and into banks' business strategies and investment policies' was also launched on the basis of the funds provided by the European Parliament. An interim report was published on 14 December 2020[68]. The analysis remains ongoing and the document published reflects the progress of the work as at submission date.

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[66] More details on the role of the EBA are available here.

[67] European Banking Authority, Report on management and supervision of ESG risks for credit institutions and investment firms EBA/REP/2021/18, 23.6.2021, available here.

[68] BlackRock and Financial Markets Advisory (FMA), Interim Study on 'Development of tools and mechanisms for the integration of environmental, social and governance (ESG) factors into the EU banking prudential framework and into banks' business strategies and investment policies', December 2020, available here.

8.2. The Commission will invite the European Insurance and Occupational Pensions Authority (EIOPA) to assess the impact of prudential rules for insurance companies on sustainable investment.

EIOPA's opinion of September 2019 on Sustainability within Solvency II [69] concluded that there is not sufficient evidence to justify changes to capital requirements neither for decreases for sustainable investment nor for increases for investments in fossil fuel-dependent sectors. However, EIOPA underlined the importance of qualitative assessments and scenario analyses to check the plausibility of quantitative valuations and capital requirements. On this topic, EIOPA published a separate opinion[70] and ran a consultation for that purpose[71]. These opinions will feed into the review of the Solvency II Directive, foreseen for Q3 2021.

Action 9: Strengthening sustainability disclosures by corporates

9.1. Publication of conclusions of the fitness check on public corporate reporting. This will inform any future legislative action by the Commission.

The **Commission published a fitness check of EU legislation on public corporate reporting in April 2021**[72]. The results showed that information reported by companies under the provisions of the existing NFRD does not meet the needs of intended users, and that the current framework also leads to confusion and unnecessary costs for reporting companies.

In the Communication on the European Green Deal, published on 11 December 2019, the Commission committed to review the NFRD as part of the strategy to strengthen the foundations for sustainable investment. From February to June 2020, the Commission carried out a public consultation on the review of the NFRD[73].

Building on the results of the consultation and the feedback received from stakeholders, on 21 April 2021 the Commission adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD), to amend the rules introduced by the NFRD. This proposal aims to create a set of rules that will – over time – bring sustainability reporting on a par with financial reporting. It will also extend the EU's sustainability reporting requirements to all large companies and all listed companies. The proposal is currently being considered by the co-legislators.

9.2. Revision of the guidelines on non-financial information as regards climate-related information

[69] European Insurance and Occupational Pensions Authority, Opinion on sustainability within Solvency II, EIOPA-BoS-19/241 30.9.2019.

[70] European Insurance and Occupational Pensions Authority, Opinion on the supervision of the use of climate change risk scenarios in ORSA, EIOPA-BoS-21-127, 19.4.2021.

[71] For further information about the consultation on the draft opinion on the supervision of the use of climate change risk scenarios in ORSA, see here.

[72] Commission staff working document, 'Fitness Check on the EU framework for public reporting by companies', accompanying the document 'Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU', SWD(2021) 81 final, 21.4.2021.

[73] For further information on the consultation, see here.

In January 2019, the TEG published a report on corporate disclosure of climate-related information[74]. Based on this report, in June 2019, **the Commission published** updated guidelines on reporting climate-related information[75], which supplement the existing guidelines on non-financial reporting.

9.3. Subject to the result of its impact assessment, proposal requiring asset managers and institutional investors to disclose how they consider sustainability factors in their investment decision making process (as part of the proposal foreseen under action 7).

On 8 June 2020, the Commission published a call for feedback, which was open until 6 July 2020 on amendments to several delegated acts. **UCITS, AIFM, Solvency II and MiFID II delegated acts were amended to clarify investors' fiduciary duty**, integrating sustainability risks considerations – i.e. risks that have impact on the value of the portfolio, as defined in the SFDR. The texts were based on the technical advice submitted by ESMA[76] and EIOPA[77] in May 2019. **On 21 April 2021, the Commission adopted the amendments, which cover organisational requirements, operating conditions, and risk management**.

*9.4. By Q3 2018, a **European Corporate Reporting Lab** will be established as part of the European Financial Reporting Advisory Group (EFRAG), to promote innovation and the development of best practices in corporate reporting, such as environmental accounting. In this forum, companies and investors can share best practices on sustainability reporting, such as the climate-related disclosure in line with the TCFD's recommendations.*

The European Corporate Reporting Lab was launched by EFRAG in November 2018[78]. The first project, on climate-related reporting, published its report in February 2020[79]. The Lab also established a task force to respond to the Commission's request for preparatory work on the development of possible EU non-financial reporting standards. The task force published its recommendations in February 2021[80]. In addition, a Lab project on business model and risk reporting is currently ongoing.

9.5. The Commission will request EFRAG, where appropriate, to assess the impact of new or revised IFRSs on sustainable investments. The Commission will also ask EFRAG to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. In Q4 2018, the Commission will report, taking into account EFRAG current work, on the impact of IFRS 9 on long-term investments and explore improvements to the standard for the treatment of equity instruments.

[74] Technical Expert Group on Sustainable Finance, final report on climate-related disclosures, 10.1.2019, available here.
[75] Communication from the Commission, 'Guidelines on non-financial reporting: Supplement on reporting climate-related information', C/2019/4490, OJ C 209, 20.6.2019.
[76] European Securities and Markets Authority, Technical advice on integrating sustainability risks and factors in the UCITS Directive and AIFMD, ESMA34-45-688, 30.4.2019.
[77] European Insurance and Occupational Pensions Authority, Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD, EIOPA-BoS-19/172, 30.4.2019.
[78] For further information about the European Corporate Reporting Lab, see here.
[79] Project Task Force on Climate-related Reporting, 'How to improve climate-related reporting - A summary of practices from Europe and beyond', February 2020, available here.
[80] European Corporate Reporting Lab, 'Proposals for a relevant and dynamic EU sustainability reporting standard-setting', February 2021, available here.

EFRAG responded to two Commission calls for technical advice on 28 November 2018 and on 30 January 2020 respectively. EFRAG's final response included a recommendation to request the International Accounting Standards Board (IASB) reconsider the re-introduction of recycling (of profits) for equity instruments measured at Fair Value through Other Comprehensive Income (FVOCI)[81]. Based on EFRAG's recommendation, Executive Vice-President Valdis Dombrovskis sent a letter to the IASB on 13 March 2020.

On 30 April 2020, the IASB responded, suggesting that it will start its post-implementation review of IFRS 9 *Financial Instruments* with 'Classification and Measurement'. This would allow for the identification of possible ways forward to address the non-recycling issue at an early stage, if needed. In line with its response to EVP Dombrovskis in April, the IASB has decided to start the post-implementation Review of IFRS 9[82], which also includes the long-term investment issue of recycling of equity instruments measured at FVOCI.

This exchange would be followed by the final output in terms of a possible revised IFRS 9 after the IASB Post-implementation Review.

9.6. Within the fitness check of EU legislation on public corporate reporting, the Commission will also evaluate relevant aspects of the International Accounting Standards Regulation. It will in particular explore how the adoption process of IFRSs can allow for specific adjustments to standards where they are not conducive to the European public good, e.g. where the standards could pose an obstacle to long-term investment objectives.

The International Accounting Standards Regulation (IAS Regulation) provides limited flexibility to amend standards as issued by the IASB in case a standard would not meet the technical endorsement criteria or not be conducive to the European public good. However, the overall conclusion of the fitness check is that introducing greater flexibility is not needed at this point. So far, the EU has been able to deal with such situations using the limited flexibility available within the confines of the IAS Regulation (the so-called 'carve-out' power and the 'top-up'). The EU has only needed to do so sparingly on two occasions since 2003 to cover very limited elements of two standards. This suggests that the endorsement procedure foreseen in the current legal framework provides sufficient flexibility in most cases.

Action 10: Fostering sustainable corporate governance & promoting long-termism

10.1. Assessment of possible ways to promote corporate governance more conducive to sustainable finance.

On 20 February 2020, the Commission published a study on due diligence requirements through the supply chain[83]. This study focuses on **due diligence requirements** to identify, prevent, mitigate and

[81] European Financial Reporting Advisory Group, Response letter to the European Commission on a request for technical advice on alternative accounting treatments for long-term equity investments, available here.
[82] For further information about the Post-implementation Review of IFRS 9 - Classification and Measurement, see here.
[83] British Institute of International and Comparative Law, Civic Consulting, European Commission (Directorate-General for Justice and Consumers), London School of Economics and Political Science, 'Study on due diligence requirements through the supply chain', 20.2.2020, available here.

account for abuses of human rights, including the rights of the child and fundamental freedoms, serious bodily injury or health risks, and environmental damage.

On 29 July 2020, the Commission published a study on directors' duties and sustainable corporate governance[84]. The study focuses on **issues contributing to 'short-termism' in company law and corporate governance**, which have been grouped around seven key problem drivers, covering aspects such as directors' duties and their enforcement, board remuneration and composition, sustainability in the business strategy, and stakeholder involvement. The study suggests that a possible future EU action in the area of company law and corporate governance should pursue the general objective of fostering more sustainable corporate governance and contributing to more accountability for companies' sustainable value creation.

The Commission has launched an initiative aiming to improve the EU regulatory framework on company law and corporate governance. The Commission carried out a public consultation from 26 October 2020 to 8 February 2021[85]. It will adopt a proposal in 2021.

10.2. ESAs to collect evidence of undue short-term pressure from capital markets on corporations and consider further steps based on such evidence.

On 1 February 2019, the Commission requested advice from ESMA, EBA and EIOPA on undue short-term pressure from the financial sector on corporations[86]. They published their findings in December 2019, recommending to strengthen disclosure of ESG factors to facilitate institutional investor engagement (EBA[87], EIOPA[88], ESMA[89]).

[84] European Commission (Directorate-General for Justice and Consumers), Ernst&Young, 'Study on directors' duties and sustainable corporate governance', 29.7.2020, available here.
[85] For further information about the consultation, see here.
[86] Cover letter to the call for advice to the European Supervisory Authorities to collect evidence of undue short-term pressure from the financial sector on corporations, 1.2.2019, available here.
[87] European Banking Authority, Report on undue short-term pressure from the financial sector on corporations, 18.12.2019.
[88] European Insurance and Occupational Pensions Authority, 'Potential undue short-term pressure from financial markets on corporates: Investigation on European insurance and occupational pension sectors', EIOPA-BOS-19-537, 18.12.2019.
[89] European Securities and Markets Authority, Report on undue short-term pressure on corporations, ESMA30-22-762, 18.12.2019.