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**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

{SWD(2021) 180 final}

Introduction – Enhancing the EU sustainable finance framework

Climate change and environmental degradation are defining global challenges of our time. Countries across the world recognise the urgent need to address these challenges, as demonstrated by their support for the Paris Agreement and the UN’s 2030 Agenda for Sustainable Development¹, and are setting ambitious targets. Based on the European Green Deal, the EU has made a number of ambitious commitments, in particular to become the first climate-neutral continent by 2050 and to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels². The EU also aims to strengthen its resilience to climate change, to reverse biodiversity loss and the broader degradation of the environment and to leave nobody behind in the process. To reach these targets, the alignment of all sources of finance – public and private, national and multilateral – is required. The EU needs to cooperate globally and work with low- and middle-income countries in their transition.

The EU sustainable finance framework will play a key role in meeting these targets and supporting a sustainable recovery from the COVID pandemic. Europe will need an estimated EUR 350 billion in additional investment per year over this decade to meet its 2030 emissions-reduction target in energy systems alone, alongside the EUR 130 billion it will need for other environmental goals³. Investment in unsustainable activities and assets are increasingly likely to become stranded, as climate and environmental challenges become ever more material. The insufficient integration of these risks hampers reallocation of resources and risks leading to disruptive readjustments in the future, with implications for financial stability. Accordingly, environmental regulation must be complemented by a sustainable finance framework which channels finance to investment that reduces exposure to these climate and environmental risks⁴.

The framework for sustainable finance can make it easier for public authorities to raise sustainable capital. The EU is already taking significant steps in this regard. Under the 2021-2027 Multiannual Financial Framework (MFF) and Next-Generation-EU (NGEU)⁵, the Union aims to spend up to EUR 605 billion on projects addressing the climate crisis and EUR 100 billion in projects supporting biodiversity. Of the EUR 750 billion allocated for Next-Generation-EU, 30% will be raised through issuance of NGEU green bonds. As the ‘EU climate bank’, the European Investment Bank Group has also taken important steps to support the transition⁶.

¹ The EU sustainable finance agenda also contributes to achieve the Sustainable Development Goals (SDGs), in particular to the Target 10.5: ‘Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations’.

² Communication from the Commission ‘The European Green Deal’, COM/2019/640 final, 11.12.2019.

³ See the Communication ‘Stepping up Europe’s 2030 climate ambition Investing in a climate-neutral future for the benefit of our people’, SWD/2020/176 final, 17.9.2020. In addition, there is a significant need for investments to ensure the reskilling and upskilling and support labour market transitions to achieve the energy and climate targets. See e.g. the analysis in the [2020 Employment and Social Developments in Europe](#) (ESDE) review.

⁴ ‘Sustainable finance’ generally refers to the process of taking due account of climate, environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities.

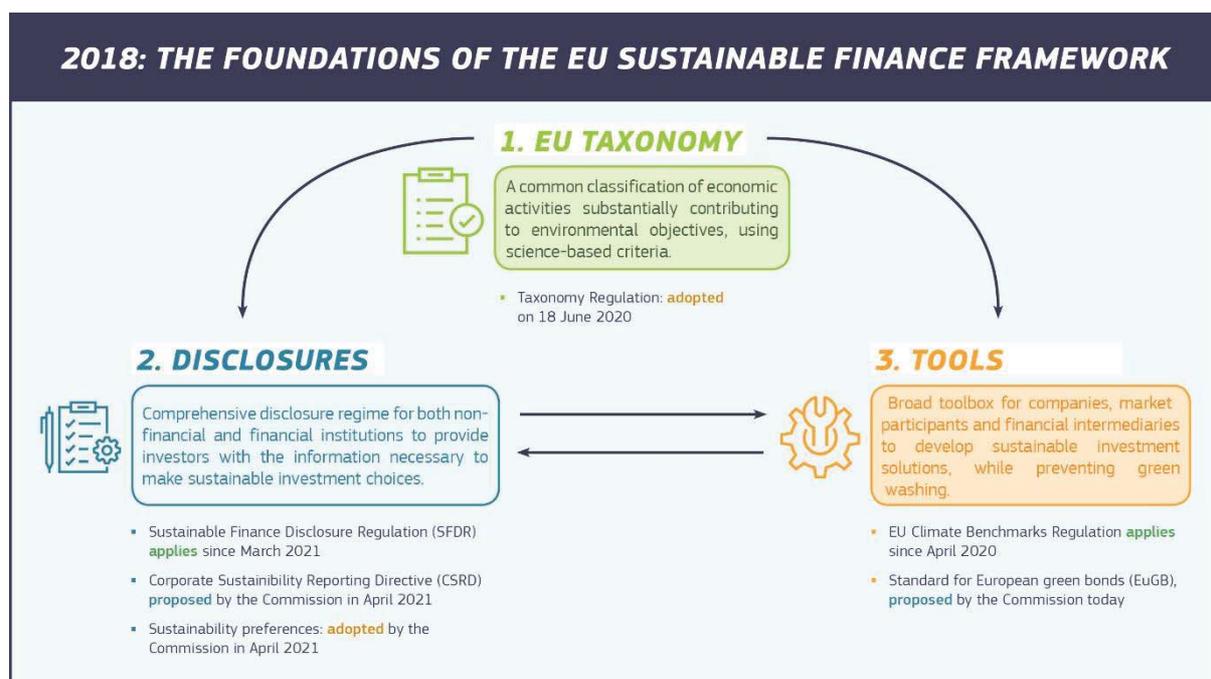
⁵ See dedicated Next-Generation-EU [webpage](#).

⁶ European Investment Bank Group, Climate Bank Roadmap 2021-2025, November 2020, available [here](#).

As the scale of investment required is well beyond the capacity of the public sector, the main objective of the sustainable finance framework is to channel private financial flows into relevant economic activities. Private interest in sustainable investment has grown considerably in recent years but requires a framework for sustainable finance which is clear, consistent and robust. The EU is putting that framework in place.

The sustainable finance framework and the Capital Markets Union reinforce each other, creating more opportunities for businesses and investors. Well-integrated and efficient capital markets should act as a catalyst for effective mobilisation and allocation of capital towards sustainable investments⁷. In turn, the momentum of the sustainable finance policy agenda boosts the importance and urgency of the efforts to build a truly single and sustainable market for capital in the European Union.

In 2018, the Commission adopted its first action plan on financing sustainable growth. Based on that plan, the EU has put in place the three building blocks for a sustainable financial framework⁸. These building blocks are: 1) a classification system, or ‘taxonomy’, of sustainable activities, 2) a disclosure framework for non-financial and financial companies, and 3) investment tools, including benchmarks, standards and labels⁹.



The first building block is the EU Taxonomy¹⁰. The Taxonomy Regulation aims to provide a robust, science-based classification system, allowing non-financial and financial companies

⁷ Evidence shows that capital markets, such as green bond or equity markets, are effective in accelerating the financing of the transition. See for instance Ralph De Haas and Alexander Popov, ‘Finance and decarbonisation: why equity markets do it better’, *Research Bulletin* No. 64, 27.11.2019, available [here](#).

⁸ Communication from the Commission ‘Action Plan: Financing Sustainable Growth’, COM(2018) 97 final, 8.3.2018.

⁹ See Commission staff working document accompanying the strategy for the details of implementation of the 2018 action plan on financing sustainable growth, SWD(180) final, 6.7.2021.

¹⁰ 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.

to share a common definition of sustainability and thereby providing protection against greenwashing¹¹.

The second building block is a mandatory disclosure regime for both non-financial and financial companies, providing investors with information to make informed sustainable investment decisions. Disclosure requirements include the impact of a company’s activities on the environment and society, as well as the business and financial risks faced by a company due to its sustainability exposures (the ‘**double materiality**’ concept). In this context, the Commission has today adopted a delegated act under the Taxonomy Regulation specifying the information to be disclosed by financial and non-financial undertakings concerning their environmental performance based on the EU Taxonomy¹².

EU sustainability disclosure regime for financial and non-financial companies			
Instrument	Corporate Sustainability Reporting Directive (CSRD) proposal ¹³	Sustainable Finance Disclosure Regulation (SFDR) ¹⁴	Taxonomy Regulation ¹⁵
Scope	All EU large companies and all listed companies (except listed micro enterprises)	Financial market participants offering investment products, and financial advisers	Financial market participants; all companies subject to CSRD ¹⁶
Disclosure	Report on the basis of formal reporting standards and subject to external audit	Entity and product level disclosure on sustainability risks and principal adverse impacts	Turnover, capital and operating expenditures in the reporting year from products or activities associated with Taxonomy
Status	Under negotiation; expected to apply from 2023	Applies from 10 March 2021	Applies from January 2022

To complement these disclosure requirements, sustainability preferences must be included in investment and insurance advice¹⁷.

¹¹ The use of marketing to portray an organisation's products, activities or policies as environmentally friendly when they are not.

¹² 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.

¹³ 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.

¹³ 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.

¹⁴ 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.

¹⁵ See note 10.

¹⁶ Until there is an agreement on the CSRD, this obligation concerns the undertakings subject to Art 19a or 29a of the Non-Financial Reporting Directive (Directive 2014/95 of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups).

¹⁷ 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); Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council

The third building block is a set of investment tools, including benchmarks, standards and labels. These make it easier for financial market participants to align their investment strategies with the EU’s climate and environmental goals. They provide greater transparency to market participants. These are the objectives of both the EU Climate Transition Benchmarks and the EU Paris-aligned Benchmarks, created by the EU Climate Benchmarks Regulation¹⁸. Today, the Commission is adopting a legislative proposal for a standard on European green bonds¹⁹. This proposal will create a high-quality voluntary standard, available to all issuers to help attract sustainable investments. Furthermore, the extension of the EU Ecolabel to financial products, will provide retail investors with a credible, reliable and widely recognised label for retail financial products.

Within a few years, major progress has been made in laying the foundations for the sustainable finance framework. The three building blocks are underway, but work remains to be done. The Commission is committed to completing the implementation of its ambitious 2018 action plan. However, since 2018, our understanding of what is needed to meet the sustainability goals has evolved, and the global context has changed. For these reasons, a new phase of the EU’s sustainable finance strategy is required.

This strategy identifies four main areas where additional actions are needed for the financial system to fully support the transition of the economy towards sustainability.

The infographic is divided into four quadrants, each with a distinct icon and color scheme:

- Top-Left (Green):** **FINANCING THE TRANSITION TO SUSTAINABILITY**. Icon: A hand holding a bar chart with an upward arrow. Text: "This strategy provides the tools and policies to enable economic actors across the economy to finance their transition plans and to reach climate and broader environmental goals, whatever their starting point."
- Top-Right (Blue):** **INCLUSIVENESS**. Icon: A circular diagram with three stylized human figures inside. Text: "This strategy caters for the needs of, and provides opportunities to individuals and small and medium companies to have greater access to sustainable finance."
- Bottom-Left (Pink):** **FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION**. Icon: A gear with a leaf growing from its center. Text: "This strategy sets out how the financial sector itself can contribute to meet Green Deal targets, while also becoming more resilient and combatting greenwashing."
- Bottom-Right (Orange):** **GLOBAL AMBITION**. Icon: A globe with two leaves at its base. Text: "This strategy sets out how to promote an international consensus for an ambitious global sustainable finance agenda."

The European Commission logo is located in the bottom right corner of the infographic.

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).

¹⁸ 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](#).

¹⁹ Proposal for a Regulation of the European Parliament and of the Council on European green bonds, COM/2021/391 final, 6.7.2021.

To inform this strategy, the Commission requested advice from the Platform on Sustainable Finance and ran an extensive stakeholder consultation in 2020²⁰. This strategy also complements other European Green Deal initiatives²¹, such as the Fit for 55 Package²².

I. Financing the transition of the real economy towards sustainability

The transition towards the EU's sustainability goals requires unprecedented efforts to mitigate and adapt to climate change, rebuild natural capital and strengthen resilience and wider social capital, all as part of a sustainable recovery from the COVID-19 crisis. The transition pathways of economic actors will vary considerably, with different starting points and different business strategies, but all pathways should ultimately be consistent with the EU's sustainability goals.

EU efforts have predominantly focused on supporting investment flows towards economic activities that are already environmentally sustainable and towards plans to make them environmentally sustainable. A more supportive framework is needed to address the challenge of financing interim steps in the urgent transition of activities towards the EU's climate neutrality and environmental objectives. The Commission has requested the advice of the Platform on Sustainable Finance on options that would encourage and recognise investments in economic activities for the transition towards sustainability²³.

Recognising transition efforts

While companies, issuers and investors can use the EU Taxonomy to green their activities and portfolios, the current framework could be developed to better recognise investments for intermediary steps on the pathway towards sustainability. Such investments may reduce harmful climate and environmental impacts, if they do not lead to lock-in of carbon-intensive technologies.

As a first step, the Commission will consider proposing legislation to recognise and support the financing of certain economic activities, primarily in the energy sector, including gas, that contribute to reducing greenhouse gas emissions in a way that supports the transition towards climate neutrality throughout the current decade, as announced in the Commission's Communication of April 2021²⁴.

Furthermore, the Commission will consider options for an extension of the Taxonomy framework beyond environmentally sustainable activities to possibly recognise activities with an intermediate level of environmental performance. This could help to boost

²⁰ More details on the questionnaire and the summary of the responses of this stakeholder consultation are available [here](#).

²¹ More information is available [here](#).

²² The Commission will soon present a 'Fit for 55 package' whose purpose is to update the EU's 2030 climate and energy laws to reflect the 55% net emissions reduction target that the EU set for 2030.

²³ See Platform on Sustainable Finance, Transition Finance Report, March 2021, available [here](#). In its Transition Finance Report, the Platform experts provided first recommendations on how to encourage transition finance across the whole economy.

²⁴ This proposal would aim at defining timeframes and intermediary steps for those economic activities, including for existing investments, which contribute to the transition process in a manner consistent with the European Green Deal, and as a follow-up on the European Council conclusions of 11-12 December 2020, which acknowledge the role of transition technologies such as natural gas.

transparency and mobilise finance for economic activities that are on a credible pathway towards sustainability, while taking into account social aspects. By the end of 2021, the Commission will publish a report describing the provisions required to cover economic activities that do not have a significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability²⁵.

Including additional sustainable activities in the EU Taxonomy

As announced in the Commission's Communication published in April 2021, the Commission will adopt a complementary EU Taxonomy Climate Delegated Act covering activities not yet covered in the first EU Taxonomy Climate Delegated Act, such as agriculture and certain energy sectors, in line with the requirements of the Taxonomy Regulation. The Delegated Act will also cover nuclear energy activities, subject to and consistent with the specific expert review process that the Commission set out for this purpose²⁶. The Commission will adopt this complementary Delegated Act as soon as possible after the end of the specific review process in summer 2021. This complementary Delegated Act will also cover natural gas and related technologies as transitional activity in as far as they fall within the limits of Article 10(2) of the EU Taxonomy Regulation. The merits of a sunset clause for transitional activities will be considered in this context.

Furthermore, the Commission will adopt technical screening criteria for the remaining four environmental objectives under the Taxonomy Regulation: water, circular economy, pollution prevention and biodiversity²⁷. The Commission will set out criteria for these objectives in a delegated act as foreseen by the Taxonomy Regulation, to be adopted in the first half of 2022, which will then apply from 2023. This will facilitate environmentally sustainable investments beyond climate.

Extending the framework of sustainable finance standards and labels

Standards and labels can help channel finance to companies, issuers and investors as they transition towards more sustainable activities and business models. They can also help investors by creating a transparent, credible framework to prevent greenwashing. To facilitate additional capital flows to interim transition efforts, the Commission will work on other bond labels, such as transition or sustainability-linked bond labels²⁸.

Looking ahead, a more general framework for labels for financial instruments could help bring clarity, transparency and coherence to sustainable finance markets. This

²⁵ Report required under Article 26(2) of the Taxonomy Regulation.

²⁶ This process is based on the independent and scientific technical report published in March 2021 by the Joint Research Centre, the European Commission's science and knowledge service, as well as the reports by the Euratom Article 31 experts group and the Scientific Committee on Health, Environmental and Emerging Risks (SCHEER), see more information on the Commission's [website](#).

²⁷ Article 9 of the EU Taxonomy Regulation specifies the following six 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.

²⁸ The International Capital Market Association defines the Sustainability-Linked Bonds as 'any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives'. This approach contrasts with the 'use of proceeds' approach.

framework would enable and cater for future market innovation, while ensuring a minimum level of transparency and credibility with regards to sustainability factors of labels developed by the market. Beyond financial instruments, the Commission will consider labels for Environmental, Social and Governance (ESG) benchmarks and minimum sustainability criteria for financial products that promote environmental or social characteristics. Finally, adjustments to the Prospectus Regulation²⁹ may be considered to create minimum requirements for the comparability, transparency and harmonisation of information available for all ESG securities.

Action 1: To develop a more comprehensive framework and help the financing of intermediary steps towards sustainability, the Commission will:

- a) consider proposing legislation to support the financing of certain economic activities, mainly in the energy sector, that help to reduce greenhouse gas emissions;
- b) consider options for extending the EU Taxonomy framework to possibly recognise economic activities performing at an intermediate level;
- c) adopt a Complementary EU Taxonomy Climate Delegated Act covering new sectors including agriculture and certain energy activities;
- d) adopt a delegated act under the EU Taxonomy covering the remaining four environmental goals, i.e. water, biodiversity, pollution prevention and circular economy by Q2-2022; and
- e) consider a general framework for labels for financial instruments, work on other bond labels such as transition or sustainability-link bonds, an ESG Benchmark label, minimum sustainability criteria for financial products that promote environmental or social characteristics and introduce targeted prospectus disclosures.

II. Towards a more inclusive sustainable finance framework

Empowering retail investors and SMEs to access sustainable finance opportunities

Citizens, as retail investors or consumers, and small and medium-sized enterprises (SMEs) are key for the sustainability transition. Many sustainable projects will be small and developed at local level – yet essential to supporting the green recovery. The Capital Markets Union and the sustainable finance framework together will aim to provide SMEs with more financing opportunities and encourage greater retail investor participation in capital markets.

Individuals and households can play an important role in transforming the economy by accessing sustainable finance. For example, green loans can help households and SMEs improve the energy performance of their buildings or switch to zero emission vehicles. To encourage green retail lending, the Commission will ask the European Banking Authority (EBA) for an opinion on the definition and possible supporting tools for green retail loans

²⁹ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168, 30.6.2017, p. 12.

and green mortgages. The Commission will also explore ways to support the uptake of energy efficient mortgages in the framework of the Mortgage Credit Directive review³⁰.

Financial advisors are the main point of contact for retail investors. They need to be qualified to support the uptake of sustainable finance. The Commission will encourage greater retail investor engagement by seeking improvements in the level of sustainability expertise of financial advisors, subject to further assessment. Moreover, the Commission, together with the OECD and its International Network on Financial Education, are working to improve citizens' financial literacy. They will publish joint financial competence frameworks for adults and young people reflecting the skills and knowledge individuals need to support their financial well-being and to further access sustainable finance.

The EU economy includes 23 million SMEs, which should benefit from greater access to sustainability advisory services based on their specific needs. The COVID-19 crisis has made it more challenging for SMEs to attract financing they need for their transition efforts. SMEs often lack the capabilities and awareness to seize the opportunities offered by sustainable finance tools³¹.

The Commission stands ready to support Member States in their efforts to provide capacity building and technical advice on how SMEs can voluntarily report on sustainability risks and impacts³². To that end, and in line with the proposed CSRD, the European Financial Reporting Advisory Group (EFRAG) will prepare a simplified voluntary sustainability reporting standard that will provide SMEs with a proportionate tool. In addition, the Invest EU Programme will provide de-risking mechanisms while the SME pillar of the Single Market Programme will provide advisory services for SMEs through the Enterprise Europe Network and the Joint Cluster Initiative³³.

Leveraging the opportunities digital technologies offer for sustainable finance

Digital technologies can provide essential solutions for citizens, investors and SMEs to carry out their transition to sustainability. The Commission will enable and encourage innovative solutions to help SMEs use digital sustainable finance tools and to support retail investor understanding of the sustainability impact of financial products³⁴. Technological innovation, such as artificial intelligence, blockchain, big data, and the Internet of things, has a significant role to play in sustainable finance. Further EU initiatives, such as including

³⁰ Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, OJ L 60, 28.2.2014, p. 34.

³¹ The Commission Technical Expert Stakeholder Group on SMEs (TESG) emphasises the need to work with small companies, support them in complying with sustainability reporting requirements and increase their visibility towards investors while safeguarding proportionality in their disclosure efforts.

³² The Commission will provide this support through its Technical Support Instrument under Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument, (OJ L 57, 18.2.2021).

³³ See dedicated webpages of [InvestEU](#) and the [Enterprise Europe Network](#). The Commission has also launched several initiatives aimed to de-risk specific investments, e.g. the de-risking project carried out together with the Energy Efficiency Financial Institutions Group for energy efficiency projects.

³⁴ IT development and procurement choices will be subject to pre-approval by the European Commission Information Technology and Cybersecurity Board.

sustainability-related information in the European Single Access Point (ESAP) and the Open Finance Framework, will help to unleash this potential.

While digital technologies are important enablers in the transition, there are concerns about the environmental impact and increasing energy needs of data centres and distributed ledger technologies, notably for crypto-assets³⁵. The Commission will assess the sustainability impact of digital finance technologies. The EU should take the lead in making these infrastructures climate neutral and energy efficient by 2030³⁶. The EU Taxonomy Climate Delegated Act already establishes the technical screening criteria for data centres and digital solutions that substantially contribute to the EU Taxonomy objectives and should be expanded to include more activities for developing sustainable digital solutions and using sustainable crypto-assets.

Insurance: offering greater protection from climate and environmental risks

By increasing insurance coverage, the financial system can better protect the economy and society against certain climate-related and natural disaster risks. A small increase in insurance coverage can significantly reduce the economic cost of climate-related disasters for taxpayers and governments. The recently adopted Climate Adaptation strategy³⁷ will create the enabling conditions to support society's resilience to climate change and reduce the risks. A natural disaster insurance dashboard from the European Insurance and Occupational Pensions Authority (EIOPA) will indicate potential insurance coverage gaps in Member States³⁸. In addition, the Commission will initiate a Climate Resilience Dialogue between insurers, re-insurers, public authorities and other stakeholders to exchange best practices and identify ways to address the climate protection gap, either through recommendations or through voluntary commitments.

Supporting credible social investments

The recovery from the pandemic has highlighted the need for a just transition that supports workers and their communities affected by the transitioning of economic activities. The steep increase in social bond issuance shows that investors are increasingly looking for investment opportunities with positive social outcomes and promoting human rights. This trend encourages financial institutions to intensify their engagement with companies to help them integrate human rights and social factors in their strategies and activities.

Sustainable finance disclosure requirements for financial market participants already include certain social factors, but further steps are needed. Before December 2022, the

³⁵ The EU Blockchain Observatory and Forum plans to publish a study on energy consumption of different blockchain mechanisms by mid- 2021.

³⁶ Communication from the Commission, '2030 Digital Compass: the European way for the Digital Decade', COM(2021) 118 final, 9.3.2021.

³⁷ 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.

³⁸ European Insurance and Occupational Pensions Authority, The pilot dashboard on insurance protection gap for natural catastrophes, December 2020, for more information, see [here](#).

Commission will engage with the European Supervisory Authorities to review the regulatory technical standards under the SFDR³⁹, clarifying indicators for both climate and environment-related principal adverse impacts and principal adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Furthermore, by the end of 2021, the Commission will publish a report on the provisions required for a social taxonomy, as required by the Taxonomy Regulation⁴⁰.

In addition, the Commission will put forward a proposal on Sustainable Corporate Governance to ensure companies manage sustainability risks and benefit from opportunities derived from the path to sustainability.

Green budgeting and risk-sharing mechanisms

While public funds alone cannot finance all the investment needs, they have a major role to play, alongside private funding.

The Commission is further strengthening climate and biodiversity mainstreaming in the EU budget. The Commission is already using green budgeting tools in the annual EU budget cycle. In the context of the implementation of the 2021-2027 Multiannual Financial Framework and the related inter-institutional agreement with its commitments on climate and biodiversity spending, this work will be further strengthened. The Commission is committed to producing updated and strengthened tracking methodologies on both climate and biodiversity. Those tracking methodologies will be key to monitor that climate and biodiversity spending under the 2021-2027 Multiannual Financial Framework align with the EU's ambition.

The Commission is also working closely with Member States to increase the use of green budgeting tools. The Commission has also developed a green budgeting reference framework and conducts annual surveys on existing practices in green budgeting in the EU to support the many Member States who want to redirect their national budget to green priorities. Analytical work⁴¹, technical support and training as well as an annual conference promote a mutual learning process to ensure that budgetary policies and spending are in line with environmental commitments.

Risk-sharing between public and private investors can effectively address market failures that hinder the financing of sustainable infrastructure and innovation driven transition. The Sustainable Europe Investment Plan, the investment pillar of the European Green Deal, aims to mobilise at least EUR 1 trillion in sustainable investments over the next decade from private and public actors. The InvestEU programme will provide risk-taking capacity and support for related advisory initiatives to the EIB Group, national promotional banks and other financial institutions. The Commission will organise an inaugural annual

³⁹ See the [Final Report](#), including the draft Regulatory Technical Standards (RTS), on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR).

⁴⁰ The Platform on Sustainable Finance will provide advice on extending the EU Taxonomy framework to include a social taxonomy in October 2021, considering both social objectives and governance aspects.

⁴¹ 'Green Budgeting Practices in the EU: A First Review', ECFIN Discussion Paper 140, 21 May 2021, available [here](#).

Sustainable Investment Summit ahead of COP 26 to take stock of progress across EU initiatives included in the Sustainable Europe Investment Plan.

Action 2: To improve the inclusiveness of sustainable finance, the Commission will:

- a) ask the EBA for an opinion on the definition of and support for green loans and mortgages, explore options to facilitate their uptake by 2022, and increase access of citizens and SMEs to sustainable finance advisory services;
- b) integrate sustainable finance related data in the data spaces under the European Data Strategy and reflect, together with the Digital Finance Platform, on possible further actions to enable and encourage innovative solutions using digital technologies to support SMEs and retail investors; and
- c) identify insurance protection gaps through EIOPA's natural disaster dashboard and initiate a Climate Resilience Dialogue with all relevant stakeholders (2022);
- d) publish a report on a social taxonomy by the end of 2021; and
- e) strengthen tracking methodologies for climate and biodiversity spending, support Member States who want to redirect their national budget to green priorities and organise an inaugural annual Sustainable Investment Summit ahead of COP 26.

III. Improving the financial sector's resilience and contribution to sustainability: the double materiality perspective

To align with the European Green Deal, the financial sector itself will need to be more resilient to the risks posed by climate change and environmental degradation and also improve its contribution to sustainability. This requires a comprehensive approach which consists of the systematic integration of both financially material sustainability risks (outside-in) and sustainability impacts (inside-out) in financial decision-making processes. It is crucial that both angles of the materiality concept are duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal.

Enhancing economic and financial resilience to sustainability risks

Sustainability risks are already material, and will have adverse impacts on financial stability and the financing of the real economy⁴². The physical impact of climate change and the loss of biodiversity create risks that can be systemic and may not be visible at the individual asset level⁴³. Risks might also arise from a disorderly and sudden reaction to the transition. It is therefore vital to understand the nature and degree of these exposures and how they interact and evolve over time. Complementary steps are needed to ensure a consistent integration of sustainability factors in risk assessment and management in the financial sector.

Reflecting sustainability risks in financial reporting standards and accounting

⁴² See the [publications](#) of the Network of central banks and supervisors for Greening the Financial System (NGFS).

⁴³ Climate change and biodiversity losses are also interlinked, see 'Workshop Report on Biodiversity and Climate Change', published by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and the Intergovernmental Panel on Climate Change (IPCC), 10.6.2021, available [here](#).

The Commission strongly supports international work on integrating sustainability considerations into financial reporting and accounting and will seek the highest level of ambition. The Commission will work with the European Financial Reporting Advisory Group (EFRAG), the European Securities and Markets Authority (ESMA) and the International Accounting Standards Board (IASB) to assess whether international financial reporting standards (IFRS) appropriately integrate sustainability risks. As financial reporting standards and practices determine the value of investments, they are a key element for embedding sustainability risks in financial market decision-making. In particular, it should be assessed how to recognise and report relevant climate and environmental risks in financial statements adequately and on a timely basis.

To encourage the development of standards for assessing natural capital in the EU and globally, the Commission is also intensifying its engagement with industry on biodiversity and natural capital accounting.

Improving transparency of credit ratings and rating outlooks

Credit rating agencies play an important role in the financial system by assessing the credit risk of financial and non-financial issuers⁴⁴. Stakeholders continue to express concerns around the lack of transparency on how credit rating agencies incorporate sustainability factors in their methodologies, in light of the wide use of credit ratings. Subject to further assessment of the effectiveness of the existing measures by ESMA, the Commission will take action to improve transparency and ensure the inclusion of relevant ESG factors in credit ratings and credit outlooks, while ensuring methodological transparency.

Identifying and managing sustainability risks by banks and insurers

The ability of banks and insurance companies to identify and manage sustainability risks and absorb financial losses arising from them is key for financial stability and the resilience of the real economy during the transition. While financial sector entities and supervisors are making efforts to capture climate and environmental factors in risk management systems and prudential capital requirements, progress remains insufficient⁴⁵.

- The Commission will propose amendments to the prudential framework for banks to ensure ESG factors are consistently included in the risk management systems and

⁴⁴ Credit rating agencies include in their opinions and methodologies ESG factors that they consider of importance for the creditworthiness of financial instruments or companies. Credit ratings or rating outlooks are opinions on the likely direction of a credit rating over the short term, the medium term or both, and they do not aim to provide a holistic assessment of ESG impacts.

⁴⁵ 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](#). In addition, ‘90% of reported practices are deemed by the banks themselves only partially or not at all aligned with the ECB’s supervisory expectations on climate-related and environmental risk’; Keynote speech by Frank Elderson, Member of the Executive Board of the ECB at the ECB-EBRD joint conference on “Emerging climate-related risk supervision and implications for financial institutions”, 16 June 2021.

supervision⁴⁶. To achieve this, clear requirements will be set to identify, measure, manage and monitor sustainability risks in the risk management frameworks, including climate change stress testing for banks. To complement this and as part of the annual supervisory assessment, the role of supervisors in assessing such risks will be clarified and strengthened. Finally, the Commission will propose for the European Banking Authority to bring forward its ongoing assessment of the prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives by two years to 2023.

- The Commission will consistently integrate sustainability risks in the risk management systems and supervision of insurers. Amendments to the Solvency II Directive⁴⁷ will be proposed, including climate change scenario analysis by insurers. Similar to the approach taken in the banking sector, EIOPA will assess the risk differentials between environmentally and/or socially sustainable and other exposures in insurance.

Managing sustainability risks at system level

Increasing the resilience of the financial system to shocks requires the identification, measurement and management of risks at the system level.⁴⁸ The Commission will strengthen its cooperation with European supervisors and the European Central Bank (ECB) with the aim of capturing, monitoring and mitigating all systemic sustainability risks impacting long-term financial stability. To achieve this, work will be intensified to develop coherent and relevant methodologies and scenarios to quantify sustainability risks and to stress test the resilience of the financial system, covering relevant financial sectors⁴⁹. The Commission will mandate a targeted stress-testing of the financial system on the Fit-for-55 package.

Financial institutions are increasingly exposed to the accelerating degradation of ecosystems and loss of biodiversity, the depletion of natural resources and the levels of pollution in our water, air and soils. To advance efforts in measuring the financial risks stemming from a significant loss of biodiversity and ecosystem degradation, the Commission will prepare a report on the measurement and presence of such risks in the EU. The Commission report will also look at approaches and methods to measure those risks and outline next steps in this area.

⁴⁶ Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), respectively Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176, 27.6.2013.

⁴⁷ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

⁴⁸ See ECB/ESRB Project Team on climate risk monitoring, [Report on 'Climate-related risk and financial stability'](#), 2021.

⁴⁹ Supervisors have started to develop frameworks for climate stress testing. For instance, the ECB is conducting an economy-wide climate stress test to assess the exposure of euro area banks to future climate risks by analysing the resilience of their counterparties under various climate scenarios.

Finally, addressing and managing systemic risks requires appropriate tools for macro-prudential authorities. With the support of the European Supervisory Authorities (ESAs), the European Systemic Risk Board (ESRB) and the ECB, the Commission will consider whether macro-prudential tools are able to address climate change-related financial stability risks as part of an upcoming review of the banking macro-prudential framework. In the medium term, further work will be conducted on broadening the scope to non-banking sectors and to environmental risks based on advice by the European Supervisory Authorities, the ESRB and the ECB.

Action 3: To enhance economic and financial resilience to sustainability risks, the Commission will:

- a) work with EFRAG, ESMA and the IASB on how financial reporting standards can best capture relevant sustainability risks;
- b) take action to ensure that relevant ESG risks are systematically captured in credit ratings and rating outlooks in a transparent manner, taking into account further assessment by ESMA (2023);
- c) propose amendments in the Capital Requirements Regulation and Capital Requirements Directive to ensure the consistent integration of sustainability risks in risk management systems of banks, including climate change stress tests by banks (2021);
- d) propose amendments in the Solvency II Directive to consistently integrate sustainability risks in risk management of insurers, including climate change scenario analysis by insurers (2021); and
- e) strengthen long-term financial stability through closer cooperation on financial stability risk assessment, regular stress tests, an assessment of macro-prudential tools and a study dedicated to risks stemming from environmental degradation and biodiversity loss.

Accelerating the contribution of the financial sector to transition efforts

Beyond the management of sustainability risks by financial institutions, the success of the European Green Deal depends on the contribution of all economic stakeholders and on their incentives to meet our targets. To that end, financial institutions must translate EU sustainability goals into their long-term financing strategies and decision-making processes. This includes better measuring, monitoring and disclosing progress on a regular basis.

Improving science-based target setting, disclosure and monitoring of the financial sector's commitments

Financial institutions should disclose their own sustainability transition and decarbonisation plans, including intermediate and long-term targets and how they plan to reduce their environmental footprint. Greater transparency on targets, indicators, definitions and methodologies will be key to monitor the effectiveness of actions over time. The CSRD proposal will require large EU companies and listed companies including banks, insurers and investors to disclose sustainability targets and progress towards achieving them. In addition, and building on the regulatory technical standard under the SFDR, the Commission will strengthen the disclosure and effectiveness of decarbonisation action by financial market participants for all investment products.

In this regard, voluntary pledges by financial institutions globally to adopt strategic science-based climate and sustainability targets are also commendable as a first step. Pending possible further policy action in this area, the Commission will examine to what extent more guidance could ensure that such voluntary pledges are credible and will monitor progress over time across the EU. At this stage, financial institutions could use the EU Taxonomy and other sustainable finance tools to progress towards achieving their plans at entity and portfolio level.

Clarifying the fiduciary duties and stewardship rules of investors to reflect the financial sector's contribution to Green Deal targets

Aligning financial flows with the European Green Deal objectives requires further consideration of sustainability impacts in the strategies and investment decision-making processes of investors. On 21 April 2021, the Commission published six amending delegated acts, which require financial firms, such as advisers, asset managers and insurers, to include financially material sustainability risks in their procedures and to consider the sustainability preferences of their clients⁵⁰. This will need to be complemented by further action for the 125 000 pension funds in the EU managing collective schemes on behalf of around 75 million Europeans⁵¹. To enhance their contribution to the Green Deal targets, it is critical that the fiduciary duties of investors and pension funds towards members and beneficiaries also reflect the inside-out ESG risks of investments as part of investment decision-making processes.

- The Commission will ask EIOPA to assess the potential need to broaden the concept of the 'long-term best interest of members and beneficiaries' and introduce the obligation to consider sustainability impacts in the pension investment framework. The aim would be to ensure that the framework better reflects members and beneficiaries' sustainability preferences and broader societal and environmental goals. In collaboration with the European Supervisory Authorities, the Commission will consider and assess further measures to enable all relevant financial market participants and advisers to consider positive and negative sustainability impacts of their investment decisions, and of the products they advise on a systematic basis.
- The Commission will review relevant frameworks relating to investors' stewardship and engagement activities. In particular, the Commission will explore how the Shareholder Rights Directive II⁵² may better reflect EU sustainability goals and align with global best practices in stewardship guidelines.

Improving the availability, integrity and transparency of ESG market research and ratings

⁵⁰ See the list of the amending Delegated Acts [here](#).

⁵¹ Fiduciary duties ensure that those who manage other people's money act in their beneficiaries' interests, rather than serving their own interests. Decisions made by fiduciaries cascade down the investment chain, affecting decision-making processes, ownership practices and, ultimately, the way in which companies are managed.

⁵² Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, OJ L 132, 20.5.2017.

To carry out their transition efforts, financial institutions will need a wide array of information to identify sustainability risks, opportunities and impacts of their investee companies and clients. To that end, the CSRD proposal will require large, listed EU companies to disclose meaningful, comparable and forward-looking sustainability data across the finance value chain⁵³. In addition, the upcoming proposal for a European Single Access Point will create an EU-wide mechanism offering easily accessible, comparable and digitally usable databases on the public reporting requirements of companies, including sustainability information.

Subject to a public consultation and an impact assessment, the Commission will take action to improve the reliability, comparability and transparency of ESG ratings. ESG ratings have an increasingly important impact on the operation of capital markets and on investor confidence in sustainable products. Such an action will build on the Commission's study published in January 2021, identifying a lack of transparency in the operations of ESG ratings providers, the low level of comparability between ESG ratings and potential conflicts of interests⁵⁴. The increasing demand for sustainable investments also puts the focus on the need for unbiased and reliable ESG research, based on transparent and comparable methodologies.

Action 4: To increase the contribution of the financial sector to sustainability, the Commission will:

- a) improve financial institutions' disclosures of sustainability targets and transition planning, examine to what extent more guidance could ensure that voluntary pledges are credible and monitor progress;
- b) ask EIOPA to assess the need to review the fiduciary duties of pension funds and investors to reflect sustainability impacts as part of investment decision making processes, including stewardship and engagement activities by 2022; and
- c) take action to improve the reliability and comparability of ESG ratings and further assess certain aspects of ESG research, to decide on whether an intervention is necessary.

Addressing greenwashing

The EU has taken important steps to address greenwashing in the financial market. Greenwashing attempts can generate reputational risks for the actors involved and trigger a loss of trust in sustainable finance products and the financial system. To prevent greenwashing, the EU has introduced disclosure requirements for companies and investors and created tools to increase transparency and help end-investors identify credible investment opportunities⁵⁵. Yet, the effectiveness of sustainable finance policies also depends on an

⁵³ All large companies, and all companies listed on EU regulated markets except listed micro-enterprises, would be subject to these reporting requirements.

⁵⁴ European Commission and Environmental Resources Management (ERM), 'Study on sustainability-related ratings, data and research', 6.1.2021, available [here](#).

⁵⁵ Disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation and sustainability reporting requirements under the Non-Financial Reporting Directive (NFRD), prospectively complemented by the proposed Corporate Sustainability Reporting Directive currently under consideration by the EU co-legislators.

adequate level of enforcement across the EU. Supervisors have a key role in monitoring compliance with sustainable finance regulation, and making full use of their legal mandates and powers to ensure that investors and consumers are protected against unsubstantiated sustainability claims.

With the support of the European Supervisory Authorities, the Commission will assess whether supervisory powers, capabilities and obligations are fit for purpose. Based on this assessment and the monitoring of greenwashing risks by the European Supervisory Authorities, the Commission will consider steps to ensure a sufficient, consistent level of enforcement and supervision to address greenwashing.

Monitoring an orderly transition of the EU financial system

Achieving EU climate objectives will require collaborative action among Member States, financial supervisors and relevant public authorities to monitor progress in the transition. The Commission, in collaboration with the Platform on Sustainable Finance, will develop a robust monitoring framework to measure capital flows to sustainable investments. The Commission will assist Member States in assessing the investment gap and measuring the progress made by financial sectors to achieve our climate and environmental goals⁵⁶.

European supervisors can play an important role to help with the consistent integration of the double materiality perspective across the financial system. The Commission will strengthen the cooperation among all relevant public authorities, including supervisors, to help define intermediate targets for the financial sector, better understand if progress is sufficient, and thus pave the way for taking a more collaborative policy action by all relevant public authorities.

Finally, the Commission will establish a Sustainable Finance Research Forum to strengthen the role of science and encourage knowledge sharing on sustainable finance between academia and the industry. This forum would be tasked with increasing awareness on the use of sustainable finance research and fostering knowledge exchange between researchers and the financial community.

Action 5: To monitor an orderly transition and ensure the integrity of the EU financial system, the Commission will:

- a) monitor greenwashing risks, and assess and review the current supervisory and enforcement toolkit available to Competent Authorities, to ensure that supervisory powers, capabilities and obligations are fit for purpose, with the support of the European Supervisory Authorities;
- b) develop a robust monitoring framework to measure capital flows and assist Member States in assessing the investment gap and measuring the progress made by their financial sectors by 2023;

⁵⁶ See for example the 'Dashboard on scaling up green finance' published by the Network for Greening the Financial System (NGFS) in March 2021, that developed a set of indicators that make it possible to track the degree of progress towards greening the financial system.

- c) strengthen cooperation among all relevant public authorities, including Member States, the ECB, the ESRB, the European Supervisory Authorities and the European Environment Agency, to work towards a common approach to monitor an orderly transition and ensure the double materiality perspective is consistently integrated across the EU financial system (by 2022); and
- d) establish a Sustainable Finance Research Forum to foster knowledge exchange between researchers and the financial community.

IV. Fostering global ambition

Global challenges call for global action. However, different jurisdictions have varying starting points, levels of ambition and objectives. International forums and networks are increasingly coordinating sustainable finance initiatives to fully harness the global potential of sustainable finance⁵⁷. Building on its domestic achievements, the EU has established itself as a leader in sustainable finance internationally and is actively contributing to the global effort. This leadership can be a source of inspiration for other jurisdictions across the world and generate business opportunities for the EU financial sector globally. EU actors are the largest issuers of green bonds and have emerged as major sustainable investors. Dynamic green markets help strengthen the international role of the euro and make the EU the major global hub for sustainable finance.

The Commission sees the need for an ambitious and robust international sustainable finance architecture that embraces the concept of double materiality and supports EU partner countries. This architecture must encompass robust international governance, a solid rulebook and a monitoring framework. As a first step, the Commission suggests that the Financial Stability Board (FSB) expands its mandate to cover the contribution of the financial system to global climate and environmental objectives.

The Commission invites all international partners to deepen cooperation on sustainable finance bilaterally and multilaterally, in particular to promote convergence of approaches and to provide the private sector with usable tools and metrics, such as taxonomies⁵⁸. Notably, as part of the G20 Sustainable Finance Working Group (SFWG) Roadmap, the Commission stresses the importance of working towards the alignment of financial flows with sustainability goals.

Promoting an ambitious consensus in international forums

The EU will advocate for international forums and standard-setters, such as the IFRS Foundation, to develop ambitious standards and principles for disclosure, building where appropriate on the recommendations of the Task Force on Climate-related Financial Disclosures and other international initiatives⁵⁹. International disclosure

⁵⁷ Such as the G20 and the G7, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Network for Greening the Financial System (NGFS), the Coalition of Finance Ministers for Climate Action.

⁵⁸ EU-US Summit Statement, 'Towards a renewed Transatlantic partnership', 15.6.2021, par. 10.

⁵⁹ The members of the Alliance of global sustainability reporting initiatives, including the Global Reporting Initiative and the Value Reporting Foundation.

standards may overlap, be inconsistent and vary in ambition. The Commission welcomes efforts for a baseline global reporting standard for sustainability and advocates for comprehensive sustainability reporting standards that address all sustainability issues and capture the double materiality perspective, in line with the CSRD proposal.

The EU will continue to cooperate with its partners in international forums to agree on common objectives and principles for taxonomies and, going forward, to increase comparability and consistency of taxonomies' metrics and thresholds. The EU is actively engaging in the G20 and the International Platform on Sustainable Finance to avoid fragmented approaches, which would lead to increased transaction costs, insufficient cross-border capital flows and a drag on financial innovation.

Global efforts are key to tackling the financial stability implications of climate and environmental risks. The EU invites the FSB to address broader sustainability issues and to take into account that financial institutions' activities have an impact on climate and the environment and therefore contribute to the risks they aim to measure. Finally, the EU actively supports the work of the Task Force on Climate-related Financial Risks in the Basel Committee on Banking Supervision to identify and address potential gaps in the Basel framework and the work of the International Association of Insurance Supervisors to integrate climate-related risks into insurance supervision.

Advancing and deepening the work of the IPSF

To foster international cooperation, the European Commission and seven other jurisdictions launched the International Platform on Sustainable Finance (IPSF) in October 2019⁶⁰. The IPSF promotes integrated markets for sustainable finance and work on usable tools and metrics⁶¹. It has now has 17 members and is acknowledged as a key international sustainable finance initiative⁶².

The IPSF will report on its work on a 'common ground taxonomy' based on the new taxonomies developed by its members, and on sustainability disclosures. The Commission will promote the concept of double materiality within the IPSF. In addition, it will propose to enhance knowledge sharing on key sustainable finance areas, such as the synergies between finance for climate and biodiversity and the transition of the financial system towards shared sustainability aims. The Commission will also support the growth of the IPSF membership, a strengthened governance structure and propose a new work plan by autumn 2021. The IPSF is also recognised as a knowledge partner to the re-established G20 SFWG and key contributor to the work on the alignment of investments with sustainability goals.

⁶⁰ See all the details about the IPSF, its objectives, membership and work plan in SWD (2021)180 final, 6.7.2021.

⁶¹ In autumn 2021, the IPSF will provide (i) a report on a common ground Taxonomy, setting out the commonalities between existing taxonomies developed by public authorities, (ii) a report on sustainability-related disclosures, which should provide a comprehensive and holistic comparison of disclosure requirements for companies, asset managers and institutional investors, and (iii) its annual report.

⁶² Members represent 55% of greenhouse gas emissions, 50% of the world population and 55% of global GDP, see more information about the IPSF membership [here](#).

Supporting low- and middle-income countries in scaling up their access to sustainable finance

The Commission will develop a comprehensive strategy to help increase sustainable finance in EU partner countries. Low- and middle-income countries face massive investment needs to finance their sustainable development⁶³. Accelerating private financial flows towards our partner countries will be critical to collectively delivering on our global sustainability agenda. However, this will require dedicated support. The Commission will support efforts to scale up sustainability-related financial instruments in our partner countries and help build back better globally, notably via ‘Global Europe’ - the Neighbourhood, Development and International Cooperation Instrument (NDICI) and the Instrument for Pre-Accession Assistance (IPA).

Action 6: To set a high level of ambition in developing international sustainable finance initiatives and standards and to support EU partner countries, the Commission will:

- a) seek an ambitious consensus in international forums, mainstream the concept of double materiality, stress the importance of disclosure frameworks, and agree on objectives and principles for taxonomies;
- b) propose to expand the work of the IPSF to new topics and strengthen its governance; and
- c) support low- and middle-income countries in scaling up their access to sustainable finance by developing a comprehensive strategy and by promoting sustainability-related financial instruments.

Conclusion – Implementation and way forward

Based on the 2018 action plan on sustainable finance, the Commission has taken unprecedented steps to lay the foundations for sustainable finance. This ambitious framework needs to be finalised and consolidated so that we can meet the massive investment needs of the transition, to ensure the transition is fair and to adjust to the global context. This strategy addresses these challenges and makes the framework workable and coherent.

This strategy sets out how the objectives of the European Green Deal are translated throughout the financial system and ensures actors across all sectors of the economy are able to finance their transition regardless of their starting point. These policies complement the critical changes in climate and environmental policies set out in the European Green Deal. It builds on the Commission’s collaboration and partnerships with external private and public initiatives to foster financial sector leadership towards achieving EU sustainability goals. The Commission will report on this strategy’s implementation by the end of 2023 and will actively support Member States in their efforts.

The Commission calls on all relevant stakeholders, from central banks and supervisors to Member States, citizens, local authorities and financial and non-financial companies, to take action in their respective areas and maximise the impact of this strategy.

⁶³ According to OECD estimates, in 2020, the annual EUR 2.1 trillion SDG financing gap in developing countries has increased tremendously due to COVID-19, reaching EUR 3.6 trillion (Organisation for Economic Cooperation and Development, ‘Global Outlook on Financing for Sustainable Development 2021’, 2020, available [here](#)).



Strasbourg, 6.7.2021
COM(2021) 390 final

ANNEX

ANNEX

to 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

{SWD(2021) 180 final}

Detailed actions and glossary

Financing the transition of the real economy towards sustainability
<i>Action 1: The Commission will develop a more comprehensive framework and help the financing of intermediary steps towards sustainability.</i>
1 (a): The Commission will consider proposing legislation to support financing certain economic activities contributing to reducing greenhouse gas emissions.
<ul style="list-style-type: none">• The Commission will consider proposing legislation to support the financing of certain economic activities, primarily in the energy sector, including gas, that contribute to reducing greenhouse gas emissions in a way that supports the transition towards climate neutrality throughout the current decade¹.
1 (b): The Commission will consider options for an extension of the EU Taxonomy framework to recognise transition efforts.
<ul style="list-style-type: none">• The Commission will consider options for an extension of the EU Taxonomy framework to possibly recognise economic activities performing at an intermediate level, with the aim to boost transparency and mobilise finance for activities that are on a credible pathway towards sustainability.• By the end of 2021, the Commission will publish a report describing the provisions that would be required to cover economic activities that do not have a significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability.
1 (c): The Commission will add technical screening criteria for sustainable activities not yet covered in the first EU Taxonomy Climate Delegated Act.
<ul style="list-style-type: none">• The Commission will adopt a complementary Climate Taxonomy Delegated Act covering activities not yet covered in the first EU Taxonomy Climate Delegated Act, such as agriculture and certain energy sectors, in line with the requirements of the Taxonomy Regulation. The Delegated Act will also cover nuclear energy activities, subject to and consistent with the specific expert review process that the Commission set out for this purpose. The Commission will adopt this complementary Delegated Act as soon as possible after the end of the specific review process in summer 2021. This complementary Delegated Act will also cover natural gas and related technologies as transitional activity in as far as they fall within the limits of Article 10(2) of the EU Taxonomy Regulation. The merits of a sunset clause for transitional activities will be considered in this context.
1 (d): The Commission will adopt another Taxonomy Delegated Act covering the remaining four environmental objectives.
<ul style="list-style-type: none">• As required by the Taxonomy Regulation, the Commission will adopt another Taxonomy Delegated Act covering the remaining four environmental objectives (i.e. water, biodiversity, pollution prevention and circular economy) in the first half of 2022.• At the same time, the Commission will adopt technical screening criteria for further activities contributing to climate objectives (e.g. further manufacturing and transportation activities).

¹ Following the way forward described in the Communication 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.

1 (e) The Commission will extend sustainable finance standards and labels that support financing the transition to sustainability and phased transition efforts.

Standards and labels for financial instruments

- In cooperation with the ESAs and the Platform on Sustainable Finance:
 - The Commission will work on further bond labels such as transition or sustainability-linked bonds by 2022.
 - The Commission will assess the needs and merits of a general framework for labels for financial instruments financing the transition of the economy, by 2023.

Labels for financial products and benchmarks

- As required by the Benchmark Regulation, the Commission will assess the possibility to create an ESG Benchmark, taking into account the evolving nature of sustainability indicators and the methods used to measure them. The Commission's assessment will be supported by a study that looks at existing ESG-related benchmarks, best practices and shortcomings, as well as minimum standards for an EU ESG Benchmark.
- In addition, by 31 December 2022, the Commission will review the minimum standards for both EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks to ensure that the selection of the underlying assets is coherent with the EU Taxonomy.
- The Commission will propose minimum sustainability criteria, or a combination of criteria for financial products that fall under Art. 8 of the SFDR, in order to guarantee minimum sustainability performance of such products to further strengthen a harmonised application of the Regulation and incentivise transitional efforts.

Prospectus disclosures

- Within the framework of the Prospectus Regulation and over the course of 2022, the Commission will introduce targeted prospectus disclosures for green, social and sustainable securities to enhance the comparability, transparency and harmonization of information provided for such instruments and to help fight greenwashing.

Towards a more inclusive sustainable finance framework

Action 2: The Commission will work toward an inclusive sustainable finance framework for all.

2 (a): The Commission will aim to empower retail investors and SMEs to access sustainable finance opportunities.

Green loans and mortgages

- The Commission will ask the EBA for an opinion on the definition and possible supporting tools for green retail loans and green mortgage by Q2 2022.
- As part of the review of the Mortgage Credit Directive, the Commission will explore ways to support the uptake of energy efficient mortgages by end 2022.
- The Commission will launch an EU-wide information campaign addressed to businesses and households on the features and benefits of such loans.

- The Commission will support Member States through its Technical Support Instrument² to develop capacity building and technical advice to support the generation of projects, for instance to advice on technical and financing solutions, including through green loan products.

Financial literacy and investment advisors

- Subject to further assessment, the Commission will consider taking steps to strengthen the sustainability expertise and qualification of financial advisors, in line with the Capital Market Union action plan.
- The Commission will integrate sustainable finance aspects in the development of the upcoming joint EU/OECD-INFE financial competence framework for individuals, starting with adults as of the end of 2021.

Tools and advisory services for companies, especially SMEs and exporters

- The Commission will offer technical support to Member States to provide SMEs with access to sustainability advisory services across the EU and gain access to sustainable financing with low administrative burden as of 2023³. This support will help improve sustainability capacity-building tailored to the specific needs of SMEs in their remit, including for EU Taxonomy reporting purposes.
- To facilitate the usability and application of sustainability disclosure frameworks, including for smaller companies, the Commission recently published an EU Taxonomy Compass⁴. This digital tool enables users to understand and assess potential coverage and alignment and facilitates the integration of EU Taxonomy criteria into business databases and reporting systems.
- With regard to public export credit, in addition to ending support for the coal-fired power sector,⁵ the Commission will propose to review the OECD Arrangement with an aim to increase the positive impact of the incentives granted to climate-friendly projects (this includes assessing the usability of the principles of the EU Taxonomy for sustainable activities for this purpose).

2 (b): The Commission will explore how to leverage the opportunities digital technologies offer for sustainable finance.

- The Commission will integrate sustainable finance-related data in the data spaces under the European Data Strategy and reflect, together with the Digital finance platform, on possible additional actions to enable and encourage innovative solutions using digital technologies to support SMEs and retail investors.
- The Commission encourages the development of and investments in low or zero emission data centres and distributed ledger technologies, including for crypto-assets, and it will explore whether the EU Taxonomy should be expanded to include further supporting activities by 2023.

² The Commission will provide this support through its Technical Support Instrument under Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument, (OJ L 57, 18.2.2021).

³ The Commission will provide this support through its Technical Support Instrument under Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument, (OJ L 57, 18.2.2021).

⁴ See [here](#).

⁵ Export credits are government-backed financial instruments provided by national export credit agencies (ECAs). See [Trade Policy Review](#).

<p>2 (c): The Commission will work towards greater protection from climate and environmental risks through increasing insurance coverage, beyond reducing these risks.</p>
<ul style="list-style-type: none"> • The Commission will ask EIOPA to continue the development of the natural disaster dashboard by mid-2022 and it will explore the use of the dashboard for diagnostic assessment per Member States. • The Commission will launch a Climate Resilience Dialogue by 2022, with the support of the insurance industry, national, local-level authorities and other stakeholders, to exchange best practices and identify ways to address the climate protection gap and increase climate resilience either through recommendations or through voluntary commitments. • The Commission will invite EIOPA to continue its work on the identification of good practices by the insurance sector in the broader context of supplying products (including pricing and underwriting) or services for the management of climate-change-related risks by customers. EIOPA should pay particular attention to innovative solutions and their potential risks or their opportunities for wider use. • Based on EIOPA’s work, the Commission will consider whether legislative or non-legislative actions on prudential or other rules could facilitate the uptake of the identified good practices.
<p>2 (d): The Commission will support credible social investments.</p>
<ul style="list-style-type: none"> • Before December 2022, the Commission will engage with the ESAs to review the regulatory technical standards under the SFDR, to clarify indicators for both climate and environment-related principal adverse impacts and principal adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. • The Commission will publish a report on a social taxonomy, as required by the Taxonomy Regulation, by the end of 2021. • The Commission will propose a Sustainable Corporate Governance Initiative in 2021.
<p>2 (e): The Commission will work on green budgeting and risk-sharing mechanisms.</p>
<ul style="list-style-type: none"> • The Commission will strengthen tracking methodologies for climate and biodiversity spending and support Member States who want to redirect their national budget to green priorities. • The Commission will organise an inaugural annual Sustainable Investment Summit ahead of COP 26.
<p>Improving financial sector’s resilience and contribution to sustainability: the double materiality perspective</p>
<p><i>Action 3: To enhance economic and financial resilience to sustainability risks, the Commission will take further steps with regard to accounting, credit ratings, micro-prudential and macro-prudential regulation.</i></p>
<p>3 (a): The Commission will work towards financial reporting standards that adequately reflect sustainability risks standards and will encourage natural capital accounting.</p>
<ul style="list-style-type: none"> • The Commission will work with EFRAG, ESMA and the IASB, on how financial reporting standards can best capture relevant sustainability risks. • To encourage the development of standards for assessing natural capital in the EU and globally, the Commission is also intensifying its engagement with industry on biodiversity and natural capital accounting.

3 (b): The Commission will take action to ensure that relevant ESG risks are systematically captured in credit ratings and rating outlooks in a transparent manner.

- The Commission invites ESMA to share:
 - by Q3 2021, its assessment on the implementation of the updated guidelines aimed at improving disclosure of information on how ESG factors are taken into account in credit ratings and outlooks;
 - by Q2 2022, at the latest, its findings on how ESG factors are incorporated by CRAs in their methodologies.
- Subject to ESMA's findings and the outcome of an impact assessment, by Q1 2023 the Commission will take action to ensure that relevant ESG risks are systematically captured in credit ratings and to improve transparency on the inclusion of ESG risks by credit rating agencies in credit ratings and outlooks.

3 (c): The Commission will propose amendments to the CRR/CRD to ensure ESG factors are consistently included in risk management systems of banks.

Risk management and supervisory powers

- In the upcoming review of the CRR/CRD, the Commission will propose binding requirements and mandates for the European Banking Authority, for the integration of ESG risks in the risk management rules for banks and require supervisors to ensure that banks manage ESG risks adequately, reflecting the different types of sustainability risks (environment, social and governance). This will cover improvements and introducing a new mandate for the EBA to issue guidelines as regards the identification, measurement, management and monitoring of ESG risks by banks.
- The Commission will propose to explicitly empower supervisory authorities to incorporate ESG risks in the Supervisory Review and Evaluation Process (SREP).
- Banks themselves will also be required to conduct internal stress tests to test their resilience to climate change risks and long-term negative impacts. The Commission will mandate the EBA to issue guidelines on this.

Risk differentials and capital requirements

- The Commission will propose to recognise that measures to enhance energy efficiency of a mortgage collateral can be considered as unequivocally increasing property values.
- The Commission will propose to bring forward to 2023 the EBA's mandate to assess whether a dedicated prudential treatment of exposures related to assets and activities associated substantially with environmental and/or social objectives would be justified.

Disclosure and reporting

- The Commission will assess if information about the sustainable activities of financial institutions and their exposures to ESG risks should be integrated into prudential reporting.
- The Commission will extend disclosure requirements related to environmental risks to a larger universe of banks, following a proportionate approach to avoid an undue burden for small banks.

3 (d): The Commission will propose amendments in the upcoming review of the Solvency II Directive (2021) to consistently integrate sustainability risks in the prudential framework for insurers.

Risk management

- In order to improve the management of sustainability risks in the insurance sector, insurers will be required to conduct “climate change scenario” analysis for prudential purposes.

Risk differentials and capital requirements

- In the upcoming Solvency II review, the Commission will propose to mandate EIOPA to investigate whether a dedicated prudential treatment of exposures related to assets and activities associated substantially with environmental and/or social objectives would be justified by 2023.
- Moreover, the Commission will propose to mandate EIOPA to assess the effectiveness of the current prudential regime, especially in terms of asset allocation and the resulting impact on cost of capital of firms operating in sectors with different carbon intensity.
- Based on EIOPA’s work, the Commission will consider whether Solvency II delegated acts need to be amended.

3 (e): The Commission will strengthen its efforts to monitor and address potential systemic risks stemming from sustainability challenges, with an aim to maintain long-term financial stability and limit systemic risk.

Monitoring financial stability risks

- In close cooperation with the ESRB, ECB, ESAs, EEA and relevant national authorities, the Commission will systematically monitor climate-related financial stability risks, subject to the availability of data and methodologies, and expand the scope of this monitoring to include other environmental risks.
- By the end of 2023, the Commission will deliver a report on these risks to financial stability and their likely evolution, with proposals for further policy actions, if appropriate.
- By 2022, the Commission will develop a report to present a methodological framework and assess the potential financial risks associated with biodiversity loss and ecosystem degradation at both micro- and macro-level and explore the possible sustainable finance policy changes needed.

Supervisory stress testing

- The Commission will mandate the ESAs and ask the ECB to perform regular climate change stress tests or scenario analyses, using a bottom-up and top-down approach respectively.
- In addition, as a one-off exercise, the Commission will mandate the ESAs, and ask the ECB, to conduct a coordinated, bottom-up and top-down EU-level climate change stress test across the financial sector to assess the resilience of the financial sector in line with the Fit-for-55 package. The year, scope and sector-specific aspects of this exercise will be determined by the ESAs and the ECB.
- The Commission will mandate the ESAs to further develop the methods, parameters and scenarios for bottom-up climate stress testing to be used by supervisors and supervised entities in their specific sectors, and will ask the ECB to further develop the methods, parameters and scenarios for top-down climate stress tests, with the support of the ESRB, while leveraging on the ongoing work of the NGFS. This includes sharing this practice broadly to ensure a rapid cross-learning exercise among supervisors

and financial institutions.

- The Commission will analyse how risks identified by stress tests or scenario analysis can be integrated into micro- and macro-prudential regulation and supervision.

Macro-prudential tools

- With the input from the ESRB, ECB and the EBA, the Commission will assess whether the current macro-prudential toolkit is suitable to address climate-change-related financial stability risks and it will consider a legislative proposal as part of an upcoming review of the banking macro-prudential framework.
- In the medium term, the Commission intends to broaden systemic risk considerations to environment-related financial risks, cover non-bank financial intermediaries and assess the treatment of assets where environmental exposures are unknown.

Action 4: The Commission will work to improve the contribution of the financial sector to sustainability goals.

4 (a): The Commission will reinforce science-based target setting, disclosure and monitoring of financial sector's commitments.

Disclosure and reporting

- The CSRD proposal and the accompanying standard to be developed by EFRAG would require financial institutions including banks, investors and insurers to disclose their transition and decarbonisation plans and how they plan on reducing their environmental footprint.
- Building on the regulatory technical standard under the SFDR, the Commission will aim to strengthen the disclosure and effectiveness of decarbonisation action by financial market participants for all financial products.

Sustainability pledges

- In this regard, voluntary pledges by financial institutions globally to adopt strategic science-based climate and sustainability targets are also commendable as the first step. Pending possible further policy action in this area, the Commission will examine to what extent more guidance could ensure that such voluntary pledges are credible and will monitor progress over time across the EU. At this stage, financial institutions could use the EU Taxonomy and other sustainable finance tools to progress towards achieving their plans at entity and portfolio level.

4 (b): The Commission will clarify the fiduciary duties and stewardship rules of investors to reflect the financial sector's contribution to Green Deal targets.

Fiduciary duties

- Ahead of the review of the IORP II Directive, the Commission will ask EIOPA to analyse the pension framework, notably to:
 - assess the potential need to broaden the concept of the “long-term best interests of members and beneficiaries” and introduce the notion of double materiality, taking into account members and beneficiaries’ sustainability preferences and broader societal and environmental goals; and
 - assess whether the prudent person rule should be clarified and/or explore possible avenues to require

the integration of sustainability impacts in investment decision.

- In collaboration with the ESAs and building on the changes in fiduciary duty rules introduced by the package from April 2021, the Commission will consider merits of further changes to enable financial market participants and advisers to systematically consider positive and negative sustainability impacts of the products they advise on and of their investment decisions, including for UCITS, MIFID II, AIFMD and IDD entities. Such review would develop in continuity with the potential review of fiduciary duties through IORP II.

Stewardship and engagement

- The Shareholder Rights Directive (SRD II) provides a minimum baseline for stewardship activities, effective stewardship and long-term investment decision-making. Considering the review of the SRD II by 2023, the Commission will explore how the SRD II may better reflect impact considerations and global best practices in stewardship guidelines.
- The Commission will ask the ESAs and national regulator to develop further guidance to ensure acting in concert does not impede collaborative engagement by investors around common sustainability goals⁶.

4 (c): The Commission will take action to improve the availability, integrity and transparency of ESG market research and ratings.

- By Q4 of 2021 at the latest, the Commission will organise a targeted public consultation on the functioning of the market for ESG ratings.
- Subject to an impact assessment, the Commission will take action to strengthen the reliability and comparability of ESG ratings by Q1 2023.
- The Commission may assess certain aspects of ESG research, to decide on whether an intervention is necessary and on the possible appropriate measures.

Action 5: The Commission will work to monitor an orderly transition and ensure the integrity of the EU financial system.

5 (a): The Commission will enable supervisors to address greenwashing.

- In cooperation with the ESAs, the Commission will assess whether supervisory powers, capabilities and obligations of Competent Authorities as well as the enforcement measures taken by competent authorities are fit for purpose to effectively fight greenwashing. This includes the monitoring of greenwashing risks by the ESAs and competent authorities.
- As part of this assessment, the ESAs will be asked to assess and report to the Commission whether the current supervisory and enforcement toolkit available to competent authorities for monitoring, investigating and sanctioning greenwashing is sufficiently efficient, consistent and deterrent across the EU and whether it is fit for purpose in identifying possible greenwashing risks throughout the product lifecycle.
- Subsequently, the Commission will consider whether further steps are necessary to enable supervisors to ensure a sufficient and consistent level of supervision and enforcement across the EU. The Commission

⁶ European Securities and Markets Authority, public statement on ‘Information on shareholder cooperation and acting in concert under the Takeover Bids Directive’, ESMA/2014/677-REV, 8.1.2019, available [here](#).

will consider the need for a stronger coordination and convergence role by the ESAs or other amendments to EU legislation.

5 (b): The Commission will develop a robust monitoring framework to measure progress made by the EU financial system.

- In order to assess the alignment of EU's financial sector, the Commission, in collaboration with the Platform on Sustainable Finance, will develop a robust monitoring framework and a set of indicators to measure capital flows to sustainable investments.
- The Commission will assist Member States in assessing the investment gap and measuring the progress made by their financial sectors to align with our climate and environmental goals. To this end, by June 2023, the Commission will invite Member States to prepare an assessment of their financial markets' alignment with the climate and environmental goals that will cover banks, asset managers, pension funds and insurance companies.
- In order to improve the assessment of the investment gap to meet our climate and environmental objectives, by Q1 2023 the Commission will conduct a detailed long-term investment needs and investment gap analysis taking into account evolving legislative proposals and future investment needs studies.
- Based on the above, by the end of 2023 the Commission will present a consolidated report on the state of play of EU financial markets' transition. In addition, the Commission will assess the impact of the EU sustainable finance agenda by the end of 2023.

5 (c): The Commission will improve the cooperation between authorities to work towards a common approach to monitor an orderly transition and monitor the alignment of the EU financial system with Green Deal targets.

- By 2022, the Commission will strengthen its cooperation with the ECB, the ESRB, the ESAs and the EEA, with the objective to develop a common methodological base and consistently and coherently integrate the double materiality perspective across the EU financial system.
- This cooperation should help define intermediate targets for the financial sector, understand better whether ongoing and prospective progress is sufficient, and thus facilitate taking a more collaborative policy action by all relevant public authorities where necessary. This could lead to recommending policy measures, tools and methodologies to implement forward-looking alignment strategies and to address financial stability risks for use by supervisors, regulators and financial sector entities in the EU.

5 (d): The Commission will strengthen sustainable finance research and knowledge transfer.

- The Commission will establish a Sustainable Finance Research Forum to strengthen the role of science and knowledge sharing between the financial sector and the research community.
- The Sustainable Finance Research Forum will be tasked with increasing awareness of the use of sustainability-related science, research and innovation data from EU R&I funding programmes, increasing investor appetite for research on sustainability and increasing knowledge exchange between researchers and the financial community.

Fostering global ambition
<i>Action 6: The Commission will commit to setting a high level of ambition in developing international sustainable finance initiatives and standards, embracing the concept of double materiality and supporting EU partner countries.</i>
6 (a): The Commission will promote an ambitious consensus in international forums.
<ul style="list-style-type: none"> • Building upon this Strategy, the Commission will set a high level of ambition in the development of international sustainable finance initiatives and standards, in particular advocating for mainstreaming the concept of double materiality and agreeing on common objectives and principles for sustainable taxonomies. • The Commission will advocate for the development of a solid international governance on sustainable finance and suggest expanding the mandate of the Financial Stability Board to integrate the double materiality perspective. • The Commission invites all international partners to deepen cooperation on sustainable finance, in particular to provide the private sector with usable tools and metrics, such as taxonomies.
6 (b): The Commission will propose to advance and deepen the work of the IPSF.
<ul style="list-style-type: none"> • In autumn 2021, the IPSF will publish: <ul style="list-style-type: none"> ○ a Report on a Common Ground Taxonomy, setting out the common features in existing taxonomies developed by public authorities; ○ a Report on Sustainability-related Disclosures to provide a comprehensive comparison of requirements for companies, asset managers and institutional investors; ○ its Annual Report. • In addition, the IPSF will report on its work on a ‘common ground Taxonomy’ by including ‘new’ taxonomies, as they are developed by its member jurisdictions, and on sustainability disclosures. • The Commission will propose to the IPSF to expand its work to new issues, such as biodiversity and transition finance. • The Commission will propose a stronger governance structure for the IPSF. • To ensure impact on the ground, the Commission will propose the development of closer cooperation and interaction for the IPSF with the private sector.
6 (c): The Commission will support low- and middle-income countries in scaling up their access to sustainable finance.
<ul style="list-style-type: none"> • The Commission will develop a comprehensive strategy to help scale up sustainable finance in our partner countries. To this end, a dedicated high-level expert group (HLEG) will be created to identify the challenges and opportunities that sustainable finance presents in our partner countries; and to provide recommendations to the Commission, so as to accelerate private financial flows for the implementation of the external dimension of the Green Deal and a green, just and resilient recovery in our partner countries. • The Commission will also support efforts to scale up sustainability-related financial instruments, and

help build back better globally, notably via the Neighbourhood, Development and International Cooperation Instrument (NDICI) ‘Global Europe’ and its new European Fund for Sustainable Development (EFSD+), and the Instrument for Pre-Accession Assistance (IPA).

Glossary

AIFMD	Alternative Investment Fund Managers Directive	KPI	Key Performance Indicator
CRA	Credit Rating Agencies	MCD	Mortgage Credit Directive
CRD/CRR	Capital Requirements Directive/Regulation	MIFID	Markets in Financial Instruments Directive
CSRD	Corporate Sustainability Reporting Directive	NCAs	National Competent Authorities
DLT	Distributed ledger technologies	NECP	National Energy and Climate Plans
EBA	European Banking Authority	NFRD	Non-Financial Reporting Directive
ECB	European Central Bank	NGFS	Network of central banks and supervisors for Greening the Financial System
EEA	European Environment Agency	OECD	Organisation for Economic Co-operation and Development
EFRAG	European Financial Reporting Advisory Group	PSF	Platform on Sustainable Finance
EGD	European Green Deal	R&I	Research and Innovation
EIOPA	European Insurance and Occupational Pensions Authority	RSFS	Renewed Sustainable Finance Strategy
ESAs	European Supervisory Authorities	SFDR	Sustainable Finance Disclosure Regulation
ESAP	European single access point for financial and non-financial information	SFSG	Sustainable Finance Study Group
ESG	Environmental, Social and Governance criteria	SDG's	Sustainable Development Goals
ESMA	European Securities and Markets Authority	SMEs	Small and Medium-sized Enterprises
ESRB	European Systemic Risk Board	SREP	Supervisory Review and Evaluation Process

Eu GB	European green bond	TCFD	Task Force on Climate-related Financial Disclosures
IDD	Insurance Distribution Directive	UCITS	Undertakings for Collective Investments in Transferable Securities Directive
IFRS	International Financial Reporting Standard	TEG	Technical Expert Group on Sustainable Finance
IORP	Institutions for Occupational and Retirement Provision		
IPSF	International Platform on Sustainable Finance		