European Commission - Press release

Sustainable Finance and EU Taxonomy: Commission takes further steps to channel money towards sustainable activities

Brussels, 21 April 2021

The European Commission has today adopted an ambitious and comprehensive package of measures to help improve the flow of money towards sustainable activities across the European Union. By enabling investors to re-orient investments towards more sustainable technologies and businesses, today's measures will be instrumental in making Europe climate neutral by 2050. They will make the EU a global leader in setting standards for sustainable finance.

The package is comprised of:

- The **EU Taxonomy Climate Delegated Act** aims to support sustainable investment by making it clearer which economic activities most contribute to meeting the EU's environmental objectives. The College of Commissioners today reached a political agreement on the text. The Delegated Act will be formally adopted at the end of May once translations are available in all EU languages. A Communication, also adopted by the College today, sets out the Commission's approach in more detail.
- A proposal for a **Corporate Sustainability Reporting Directive** (CSRD). This proposal aims to improve the flow of sustainability information in the corporate world. It will make sustainability reporting by companies more consistent, so that financial firms, investors and the broader public can use comparable and reliable sustainability information.
- Finally, **six amending Delegated Acts** on fiduciary duties, investment and insurance advice will ensure that financial firms, e.g. advisers, asset managers or insurers, include sustainability in their procedures and their investment advice to clients.

The European Green Deal is Europe's growth strategy that aims to improve the well-being and health of citizens, make Europe climate-neutral by 2050 and protect, conserve and enhance the EU's natural capital and biodiversity.

As part of that effort, companies need a comprehensive sustainability framework to change their business models accordingly. To ensure the transition in finance and prevent greenwashing, all elements of today's package will enhance the reliability and comparability of sustainability information. It will put the European financial sector at the heart of a sustainable and inclusive economic recovery from the COVID-19 pandemic and the longer-term sustainable economic development of Europe.

EU Taxonomy Climate Delegated Act

The EU Taxonomy is a robust, science-based transparency tool for companies and investors. It creates a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. It will also introduce disclosure obligations on companies and financial market participants.

Today's Delegated Act, politically agreed today by the College of Commissioners, introduces the first set of technical screening criteria to define which activities contribute substantially to two of the environmental objectives under the Taxonomy Regulation: climate change adaptation[1] and climate change mitigation[2]. These criteria are based on scientific advice from the Technical Expert Group (TEG) on sustainable finance. It follows extensive feedback from stakeholders, as well as discussions with the European Parliament and Council. This Delegated Act would cover the economic activities of roughly 40% of listed companies, in sectors which are responsible for almost 80% of direct greenhouse gas emissions in Europe. It includes sectors such as energy, forestry, manufacturing, transport and buildings.

The EU Taxonomy Delegated Act is a living document, and will continue to evolve over time, in light of developments and technological progress. The criteria will be subject to regular review. This will ensure that new sectors and activities, including transitional and other enabling activities, can be added to the scope over time.

A new Corporate Sustainability Reporting Directive

Today's proposal revises and strengthens the existing rules introduced by the Non-Financial Reporting Directive (NFRD). It aims to create a set of rules that will – over time – bring sustainability reporting on a par with financial reporting. It will extend the EU's sustainability reporting requirements to all large companies and all listed companies. This means that nearly 50,000 companies in the EU will now need to follow detailed EU sustainability reporting standards, an increase from the 11,000 companies that are subject to the existing requirements. The Commission proposes the development of standards for large companies and separate, proportionate standards for SMEs, which non-listed SMEs can use voluntarily.

Overall, the proposal aims to ensure that companies report reliable and comparable sustainability information needed by investors and other stakeholders. It will ensure a consistent flow of sustainability information through the financial system. Companies will have to report on how sustainability issues, such as climate change, affects their business and the impact of their activities on people and the environment.

The proposal will also simplify the reporting process for companies. Many companies are currently under pressure to use an array of different sustainability reporting standards and frameworks. The proposed EU sustainability reporting standards should be a "one-stop-shop", providing companies with a single solution that meets the information needs of investors and other stakeholders.

Amendments to Delegated Acts on investment and insurance advice, fiduciary duties, and product oversight and governance

Today's six amendments encourage the financial system to support businesses on the path towards sustainability, as well as supporting existing sustainable businesses. They will also strengthen the EU's fight against greenwashing.

- **On investment and insurance advice**: when an adviser assesses a client's suitability for an investment, they now need to discuss the client's sustainability preferences.
- On **fiduciary duties:** today's amendments clarify the obligations of a financial firm when assessing its sustainability risks, such as the impact of floods on the value of investments.
- On **investment and insurance product oversight and governance:** manufacturers of financial products and financial advisers will need to consider sustainability factors when designing their financial products.

Members of the College said:

Valdis **Dombrovskis**, Executive Vice-President for an Economy that Works for People, said: *"Europe was an early leader in reforming the financial system to support investments for climate change. Today, we are taking a leap forward with the first-ever climate taxonomy which will help companies and investors to know whether their investments and activities are really green. This will be essential if we are to mobilise private investment in sustainable activities and make Europe climate-neutral by 2050. This is a ground-breaking step for which we have consulted far and wide. We left no stone unturned in seeking a balanced, science-based outcome. We are also proposing improved rules on sustainability reporting by companies. By developing European standards, we will build on and contribute to international initiatives."*

Mairead **McGuinness**, Commissioner responsible for financial services, financial stability and the Capital Markets Union, said: ""*The financial system plays a crucial role in the delivery of the EU Green Deal, and significant investments are required to green our economy. We need all companies to play their part, both those already advanced in greening their activities and those who need to do more to achieve sustainability. Today's new rules are a game changer in finance. We are stepping up our sustainable finance ambition to help make Europe the first climate-neutral continent by 2050. Now is the time to put words into action and invest in a sustainable way."*

Background and next steps

The EU has taken major steps over the past number of years to build a sustainable financial system that contributes to the transition towards a climate-neutral Europe. The EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Benchmark Regulation form the foundation of the EU's work to increase transparency and provide tools for investors to identify sustainable investment opportunities.

Once formally adopted, the EU Taxonomy Climate Delegated Act will be scrutinised by the European Parliament and the Council (four months and extendable once by two additional months).

Regarding the CSRD Proposal, the Commission will engage in discussions with the European

Parliament and Council.

The six amendments to Delegated Acts on investment and insurance advice, fiduciary duties, and product oversight and governance will be scrutinised by the European Parliament and the Council (three month periods and extendable once by three additional months) and are expected to apply as of October 2022.

For More Information

Commission Communication: EU Taxonomy – Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties

EU Taxonomy delegated act

Q&A - Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice

Q&A - Corporate Sustainability Reporting Directive proposal

Factsheet – the April 2021 sustainable finance package

DG FISMA's website on sustainable finance

[1] An economic activity pursuing this objective should contribute substantially to reducing or preventing the adverse impact of the current or expected future climate, or the risks of such adverse impact, whether on that activity itself or on people, nature or assets.

[2] An economic activity pursuing this objective should contribute substantially to the stabilisation of greenhouse gas emissions by avoiding or reducing them or by enhancing greenhouse gas removals. The economic activity should be consistent with the long-term temperature goal of the Paris Agreement.

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