



Meeting of the Member States Expert Group on sustainable finance 28th Meeting report

21 June 2023, 09.30-16.30

1. Welcome by the Commission

The Commission welcomed all participants, online and in presence, and went through the agenda of the meeting.

2. Presentation by the Commission of the Sustainable Finance package

The Commission presented the legislative and non-legislative initiatives included in the package adopted on 13 June 2023: the EU Taxonomy Environmental Delegated Act, the amendments to the Disclosures Delegated Act and the amendments to the Taxonomy Climate Delegated Act; the Proposal for a regulation of ESG ratings providers; the Commission recommendation on facilitating finance for the transition to a sustainable economy; the Staff working document on enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework.

On the EU Taxonomy delegated acts, the Commission presented the main differences in the final texts as compared to the drafts published in April, focusing on how the comments from the MSEG and the Platform on Sustainable Finance were incorporated.

All MS strongly welcomed the adoption of the Environmental Delegated Act and the final texts for the amendments to the Climate Delegated Act and the Disclosures Delegated Act. One MS expressed disappointment for the exclusion of extraction and manufacturing of copper in the final DA and that not enough emphasis was given to mining/refining when communicating about the package. On transport activities, a MS welcomed criteria for automotive components, including the supply chain. Another MS welcomed the aviation activity, but enquired about the SAF levels and the DNSH criteria on noise pollution. Few MS urged the Commission to work with the Platform to include sectors and activities not covered so far.

On ESG ratings, the Commission presented the main elements of the proposal, its scope, the role of third-country providers and the mitigating measures for SMEs. MS expressed general support for the initiative and highlighted the need to provide more transparency and integrity on ESG rating activities. Some MS asked the reasons behind the decision not to include ESG data providers in the scope of the proposal. A MS also enquired about the impact of organisational requirements, in particular on separation of activities, on those

providers offering a wide range of services. One MS asked whether there will be some form of transitional period allowing for users of ESG ratings to continue to use those ratings developed outside the Union in the absence of an equivalence / endorsement or recognition. Finally, it was indicated that the first Council Working Party would take place in the week 10 July, tentatively on 13 July.

On usability, MS welcomed work done so far and supported the Commission's continuing focus on usability as a priority for the remaining of the mandate. One MS asked about the next FAQs on the Taxonomy criteria.

On transition finance, MS appreciated the initiative and the recommendation, many highlighted the usefulness and practicability of the examples provided. Some MS asked whether the Commission has considered any levers for financial institutions to engage SMEs in the transition and whether the Commission will follow-up on the Platform report on transition finance from March 2021. The Commission replied that more work and research will be done to support SMEs in the transition, also by the Platform on Sustainable Finance, and clarified that many elements in the recommendation come from the Platform's report, but an extension of the EU Taxonomy has not been considered. Few MS highlighted the need to ensure consistency and credibility of transition plans, especially given the multitude of private and market-based initiatives. One MS underlined the importance of transition finance being aligned with 1.5 C scenario and considerations of related-risks. Finally, another MS asked about the report on the application of the EU Taxonomy (under Art. 26 of the Taxonomy Regulation) and how the Platform's work will be integrated into that, and about the review clause for transitional activities. The Commission replied that the focus so far has been on the completion of the framework and that there will be a follow-up to Art. 26 in due time, as well as to the three-years review clause for transitional activities.

3. Conclusions

In concluding the morning session, the Commission informed the MSEG that discussions with the Platform on the prioritisation of activities have started and that an update will be provided after the summer break, including on the launch of the Stakeholder Request Mechanism. The Commission also mentioned that work has started on the upcoming FAQs on Taxonomy-alignment for financials and on future FAQs for the new activities included in the recently-adopted delegated acts. Therefore, the next meeting – to be tentatively held at the end of September or beginning of October – the Commission would like to engage in further discussions on transition finance and present the final ESRS delegated act, as well as to exchange on Platform work on new activities and on the ongoing work on FAQs.

4. Joint meeting of the MSEG and the Accounting Regulatory Committee

In the afternoon session, the Commission presented the draft ESRS delegated act, published for feedback on 9 June until 7 July 2023, and the main changes in the text compared to the

EFRAG standards. The Commission also briefly explained the process regarding the LSME and sectoral standards, clarifying that EFRAG was asked to deprioritise work on the sectoral standards for the moment, in order to work on implementation guidance for the first set of ESRS. The presentation was followed by a joint-discussion and exchange of views with MSEG and ARC members.

A MS asked about the impact of ESRS for non-listed SMEs who wish to voluntarily report. The Commission clarified that non-listed SMEs are out of scope of CSRD but they will be affected by value chain reporting and there is a lot of demand for a voluntary standard for non-listed SMEs. Therefore, it is looking at establishing a voluntary, non-binding standard via COM recommendation, on which EFRAG is currently working. Another MS enquired about some changes to the EFRAG standards, such as the extension of materiality to the climate standard and SFDR indicators and of phase-ins for certain requirements, as well as voluntary nature of certain disclosures and the lack of explanations for the determination of a sustainability issue as not material. The Commission explained that the extension of materiality does not mean that disclosures are voluntary: sustainability information will be audited and if materiality assessment is done correctly, financial market participants will get the info they need. EFRAG is also preparing implementation guidance to help companies with their materiality assessment. Few MS asked whether the Commission intends to reconcile ESRS and the disclosures under the SFDR, Benchmarks Regulation and Pillar 3 since the mirror indicators are no longer mandatory and this could create data gaps for financial market participants. The Commission clarified that material information needed by financial market participants under the SFDR will be reported by corporates in the ESRS sustainability statements. The Commission will assess whether to provide additional guidance on materiality assessment and SFDR indicators.

In concluding the meeting, the Commission informed that EFRAG, together with the ISSB, is conducting preparatory work on a digital taxonomy that would aim to ensure interoperability between ESRS and ISSB, and to foster comparability of information. Finally, the Commission noted that MSEG will be informed of the adoption of the ESRS delegated act as soon as this takes place and that, due to the strict timeline, it would not be possible to extend the deadline for providing feedback.