SIMPLIFYING THE EU SUSTAINABILITY FRAMEWORK

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Regulators in action to fulfil the promise of sustainable finance

Over the past decade EU has adopted a comprehensive regulatory framework on sustainable finance. The Sustainable Financial Disclosure Regulation (SFDR), the Taxonomy regulation and the Corporate Sustainability Reporting Directive (CSRD), just to name three of legislative acts that are part of the EU ambitious plan for sustainable finance, are deeply changing the way business and financial institutions integrate sustainability into their operations and investments.

The regulations referred to above mandate greater transparency and accountability in ESG practices, pushing organizations to disclose more detailed information on their sustainability impacts.

Clearly, the ability of investors to understand this increasingly complex set of information is crucial, as the ultimate goal of regulation is to channel private capital towards more sustainable activities.

In their joint opinion to the European Commission on the assessment of the SFDR (June 2024) the European Supervisory Agencies (ESMA; EBA and EIOPA) noted that consumer testing exercises found that SFDR templates are difficult to understand for investors. Additionally, it emerged that, in practice, SFDR disclosure regime has been prominently used by financial market participants to "label" their financial products for competitive purposes.

Disclosure requirements laid down in Article 8 of SFDR (for funds that promote sustainability characteristics) and in Article 9 (for funds that pursue sustainable investments) have been used in marketing materials as 'quality labels' for sustainability, often creating confusion rather than adding to transparency to the benefit of end investors, who are also confronted often with complex sustainability metrics. And that's not to mention the risk of greenwashing, that can materialise until effective verification of the genuine sustainability features of funds prove possible.

On the other side, business and financial markets participants point to the inconsistencies of the framework which lead to unpredictable and costly implementation across the industry.

In response to these challenges, regulators and stakeholders are discussing several proposals aimed at streamlining the regulation to reduce costs for business and to enhance the usability of information for both the industry and investors.

Along with the ESAs and other national authorities, Consob is actively revising these proposals and has identified three areas of improvements of the current framework.

First, simplify disclosure to investors. Consumer testing conducted in Italy, France, the Netherlands and Poland converge in showing that concepts as "EU taxonomy investments", "Sustainable investments" versus "investments that promote ESG characteristics" used in disclosures for investors are difficult to understand. Consob favours the introduction of a categorisation system based on regulatory categories of sustainability for financial products as this would enable investors to better assess the sustainability features of financial products. Also, with clear product categories, sustainability disclosures could be differentiated, with only essential information to be provided to retail investors and more detailed information to professional investors.

Second, align terminology across the various pieces of legislation. The coexistence of two parallel concepts of "sustainable investment" as defined in the SFDR and "Taxonomy-aligned investment" as defined in the Taxonomy regulation is an area of concern, both for industry and investors. The EU Taxonomy constitutes a science-based reference point against which to measure environmental sustainability, whereas SFDR is more principle based and less prescriptive. The completion of EU Taxonomy with social sustainability and its overall reconsideration might allow to overcome the difference.

Simplifying the sustainability framework for a better information to investors.

Third, support market participants in implementing the framework. A key concern in this process is the availability of ESG data. In this regard, a robust ESG data infrastructure would significantly facilitate compliance with the framework. Consob along with the Italian Ministry of Finance, other national supervisory authorities and other stakeholders has launched a national platform on sustainable finance. One of the priorities of the platform is the identification of data on climate and natural hazards, through mapping of existing local and national, private and public databases, with the final goal to overcome the fragmentation of databases and assess the possibility to make these data available to all market participants.

These actions also emerge as key recommendations in the June ESMA report on greenwashing. By addressing these areas, regulators aim to protect investors from misleading sustainability claims and ensure that private capital is effectively directed towards sustainable activities. The ongoing efforts by the ESAs and national authorities demonstrate a commitment to improve the framework and support the transition to a more sustainable economy.

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Sustainable Finance: a framework fit for purpose

It is hard to imagine that the European Commission's Action Plan on Sustainable Finance of 2018 was only published 6 years ago. Since then a legislative framework on Sustainable Finance has been created at record speed, starting with the SFDR, Taxonomy and CSRD. Given the speed and the dynamics of the legislative process it is no surprise that the legal acts are incomplete and often also lack coherence. These shortfalls are unpleasant from a regulatory point of view, but unacceptable for users. Companies - including banks and insurance companies - are often faced with irresolvable contradictions even with additional application guidance and explanation papers. If regulatory and sometimes also criminal consequences are attached to this, it is not surprising if the entire framework is called into question.

But the implementation of the framework also means that issues that previously attracted little attention are suddenly becoming visible in companies on director levels. This applies to issues such as the gender pay gap as well as Scope 3 emissions. These issues are sometimes difficult to digest and lead to many follow-up questions both internally and externally. This process is often unpleasant, time-consuming and, above all, expensive.

What can be done now? It is undisputed that the implementation of the Green Deal is necessary in terms of both economic policy and environmental needs. Europe has embarked on this path and has already invested many resources in its implementation. Rolling back the requirements would often be seen as stranded assets. The question is therefore how companies can be supported on this journey and the answer to this lies primarily in a regulatory framework that is balanced, harmonised and fit for purpose.

One of the main points of criticism is that the framework is still incomplete. Firstly, not all sectors are included in the Taxonomy Regulation; this should definitely be added. Furthermore, the framework for the Social Taxonomy is missing completely, which was already expected by many companies. The inclusion of additional dimensions to the Taxonomy also increases complexity and interdependencies. How should the DNSH be interpreted for an all-encompassing taxonomy? How do the minimum safeguards relate to the social taxonomy? This is reinforced by other legal acts such as the requirements of the SFDR, CSRD and CSDDD. In any case, these issues should already be fully regulated at L1 and not left to individual users.

Another essential but missing component is transition finance. Transition plans are already provided for at company level in SII, CSD and CSRD, however, it is important to consider the conditions under which transition plans can be linked to the provision of transition finance. To ensure the comparability of companies' transition plans, further standardization of the scenarios, interim targets, and metrics used is required. This could be achieved by developing and publishing national sectoral decarbonisation pathways to ease the process of developing transition plans.

The SFDR is definitely worthy of revision for multiple reasons. In any case, the current version showed that there is a great need for a sustainable label. Although this was not the intention of the SFDR and has also led to great uncertainty and greenwashing, this need should be taken into account when revising the SFDR and a labelling system should be introduced.

Another area with potential for improvement is the area of reporting. We have entity reporting in the Taxonomy, CSRD, SFDR, but reporting requirements are also implemented in horizontal legislation such as CRD and Solvency II. In order to be truly user-friendly, the reporting obligations would have to be harmonised at Level 1, both in terms of wording and content. EFRAG has put a huge amount of work into analysing the various European legal acts and taking into account the reporting obligations enshrined therein, but this exercise can only succeed with the full support of L1. It would therefore be up to the European legislator to harmonise the legal acts and refrain from duplication.

Streamlining the SF-Framework is essential to reduce complexity and to increase acceptance.

Sustainability reporting of the CSRD is only applicable to large companies, in practice, however, ESG-information is also required from SMEs, which they have to prepare according to the individual needs of these contractual partners. Although EFRAG will issue a VSME standard and the information will be available in ESAP on a voluntary basis, it would also be important that the information requirements of the counterparties can essentially be covered with it. Only then would ESAP with VSME be a truly one-stop shop.

In addition to these topics, there are many other opportunities for regulatory improvement. As a regulator, it is our responsibility to create a set of rules that achieves the required objectives while minimising the implementation effort.

GEORGE THEOCHARIDES

Chairman – Cyprus Securities and Exchange Commission

The impact of the sustainability framework on a small island nation

Since the European Commission published its Action Plan on Financing Sustainable Growth in 2018, the EU has gone further and fastest than any other jurisdiction in setting wide-reaching rules for sustainable finance.

Achieving net-zero requires unprecedented investment, so it's appropriate that the private sector plays its role in the transition. As a recent PWC report noted, global assets under management by the investment industry are estimated to rise to US$145.4 trillion by 2025 and have the "power to literally change the world from an ESG perspective."

As a small island nation facing climate threats first hand in the Eastern Mediterranean region, Cyprus recognises the imperative in achieving net-zero emissions by 2050 alongside the EU's other environmental targets. Implemented effectively, the sustainable finance framework will minimise the risk of greenwashing and increase transparency.

However, there are concerns for smaller NCAs, both for the regulated entities under our supervision and for us as regulators tasked with establishing, monitoring and enforcing the new standards of practice.

The EU's ambition requires profound regulatory changes. The Corporate Sustainability Reporting Directive (CSRD), Taxonomy Regulation and Sustainable Finance Disclosure Regulation (SFDR) serve as the foundation of the sustainable finance framework; the laws interact with and cross-reference each other, presenting an incredibly complex landscape to navigate. To prosper in this environment, firms need first to understand the different requirements that already go well beyond existing international frameworks and prepare to implement them, but also re-invent their systems to adapt to ambitious – and often moving - implementation timelines.

The EU's CSRD is the first regime to incorporate the concept of double materiality, so firms not only need to report on their impact on the environment, but also the impact of the environment on them. While the double materiality assessment is a long and detailed process, it provides some administrative burden relief as firms now only need to report on areas deemed as material. This is an improvement to the original proposal where firms would be required to report against every metric.

Even so, the most challenging aspect for many firms is the materiality assessment itself. Most investment firms will be carrying out this analysis for the first time, and will need to significantly adapt their processes, systems and data collection capacity to cope. Alongside this, the legal requirements present huge logistical and administrative burdens, and as well as costs from hiring external providers to undertake and verify the assessments. Some estimates, I've heard, have stretched to hundreds of thousands for one assessment, so it's not just the small firms that will struggle. Whilst CySEC is supportive of the overall objective of the framework, we believe it will be critical for firms to be given time to understand and implement the changes, while still being able to compete with other global players. For both the materiality test and the DNSH principle, continued support from the EU for both firms and NCAs is essential for successful implementation.

In the same way, European SMEs are a core part of European ecosystem and are vital to the EU's overall competitiveness and Capital Markets Union objectives. They also play a key role in supporting the EU's transition to net-zero and, as they grow and succeed, should rightly be reporting sustainability-related data via frameworks such as the SME standard under CSRD. What we do not want is for them to perish under an avalanche of regulatory requirements. We welcome developing SME frameworks for climate disclosure, but any new reporting requirements for SMEs need to be fair and proportionate, and they must be given sufficient time to implement.

Firms need time to make the transition while still being able to compete with other global players.

Regulators too will need time to build capacity and expertise to ensure the legislation is being put into practice. Not all regulators are resourced in the same way. Smaller member states, like Cyprus, diligently trying to achieve this transition need predictability from the EU around the application of legal provisions to be able to support and encourage the transformation.

CySEC is developing an action programme for sustainable finance, focusing on the implementation of sustainability requirements and cultivating a culture of compliance. We are also working to boost ESG investor education through a guide to sustainable investing. In terms of resources, we are adding additional staff to enhance our supervision departments to address challenges such as the risk of mislabelling or misrepresenting financial products under the SFDR.

We all want to meet climate goals, but reaching this objective will require close cooperation with EU policymakers, national authorities and the market to ensure a realistic path to net-zero.

ANNA DUNN

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Disclose the present, plan the future

Disclosure requirements are a helpful tool to increase transparency. Transition itself however will be driven by factors such as government policy, infrastructure investments, support for technological development, and consumer demand. Disclosures, at their best, provide a transparent window onto the current landscape, rather than changing the view. In looking to simplify sustainability disclosures, I'd suggest that we judge the framework across three principles: meaningfulness, materiality, and usability.

Meaningful information: meaningful information for JP Morgan includes critical metrics such as our clients' current emissions intensity, projected future emissions intensity, and track record of emissions intensity reduction. The profile of JP Morgan by one of our leading investors uses approximately thirty metrics drawing from a couple of data providers. CSRD, by contrast, requires over a thousand data points. This amount of data is excessive for business and investment decisions, and creates a competitiveness and productivity drag for firms subject to EU rules.

Material information: meaningful information by definition is material information. Much work is currently required for immaterial information given detailed templates with metrics broken down by client and asset class. This is an area that would particularly benefit from EU alignment with international standard setting bodies such as ISSB. Double materiality has been particularly challenging due to a lack of underlying data, a lack of clarity regarding quantification of impact, and the lack of a clear definition for 'value chain' particularly for financial institutions.

Useable information: True benefit comes from alignment rather than interoperability with international standard setting bodies. Interoperability can provide a technical alignment with expert resource applied, whereas for investors and educated generalist readers of accounts the disclosures need consistency to be useable. The EU is truly admirable in the extent and sophistication of its language translation capabilities, whereas in the company disclosure arena we observe that if the same language is not used there is incomprehension and the credibility of the disclosure is undermined.

Implementing the above principles into the EU sustainability framework would reduce the scope for greenwashing controversies. Data has shown that key regulatory developments with SFDR were consistently accompanied by sizeable waves of fund reclassifications. The sheer magnitude of reclassification leads to questions regarding the value of the label. The EU Green Bond Standard is also facing challenges in uptake given concern with potential for greenwashing allegations. Defining a reduced set of meaningful data that is applied with a materiality overlay will give confidence in published information.

True benefit comes from alignment, rather than interoperability, with international standards.

Moving beyond disclosures, transition plans reflect a more direct contribution to decarbonisation. Many financial service firms have set voluntary targets in this sphere and are considering transition plans as part of their broader business strategy. Transition plans effectively operationalise firms' commitments in a way that tailors their decarbonisation actions to their individual business, geographical footprint, clients and consumers. These plans will not be static, as they will need to adjust to support the real economy transition as it evolves with governmental policies, new technologies, and shifting consumer demand. Therefore, transition plan disclosure requirements need to avoid being overly prescriptive by dictating company strategy or the use of specific scenarios.

Science-based, highly credible transition scenarios exist to assist firms in their transition planning, provided by well-established and internationally recognised organisations. Notably, the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) have developed a detailed set of scenarios. IPCC and IEA scenarios take into consideration both regional differences and global outcomes. IEA has a regional breakdown which covers the EU, allowing users to derive EU-specific, sectoral pathways. These scenarios are supported by the scientific community and updated regularly based on the latest evidence.

There has been tremendous progress in Europe and globally over the past five years in understanding the drivers of carbon emissions, researching promising technologies to reduce carbon consumption and capture carbon offsets, and understanding likely transition scenarios. We now need to coalesce around international standards for disclosure and transition to allow for global progress.

SVEINUNG UELAND
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Simplifying the EU sustainability framework

The introduction of any new regulatory topic will always add to the existing compliance burden for banks. While regulations can be justified to ensure a healthy financial system, regulators should bear in mind that implementation of regulations divert resources and attention from banks' primary function as facilitators of effective and safe capital markets. The sum-of-all-parts impact of a constantly changing regulatory landscape should not be underestimated, especially in a period where institutions are needed to support the overall growth and innovation in the European economy. The sustainable finance framework also comes on top of many other comprehensive revisions of the CRD/CRR and AML frameworks. Any legislative proposals and revisions should go through competitiveness and necessity checks. From the EU sustainable finance framework, there are som lessons that can be learned.

The green transition is at the core of DNB's business model and the bank was an early adopter of the push towards sustainable finance. DNB has long contributed to initiatives such as UNEP FI, TCFD and the Equator Principles and has supported the EU green initiatives. While recognizing the need to eliminate greenwashing and increase transparency, our experience was that the legislators did not provide the leg room to adapt and develop existing practices of sustainable finance, which made it more difficult to leverage know-how built up over the past decade. Some lessons on the balance between flexibility and minimum requirements, between speed and adapting best-market practices, can be drawn from the roll-out for the EU sustainable finance regime.

Though a framework to push the speed of the transition was justified, a significant increase in costs stemmed from a rushed roll-out. Compliance costs increase where level 1 acts enter into force before level 2 drafts are finalized. Legal uncertainty also arises where the ESAs and the Commission publish FAQs which depart from the Level 1 rules. One example is the FAQ-guidance on taxonomy reporting for financial conglomerates, which was contrary to industry understanding and issued on 21 December of the financial year that it would apply to.

There are opportunities to simplify the sustainability framework without encouraging unacceptable greenwashing practices. As the EU is moving towards a regulatory landscape of few and narrow "safe harbors", we would like to point to some examples that demonstrate the need for greater flexibility to ensure a real and more efficient green transition.

There are opportunities to simplify without encouraging greenwashing.

The industry is currently preparing for the first year of reporting under the extensive regime of CSRD, which determines how European banks manage and disclose their sustainability impacts and strategies. Although CSRD dictates that financial institutions shall be guided by a sector-specific rulebook, such rules have not been finalized nor even submitted to public consultation. As the ESAs have pointed out, specific adaptations to CSRD are needed to account for the particularities of the financial sector. Similar insights led to the late amendment of CSDDD, temporarily excluding banks' downstream value chain from its scope until further guidance is developed. No such accommodation has been offered under CSRD, which can lead to confusion and misunderstandings in upcoming dialogue with auditors and financial supervisors.

In terms of simplification and flexibility, the primary priority for banks should be sector alignment of CSRD. The rulebook needs to recognize that the financial sector has, compared to non-financial undertakings, an indirect relationship to sustainability impacts. For certain topics, such as climate change, there is sufficient data to establish a baseline and therefore set credible targets. For other topics we will lack such insights until corporate borrowers disclose data of acceptable quality.

Moreover, DNSH criteria for retail mortgage and auto finance KPIs has been a considerable hurdle for banks' taxonomy reporting. There are well-known shortcomings in the quality and availability of NZEB and EPC data needed for mortgage DNSH that must be addressed. Until then, credible proxies should be accepted as the next best thing. For electric vehicle finance, the requirement of determining what tyres each individual vehicle is equipped with is practically impossible can only result in nil-reporting. This could easily be fixed in the Commission FAQs.

Going forward, the same haste should not be repeated for the remaining elements of the sustainability framework. Banks face new concepts and complex requirements in CRD6 that aim to integrate sustainability risks into the prudential regime. It is capital that technical standards and other implementing standards are carefully designed to not duplicate or contradict existing requirements under the sustainability framework. To that end, the Commission should either make sure that the rulebook is completed during the transposition period or provide adequate phase-in arrangements.

HARM BOTS
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Not just on paper: a sustainability framework for a "real" economy transition

Over the last years, the EU has been one of the leaders for global discussions on sustainability frameworks for financial undertakings. While these rules have positive objectives in steering the discussion in this field, there is a perception in the industry that the granularity of this agreed framework for companies has created challenges.

When considering how best to shape the EU legislative framework to be fit for purpose, it is helpful to have a clear objective in mind. At MUFG, our approach has been to support the real economy towards a "whole economy transition" starting with focusing on the energy transition. Over the last few years, including via our involvement in the NZBA, MUFG has been working on the transition planning process, aimed at delivering this objective. It is important to note that banks are enablers and cannot deliver this transition alone. To help deliver a whole economy transition, all levers - including policy actions by governments, incentives and public-private partnerships - are key to this process and all actors should come together to move forward in the transition and enable banks to be as effective as possible in supporting the journey. There is a balance to be found over the coming years in attempting to match industrialisation and economic growth targets with objectives of emissions reductions.

During our transition planning journey, which culminated in the publication of the MUFG Climate Report in May 2024, two important lessons have been learnt: 1) safety and soundness of our banking operations is a top priority, with a thorough assessment of the "bankability" of all projects we finance; and 2) transition finance will likely only materialise where there is a demand for it. The process benefits from being demand-driven rather than supply-driven.

In our view, the EU and other frameworks globally would benefit from taking these elements into account when designing and amending their sustainability rules. The objective should not be limited to disclosure or the design of transition plans on paper. The EU could consider simplifying its sustainability framework and adapting it to be more pragmatic. In particular, the framework could support the assessment of a plan's credibility in the real economy. An example of this can be observed from the sectorial roadmaps designed by the Japanese government for achieving carbon neutrality in 2050 for GHG-intensive industries. These governmental roadmaps are meant to support financial institutions in assessing the credibility of the strategy and initiatives towards decarbonisation of the financed companies, while taking into account the different particularities of each jurisdiction. A similar concept of public sectorial roadmaps could be harnessed by the EU, which would account for the market-driven initiatives designed by GFANZ and NZBA.

Given the regulatory activity over the last few years, companies including financial institutions in the EU are now facing a significant amount of ESG reporting obligations that have to be considered when debating the potential framework changes, especially through the lens of international competitiveness and strategic security. These frameworks also create risk of transition on paper, rather than in the real economy. In the Europe's sustainability transitions outlook report from July 2024, the European Environment Agency called for EU authorities to embed competitiveness, fairness and security in a renewed narrative focused on sustainability transformation.

In the area of disclosure, we welcome the publication of the ESRS-ISSB standards interoperability guidance in May 2024. Ensuring a level playing field that avoids duplication will be hugely beneficial for global companies such as MUFG to comply with local requirements while ensuring a "group" approach. Further to this, the practicalities of gathering information within the EU to comply with the requirements may not be as simple in other non-EU jurisdictions. Another element to consider for review is the EU taxonomy and the potential new prudential framework for climate risk taking into account the transition approach described above. Without banks having the ability to support the transition of hard-to-abate sectors, such as steel, power and chemical, it will be difficult for a net zero economy to become a reality, especially in emerging economies where considerable emissions are located. The EU taxonomy is a useful tool but has so far appeared to be limited in practice such as with the example of the Just Energy Transition Partnership Projects (JETP).

A whole economy transition should remain the ultimate aim of every regulatory framework.

In conclusion, MUFG is engaged in the common objective of achieving net zero target by 2050. Policy makers could further support this industry efforts by considering the broader picture of all the elements to develop meaningful and achievable targets and ensuring that the framework becomes more practical for the financial sector to enable the support of a real economy transition.

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From crisis to crossroads: transitioning the EU Sustainable Finance agenda

At an unfamiliar crossroads, sometimes we must look back to move forward. It is nine years since the signature of the Paris Agreement, six since the publication of the EU's Sustainable Finance Action Plan, and five since the launch of the European Green Deal. The SFDR has been live for three years and the EU Taxonomy for two. The first wave of CSRD double materiality reporting will begin next year. Beyond these financial sector reforms, new waves of EU sustainability regulation for corporates are on their way.

And yet, the sustainability crisis not only persists, but it must also compete for policy attention and resources with emerging strategic challenges. These include war, interstate economic competition, and the realisation that the European economic model may have a competitiveness problem. As a result, renewed clarity is needed to advance the EU's vision for sustainability transformation. However, this vision must account for, rather than ignore, the prevailing industrial, economic, and security context.

As companies, financial markets, and regulators grapple with these new paradigms, which direction should the EU sustainable finance agenda take next?

First, Do No (Significant) Harm

First, do no harm. This medical maxim from the Hippocratic Oath applies equally to policy. The scientific diagnosis is clear: to prevent a planetary crisis, economic activities must change. In the EU, the prescription to treat this condition, mitigate risks, and deliver an improved prognosis has primarily been regulation. The next policy phase must stabilise and calibrate, rather than re-engineer, these regulatory foundations. While not perfect, they are solid enough for forward progress.

Instead, where faults in the foundations have been found, they should be repaired. The upcoming SFDR review should be a stabilisation exercise. Interventions should focus on critical elements that require surgical attention: a coherent definition of sustainable investment, clear and unambiguous sustainability labels for financial products, and a robust framework for assessing Do No Significant Harm thresholds. Closer alignment of SFDR with the Taxonomy, as suggested by ESMA, could also help stabilise the broader system by further consolidating the regulatory foundations through a common definition of sustainable investment.

From Crisis to Crossroads

Second, we are – and will remain in coming years – at a point of crisis. The word crisis comes from the ancient Greek for "turning point". It was used to describe the point in an illness when patients either got better or worse. At this critical juncture for planetary health, renewed policy commitment to the transition as an economic turning point can enable financial markets to plot a path beyond the current crossroads.

Greater longterm policy certainty regarding which transition paths will be viable could help unlock more finance. This could be achieved through formal recognition in the Taxonomy and SFDR that a range of incremental or intermediate steps towards the transition represent legitimate and worthwhile progress for financial markets to support.

Signposting the Transition

Third, the sustainable finance agenda needs the support of an EU transition strategy, including public spending. As Plato tells us, the true physician is a healer of the sick rather than a maker of money. As the primary agent for public health, government has a major role to play. The financial sector cannot engineer the transition alone. The scale of an EU transition plan could mobilise new financial firepower and forge channels for private investment to follow. This public incentives model has been successful in other regions by activating wider market-based funding mechanisms.

> **Which direction should the EU sustainable finance agenda take next?**

Indeed, certain EU policy tools already provide a clear transition trajectory for some activities, including financial support. In those instances, ample funding is generally available today. For example, renewable energy and lower carbon fuels have been recognised as central to climate targets and an ecosystem to finance them has emerged. However, other activities necessary for the transition do not have the same degree of policy clarity. This creates blind spots in technology paths and obstacles for market-based finance. Where private finance is unable or unwilling to these fund projects, public money will need to play its part in bridging the gap.

To conclude, a quarter of the time available to achieve the 2050 objective has elapsed since the signature of the Paris Agreement. During this decade, new expectations for the EU financial system and economy have been introduced. However, the 2033 climate halfway point will be reached shortly after the end of this coming EU mandate. The next decade must therefore convert policy expectations into reality. Incremental, if necessary, but substantial wherever possible. In the face of economic, industrial, and security challenges the path forward should provide stability and clarity. There is no time to lose.

JULIA SYMON
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Reducing the workload, not the transparency

The legislative mandate 2019-2024 saw the establishment of the EU sustainable finance legislative framework, which has been crucial in enabling financial institutions to support the transition towards a more sustainable economy. However, legislative developments have also faced growing criticism and accusations of imposing a high regulatory burden, a high pace of regulatory change and legal uncertainty due to inconsistencies, as well as a lack of clarity on certain concepts. As the implementation work continues, calls for a more streamlined approach to reduce the compliance burden have grown louder.

Several initiatives have been launched to address these concerns. For instance, the European Single Access Point (ESAP) will provide investors with higher quality and more cost-effective information to comply with their own reporting requirements. Concurrently, the European Securities and Markets Authority (ESMA) has been working on several publications to harmonize data points across various legislative texts. An example is the revised Sustainable Finance Disclosure Regulation (SFDR) Regulatory Technical Standards (RTS) published in 2023, which are yet to be endorsed. Finally, the ISSB, EFRAG and GRI have done work to foster interoperability between the reporting rules. These efforts are ongoing, and their impact will unfold over the current political mandate. Furthermore, the scope of application of the Corporate Sustainability Reporting Directive (CSRD) has been substantially reduced.

Enhancing the Framework without Compromising Transparency

Despite these efforts, there is still room to streamline certain requirements, and concerns about the cost of compliance relative to other jurisdictions must be addressed. Striking a balance between reducing the reporting workload and maintaining the informational content will be key.

Any regulatory measures should be carefully crafted to make sure that changes to the reporting requirements do not lead to a loss of crucial data for investors or hinder comprehensive assessments of sustainability impacts, risks and opportunities by different economic actors. The complexity of the information chains and horizontal nature of sustainability topics need to be taken into account.

Instead, the focus should be on enhancing consistency across legislation to align data points and reduce the workload. Aligning the Taxonomy, SFDR, PRIIPs and the consideration of sustainability preferences, and solving inconsistencies—such as the conflicting definitions of GHG intensity under SFDR and the Benchmark Regulation—would make the legislative framework simpler, more coherent and more effective. This approach would address the issues that have emerged as the maturity on the sustainable finance topic increased and as legislative negotiations have occurred in silos.

> **Consistency, clarity and harmonised implementation will reduce the workload and increase credibility.**

Focusing on Targeted Adaptations to Limit Costs

As implementation progresses, it is crucial to avoid repetitive burden and the pitfalls of continuous changes, which would only increase the costs associated with legal interpretations and implementation. It should also be stressed that the cost of compliance will decrease over time. To keep this cost manageable, regulators should focus on making incremental improvements where necessary.

Switching from qualitative information to structured data, where possible, would also simplify the reporting and provide automation opportunities for companies, thereby streamlining the reporting process.

Bringing certainty to reduce workload

Legal certainty is vital for reducing the workload. The SFDR experience has shown that excessive flexibility can lead to accusations of greenwashing and legal uncertainty for financial institutions. To address this issue, we should accept that clarity will be achieved by reducing flexibility on implementation. Making the sustainable finance framework credible requires a holistic and harmonised approach to the key concepts.

This is the reason why sector-specific reporting standards are essential. They would allow moving SFDR entity-level reporting to sector-specific standards for financial institutions. Further, sector-specific standards would clarify the expectations on transition plan disclosures depending on the sector of activity and foster convergence on the use of transition scenarios. Ultimately, this would facilitate data aggregation and analyses at both sector and country levels.

Finally, simplifying the legislative framework also requires a better alignment of the supervisory actions and interpretation by national competent authorities. The uncertainties left by certain requirements, gold-plating when transposing directives and new local rules to solve loopholes in the EU rules lead to increasing market fragmentation. This jeopardises the objectives of the EU sustainable finance framework, as well as the broader objectives of the Capital Market Union.