



Next Steps for the European Sustainable Finance Package

On 13 June 2023, the European Commission (EC) published the [Sustainable Finance Package](#) (the Package).

What's new to the Sustainable Finance Package?

In the EC's view, the purpose of the Package is to ensure that the EU sustainable finance framework continues to support companies and the financial sector, while encouraging the private funding of transition projects and technologies.

The EC's Package also proposes a [Regulation on transparency and operations of environmental, social and governance \(ESG\) ratings providers](#) along with an associated [Annex](#).

Components of the Sustainable Finance Package

EU Taxonomy

The EC has approved in principle a new set of the EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives covering:

- [Sustainable use and protection of water and marine resources](#);
- [Transition to a circular economy](#);
- [Pollution, prevention and control](#); and
- [Protection and restoration of biodiversity and ecosystems](#).

The EC has also adopted targeted amendments to the [Climate Delegated Act](#) which expand on economic activities contributing to climate change mitigation and adaptation not included so far – in particular in the manufacturing and transport sectors.

The EC's Package: EU Taxonomy Delegated Acts

Amendments to existing Climate Delegated Act

OBJECTIVE
Climate Change Mitigation

OBJECTIVE
Climate Change Adaptation

NEW:
Environmental Delegated Act

(Including amendments to the Disclosures Delegated Act)

OBJECTIVE
Transition to a Circular Economy

OBJECTIVE
Sustainable Use and Protection of Water and Marine Resources

OBJECTIVE
Pollution, Prevention and Control

OBJECTIVE
Protection and Restoration of Biodiversity

In terms of the more detailed economic sectors and activities covered in the EC's Package, the new items cover:



Services

Sale of spare parts and second-hand goods; preparation for re-use of end-of-life products and product components; marketplace for the trade of second-hand goods for reuse.



Buildings

Construction and renovations, demolition and wrecking; maintenance of roads and motorways; use of concrete in civil engineering.



Transport

New transitional water and air transport; automotive and rail components.



Manufacturing

Plastic packaging goods; electrical and electronic equipment; pharmaceuticals.



Disaster risk management

Nature-based solutions; energy services; flood risk prevention and protection infrastructure.



ICT and professional activities

Software and consultancy IT/OT (information/operational technologies) data driven solutions.



Water supply and sewerage

Water supply; urban wastewater; sustainable drainage systems (SUDS); phosphorous recovery from wastewater.

The technical screening criteria backing the economic sectors and activities above have been informed by the recommendations of the Platform on Sustainable Finance, published in March and November 2022.

The EC has also adopted amendments to the [EU Taxonomy Disclosures Delegated Act](#), to clarify the disclosure obligations for the additional activities. This also includes further template details in Annex [VI](#) and [VII](#).

Proposed Regulation on the transparency and integrity of ESG rating activities

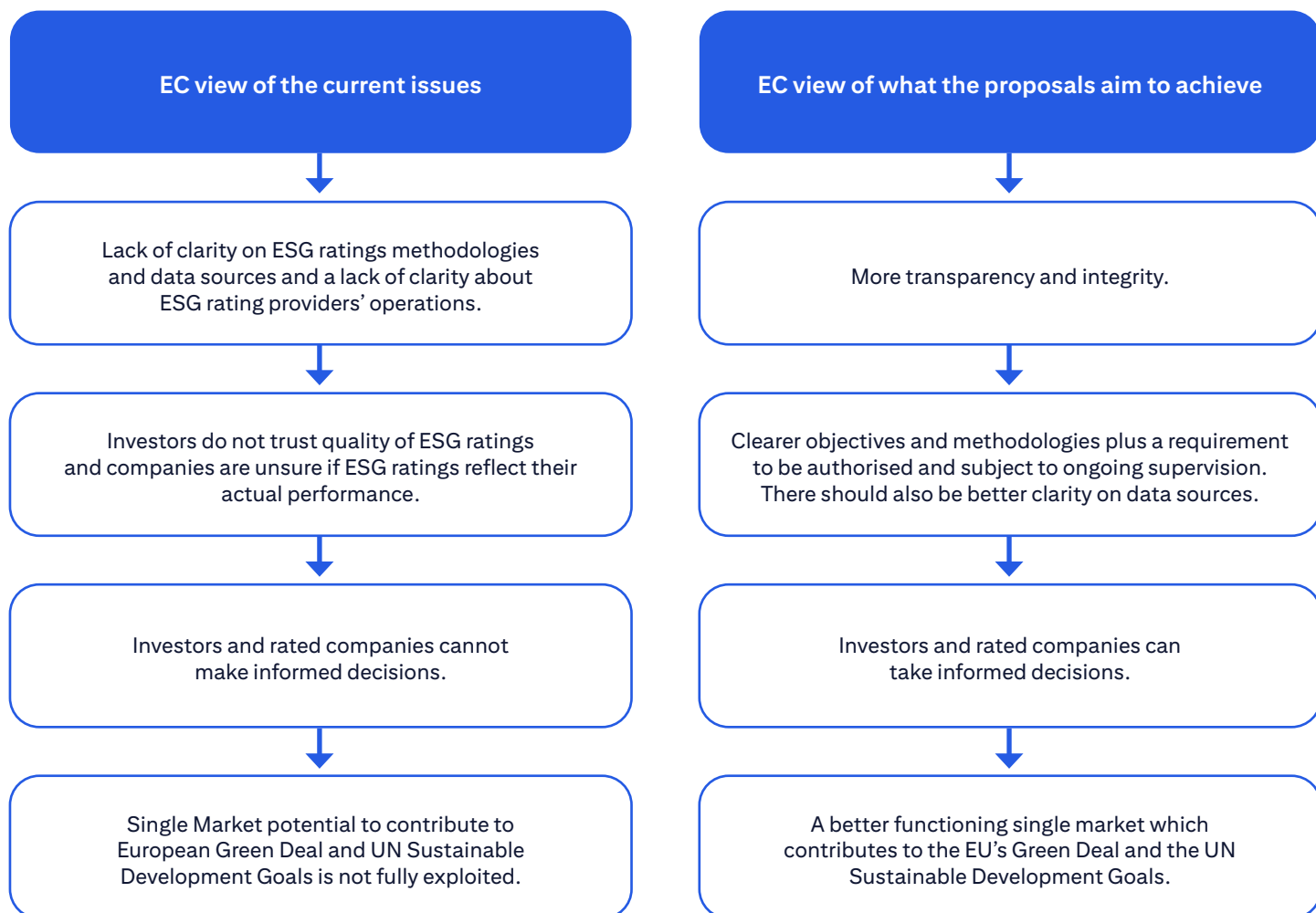
The EC states that the ESG ratings market suffers from a lack of transparency, and it is proposing a Regulation to improve the reliability, comparability, and transparency of ESG ratings activities.

The proposal will require that ESG rating providers offering services to investors and companies in the EU be authorised and supervised by the European Securities and Markets Authority (ESMA).



What is changing with the EC's ESG ratings proposal?

The diagram below shows the issues which the EC proposals on ESG ratings are looking to solve, i.e. the current issues and recommended solutions being sought:



Enhancing usability

The EC also presented an overview of the recent measures and tools it has put forward to address key implementation issues from the initial proposals, such as the EU Taxonomy Regulation, along with questions raised by stakeholders. The EC stated that early reporting trends have shown that companies across all of the key economic sectors are using the EU Taxonomy more as part of their transition efforts.

The EC stated that it has recently developed a series of targeted measures and initiatives to enhance the usability of the rules and support stakeholders in their implementation. The EC states that it is also publishing the EU Taxonomy User Guide which is a guidance document for non-experts.



Transition finance

In the related [Q&As](#), the EC stated that transition finance is about financing private investments to reduce high greenhouse gas emissions or other environmental impact and transition to a climate neutral and sustainable economy. As a backdrop to this, the EC has stated that transition finance is needed to reduce greenhouse gas emissions by 2030.

In the Q&A document, it states that the EC's recommendations aim to show how companies can use the various tools of the EU sustainable finance framework on a voluntary basis to channel the investments into the transition and manage any associated risks stemming from climate change and environmental degradation.

In the related Q&As, the EC stated that the recommendations, as well as transition finance itself, are voluntary. The EC stated that they are there for companies interested in obtaining transition finance and the EC says that the recommendations offer suggestions on how this can be facilitated through the voluntary use of tools such as the EU Taxonomy, the EU Green Bond standards or the EU climate benchmarks.

Mandatory reporting standards

The EC also published for consultation, on 9 June 2023, a [draft Delegated Regulation](#) (including Annexes) setting out the first set of European Sustainability Reporting Standards (ESRS) specifying the information that undertakings are required to report in accordance with the [Accounting Directive](#) as amended by the [Corporate Sustainability Reporting Directive](#).

Annex I to the draft Delegated Regulation sets out the following ESRS applicable to all in-scope undertakings, namely large undertakings, small and medium-sized undertakings with securities admitted to trading on EU regulated markets, and parent undertakings of large groups.

The reporting proposals include the following:

- Cross-cutting standards covering general requirements (ESRS 1) and general disclosures (ESRS 2);
- Specific standards on environmental disclosures covering climate change (ESRS E1), pollution (ESRS E2), water and marine resources (ESRS E3), biodiversity and ecosystems (ESRS E4) and resource use and circular economy (ESRS E5); and

- Specific standards on social disclosures covering own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3) and consumers and end-users (ESRS S4); and specific standards on governance (ESRS G1).

Annex II sets out acronyms and a glossary of terms, including:

- The information required for sustainability reporting is intended to include at least the information financial market participants require in order to comply with the disclosure obligations under the SFDR; and
- The draft Delegated Regulation is based on draft standards developed by the European Financial Reporting Advisory Group (EFRAG), which is currently working on the second set of draft ESRS covering sector-specific standards, proportionate standards for listed SMEs and standards for non-EU companies.

Next steps

The EU Taxonomy Delegated Acts are approved in principle and once all EU official language versions are available will be adopted and transmitted to the European Parliament and the Council for their scrutiny. This is usually a four-month period, extendable once by two additional months.

They are expected to apply as of January 2024.

On the proposal for a regulation of ESG ratings providers, the EC will now engage in discussions with the European Parliament and Council.

The mandatory reporting standards are subject to a four-week feedback period. The EC will consider the feedback received before finalising the standards as delegated acts and submitting them to the European Parliament and Council for scrutiny.

Once adopted, the reporting standards will be used by companies subject to the CSRD.



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