EU SUSTAINABLE FINANCE

BusinessEurope priorities
for **2024-2029**

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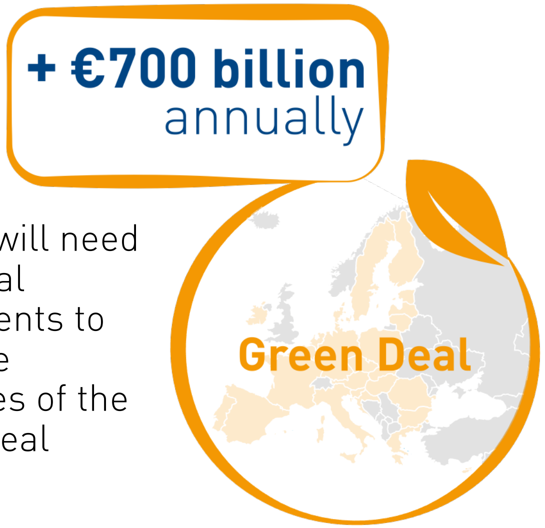
THE CONTEXT

For the EU Green Deal to become a reality, access to finance for environmentally sustainable activities and transition projects is of utmost importance. By far, majority of these investments will have to come from private sources.



The EU will need additional investments to meet the objectives of the Green Deal

Source: European Commission

Extensive efforts have been made over the last five years to create frameworks at EU level enabling for more sustainable investing. Examples include the adoption of the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR), the European Green Bond Regulation and the Corporate Sustainability Reporting Directive (CSRD).

However, the EU sustainable finance framework is still nascent. Understanding its impact and whether it is working as intended – for both investors and the real economy actors – must be placed at the centre of attention of EU policymakers.

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OUR VISION

The ambition of increasing the flow of finance towards environmentally sustainable activities and transition projects is fully shared by the business community. European businesses are therefore mobilised to implement the EU sustainable finance framework.

However, barriers to sustainable finance exist both outside and within the framework. For instance, in terms of inconsistencies and excessively burdensome rules.

Our priority for the next five years is therefore to focus on simplification and the rollout of the existing EU sustainable finance framework. We must ensure that the framework increases capital flows for sustainable projects and eliminates barriers which make the framework too costly for users.

This paper identifies six policy priority actions.

1 Secure proportionate and usable reporting requirements

Well-designed reporting requirements based on high-quality impact assessments allow companies to demonstrate their sustainability credentials in a comparable way. However, the current sustainable finance reporting requirements on companies are extremely costly and complex.

OUR TOP POLICY RECOMMENDATIONS:

- **Reducing the cumulative sustainability reporting burden on all companies:** complexity should be reduced, and requirements simplified in line with the Commission's target to reduce the reporting burden on companies of all sizes by 25 %.
- **Addressing issues relating to interpretation of legislation:** clear and consistent legal texts would increase the comparability of disclosures and limit the necessity of additional guidelines and FAQs.
- **Enhancing dialogue:** real and effective consultation of stakeholders before introducing requirements and closer dialogue with national authorities will enhance the effectiveness of the framework.

2 Accommodate the needs of investors and companies

Actions to support sustainable finance should accommodate the needs of both the financial markets and the real economy. This requires an objective monitoring exercise of the capital flows and financial institutions interests to assess which measures lead to the greening of the economy.

OUR TOP POLICY RECOMMENDATIONS:

- **Balancing the needs of investors and companies:** additional requirements for the financial sector should be carefully assessed as regards the impact on the real economy – i.e. large firms and SMEs.
- **Ensuring consistency:** misalignment between requirements on financial institutions and companies' disclosures should be avoided. For this to happen, synchronisation of review clauses for all relevant legislation should be ensured.

3 Improve the EU taxonomy

A well-designed EU taxonomy can contribute to channelling private financing into environmentally sustainable activities. To be useful for investors, the taxonomy must be usable for companies. Efforts should therefore be made to remedy the contradictions and support implementation of the disclosure requirements.

OUR TOP POLICY RECOMMENDATIONS:

- **Addressing usability issues in the technical screening criteria and DNSH:** ambiguities and interpretation issues in the climate and environmental delegated acts should be properly addressed, and further guidance provided where necessary.
- **Completing the EU taxonomy:** the process of adding new activities should be expedited for several sectors that are calling for their inclusion. New criteria development should be done in a more transparent manner.
- **Introducing more proportionality and materiality assessment:** ideally, Capex and turnover should be disclosed above a threshold, and Opex only if deemed necessary by the company.

4 Ensure balanced reporting standards for SMEs and sectors

Existing business practices and impacts on SMEs should be considered by ensuring simple and understandable obligations, which can be fulfilled without using external services. The sector-specific standards must be proportionate and should not increase the reporting burden on companies.

OUR TOP POLICY RECOMMENDATIONS:

- **Ensuring gradual and proportionate phase-in of sector-specific ESRS:**
  - standards should primarily serve as guidance instead of adding new disclosure requirements. They should focus on a small list of KPIs and be fully subject to materiality assessment.
  - at least one-year time lag between the adoption of standards and their entry into force will provide time for effective preparation.
- **Exempting small mid-caps from reporting obligations:** future revision of the Accounting Directive should consider adjusting the headcount threshold to 500.

5 Make transition finance work for all

As a necessary component of financing the green transition, transition finance should be elevated to the centre of the EU's sustainable finance agenda. Access to transition finance should be increased via simple and coherent voluntary tools beyond the EU taxonomy.

OUR TOP POLICY RECOMMENDATIONS:

- **Developing target sectoral trajectories:** each company needs to know the target for its sector to be able to determine its own objectives, the efforts it must make and the pace of its efforts. This should be supported through voluntary and non-legislative measures on a sectoral level.
- **Avoiding exclusion of entire sectors:** for the entire economy to transition, all sectors need access to finance for their own transformation. Exclusionary approaches for entire sectors ("harmful" activities) must be avoided.
- **Ensuring sound policy on 'transition plans':** overlaps and inconsistencies for transition plans in different EU legislations (e.g. CSRD, EU ETS, Industrial Emissions Directive) must absolutely be avoided. It should also be clarified how EU policymakers intend to use the large amount of information that companies are required to compile and disclose on their transition.

6 Guarantee international compatibility

Interoperability of EU sustainability reporting standards with the framework that is being prepared by the ISSB and considerations of other reporting/CSR frameworks is crucial to avoid duplicating or contradicting reporting obligations on companies operating globally.

OUR TOP POLICY RECOMMENDATIONS:

- **Promoting mutual recognition:** it is key to avoid multiple reporting and aim for convergence in a second phase. At the same time, convergence requires prioritisation, considering the maturity of reporting across different topics.
- **Ensuring a level playing field:** it is important to strive towards having non-EU companies operating in the EU being subject to the same reporting requirements as European businesses.
- **Providing guidance for activities outside the EU:** the Commission should provide guidance – without being overly prescriptive or adding complexity – as to how various sustainable finance requirements should be interpreted and applied for activities realised outside the EU.

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