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ANNEX

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Strategy for Financing the Transition to a Sustainable Economy

Detailed actions and glossary

Financing the path of the real economy towards sustainability
Action 1: The Commission will extend the existing sustainable finance toolbox to facilitate access to transition finance, building on the recommendations provided by the Platform on Sustainable Finance.
1 (a): The Commission will add technical screening criteria for sustainable activities in the green EU Taxonomy to enable more sectors and economic activities to report sustainable investments.
• The Commission will adopt a complementary Climate Taxonomy Delegated Act covering activities not yet covered in the first EU Taxonomy Climate Delegated Act, such as agriculture, certain energy sectors and certain manufacturing sectors, in line with the requirements of the Taxonomy Regulation. • As required by the Taxonomy Regulation, the Commission will adopt another Taxonomy Delegated Act covering the remaining four environmental objectives in the first half of 2022.
1 (b): The Commission will consider proposing legislation, and options for an extension of the EU Taxonomy framework, to recognise transition efforts.
• The Commission will consider proposing legislation to support the financing of certain economic activities, primarily in the energy sector, including gas, that contribute to reducing greenhouse gas emissions in a way that supports the transition towards climate neutrality throughout the current decade.[1] • By the end of 2021, the Commission will publish a report describing the provisions that would be required to extend the scope of the Taxonomy Regulation. • The Commission will consider options for an extension of the EU Taxonomy framework, with the aim to mobilise finance for activities transitioning on a credible pathway towards sustainability. • As required by the Taxonomy Regulation, the Commission will produce a report on economic activities that do not have a significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability.
1 (c) The Commission will extend sustainable finance standards and labels that support financing the transition to sustainability and phased transition efforts.
Standards and labels for financial instruments • In cooperation with the ESAs and the Platform on Sustainable Finance: - The Commission will work on further bond labels such as transitional or sustainability-link bonds by 2022. - The Commission will assess the needs and merits of a general framework for labels for financial instruments financing the transition of the economy, by 2023. *Labels for financial products and benchmarks*

[1] Following the way forward described in the Communication on EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal, COM(2021) 188 final, 21.4.2021.

- The Commission will propose minimum sustainability requirements for financial products that disclose under Art. 8 of the SFDR, in order to guarantee minimum sustainability performance of such products to further strengthen a harmonised application of the Regulation.
- As required by the Benchmark Regulation, the Commission will assess the possibility to create an ESG Benchmark, taking into account the evolving nature of sustainability indicators and the methods used to measure them. The Commission's assessment will be supported by a study that looks at existing ESG-related benchmarks, best practices and shortcomings, as well as minimum standards for an EU ESG Benchmark.
- In addition, by 31 December 2022, the Commission will review the minimum standards for both EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks to ensure that the selection of the underlying assets is coherent with the EU Taxonomy.

Prospectus disclosures

- Within the framework of the Prospectus Regulation and in the course of 2022, the Commission will introduce targeted prospectus disclosures for green, social and sustainable non-equity securities to enhance the comparability, transparency and harmonization of information provided for such instruments and to help fight green washing.

Towards a more inclusive sustainable finance framework supporting the green recovery

Action 2: The Commission will work toward an inclusive sustainable finance framework for all.

2 (a): The Commission will aim to empower retail investors and SMEs to access sustainable finance opportunities.

Green loans and mortgages

- The Commission will ask the EBA for an opinion on the definition and possible supporting tools for green retail loans and green mortgages [by Q2 2022].
- As part of the review of the Mortgage Credit Directive, the Commission will explore ways to support the uptake of energy efficient mortgages by end 2022.
- The Commission will launch an EU-wide information campaign addressed to businesses and households on the features and benefits of such loans.
- The Commission will support Member States through its Technical Support Instrument to develop capacity building and technical advice to support the generation of projects, for instance to advice on technical and financing solutions, including through green loan products.

Financial literacy and investment advisors

- The Commission will take further steps to improve the sustainability expertise and qualification of investment advisors.
- The Commission will integrate sustainable finance aspects in the development of the upcoming joint EU/OECD-INFE financial competence framework for individuals, starting with adults as of the end of 2021.

Tools and advisory services for companies, especially SMEs and exporters • The Commission will offer technical support to Member States to provide SMEs with access to sustainability advisory services across the EU and gain access to sustainable financing with low administrative burden [as of 2023]. This support will help improve sustainability capacity-building tailored to the specific needs of SMEs in their remit, including for EU Taxonomy reporting purposes. • To facilitate the usability and application of sustainability disclosure frameworks, including for smaller companies, the Commission recently published an IT tool on the EU Taxonomy.[2] The tool enables users to understand and assess potential coverage and alignment, and facilitates the integration of EU Taxonomy criteria into business databases and reporting systems. • With regard to public export credit, in addition to ending support for the coal-fired power sector,[3] the Commission will propose to review the OECD Arrangement with an aim to increase the positive impact of the incentives granted to climate-friendly projects (this includes assessing the usability of the principles of the EU Taxonomy for sustainable activities for this purpose).
2 (b): The Commission will explore how to exploit the opportunities digital technologies offer for sustainable finance.
• By 2023, the Commission will develop a 'digital sustainable finance roadmap' to encourage innovative solutions for the implementation of sustainable finance rules by SMEs and to support retail investor understanding of financial products' sustainability impact. • The Commission encourages the development of and investments in low or zero emission data centres and distributed ledger technologies, including for crypto-assets, and it will explore whether the EU Taxonomy should be expanded to include further supporting activities, by 2023.
2 (c): The Commission will work towards greater protection from climate and environmental risks through increasing insurance coverage, aside from reducing these risks.
• The Commission will ask EIOPA to continue the development of the natural disaster dashboard by mid-2022 and it will explore the use of the dashboard for diagnostic assessment per Member States. • The Commission will launch a Climate Resilience Dialogue [by 2022], with the support of the insurance industry, national, local-level authorities and other stakeholders, to exchange best practices and identify ways to address the climate protection gap and increase climate resilience either through recommendations or through voluntary commitments.
2 (d): The Commission will support credible social investments.
• Before December 2022, the Commission will engage with the ESAs to further improve the regulatory technical standards under the SFDR, to clarify indicators for both climate and environment-related

[2] See here.
[3] Export credits are government-backed financial instruments provided by national export credit agencies (ECAs). See Trade Policy Review.

principal adverse impacts and principal adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- The Commission will publish a report on a social taxonomy, as required by the Taxonomy Regulation, by the end of 2021.
- The Commission will propose a Sustainable Corporate Governance Initiative in 2021.

Improving financial sector's resilience and contribution to sustainability: the double materiality perspective

Action 3: To enhance economic and financial resilience to sustainability risks, the Commission will take further steps with regard to accounting, credit ratings, microprudential and macroprudential regulation as well as supervisory powers.

3 (a): The Commission will reflect sustainability risks in financial reporting standards and accounting.

- The Commission will work with EFRAG, ESMA and the IASB, on how to reflect sustainability risks in financial reporting standards and accounting.
- To encourage the development of standards for assessing natural capital in the EU and globally, the Commission is also intensifying its engagement with industry on biodiversity and natural capital accounting.

3 (b): The Commission will consider proposing an initiative to ensure that relevant ESG risks are systematically captured in credit ratings and rating outlooks in a transparent manner.

- The Commission invites ESMA to share:
  - by Q3 2021, its assessment on the implementation of the updated Guidelines aimed at improving disclosure of information on how ESG factors are taken into account in credit ratings and outlooks;
  - by Q2 2022, at the latest, its findings on how ESG factors are incorporated by CRAs in their methodologies.
- Subject to ESMA's findings and the outcome of an impact assessment, by Q1 2023, the Commission will consider proposing an initiative to ensure that relevant ESG risks are systematically captured in credit ratings and to improve transparency on the inclusion of ESG risks by credit rating agencies in credit ratings and outlooks.

3 (c): The Commission will propose amendments to the CRR/CRD to ensure ESG factors are consistently included in risk management systems of banks.

Risk management and supervisory powers

- In the upcoming review of the CRR/CRD, the Commission will propose binding requirements and mandates for the European Banking Authority, for the integration of ESG risks in the risk management rules for banks and require supervisors to ensure that banks manage ESG risks adequately, reflecting the different types of sustainability risks (environment, social and governance). This will cover improvements and a new mandate to the EBA as regards the identification, measurement, management and monitoring of ESG risks.

- The Commission will explicitly empower supervisory authorities to incorporate ESG risks in the Supervisory Review and Evaluation Process (SREP).
- Banks themselves will also be required to conduct internal stress tests to test their resilience to climate change risks and long-term negative impacts. The Commission will mandate the EBA to issue guidelines on this.

Risk differentials and capital requirements

- The Commission will propose to recognise that measures to enhance energy efficiency of a mortgage collateral can be considered as unequivocally increasing property values.
- The Commission will bring forward to 2023 the EBA's mandate to assess whether a dedicated prudential treatment of exposures related to assets and activities associated substantially with environmental objectives would be justified.

Disclosure and reporting

- The Commission will assess if information about the sustainable activities of financial institutions and their exposures to ESG risks should be integrated into prudential reporting.
- The Commission will extend disclosure requirements related to environmental risks to a larger universe of banks, following a proportionate approach avoiding undue burden to small banks.

3 (d): The Commission will propose amendments in the upcoming review of the Solvency II Directive (2021) to consistently integrate sustainability risks in the prudential framework for insurers.

Risk management

- In order to improve the management of sustainability risks in the insurance sector, insurers will be required to conduct "climate change scenario" analysis for prudential purposes.

Risk differentials and capital requirements

- The Commission will mandate EIOPA to investigate whether a dedicated prudential treatment of exposures related to assets and activities associated substantially with environmental objectives would be justified by 2023.
- Moreover, the Commission will mandate EIOPA to assess the effectiveness of the current prudential regime, especially in terms of asset allocation and the resulting impact on cost of capital of firms operating in sectors with different carbon intensity.
- Based on EIOPA's work, the Commission will consider whether Solvency II delegated acts need to be amended.

Innovative insurance solutions and good practices

- The Commission will invite EIOPA to continue its work on the identification of good practices by the insurance sector in the broader context of supplying products (incl. pricing and underwriting) or services for the management of climate-change-related risks by customers. EIOPA should pay particular attention to innovative solutions and their potential risks or their opportunities for a wider use.

- Based on EIOPA's work, the Commission will consider whether legislative or non-legislative actions on prudential or other rules could facilitate further uptake of the identified good practices.

3 (e): The Commission will strengthen its efforts to capture and address potential systemic risks stemming from sustainability challenges, with an aim to maintain long-term financial stability.

Monitoring financial stability risks

- In close cooperation with the ESRB, ECB, ESAs, EEA and relevant national authorities, the Commission will systematically monitor climate-related financial stability risks, subject to the availability of data and methodologies, and expand the scope of this monitoring to include other environmental risks.
- By the end of 2023, the Commission will deliver a report on these risks to financial stability and their likely evolution, with proposals for further policy actions, if appropriate.
- By 2022, the Commission will develop a report to present a methodological framework and assess the potential financial risks associated with biodiversity loss at both micro and macro level and explore the possible sustainable finance policy changes needed.

Supervisory stress testing

- The Commission will mandate the ESAs and ask the ECB to perform regular climate change stress tests or scenario analyses, using a bottom-up and top-down approach respectively.
- In addition, as a one-off exercise, the Commission will mandate the ESAs, and ask the ECB, to conduct a coordinated, bottom-up and top-down, EU-level climate change stress test across the financial sector to assess the resilience of the financial sector in line with the Fit-for-55 package. The year, scope and sector-specific aspects of this exercise will be determined by the ESAs and the ECB.
- The Commission will mandate the ESAs to further develop the methods and scenarios for bottom-up and top-down climate stress testing to be used by supervisors and supervised entities in their specific sectors, and will ask the ECB to further develop the methods and scenarios for top-down climate stress tests, with the support of the ESRB and ECB, while leveraging on the ongoing work of the NGFS. This includes sharing this practice broadly to ensure a rapid cross-learning exercise among supervisors and financial institutions.
- The Commission will analyse how risks identified by stress tests or scenario analysis can be integrated into micro- and macro-prudential regulation and supervision.

Macroprudential tools

- With the input from the ESRB, ECB and the EBA, the Commission will assess whether the current macro-prudential toolkit is suitable to address climate-change-related financial systemic risks in the banking sector and it will consider a legislative proposal to amend the macro-prudential toolbox for bank supervisors.
- In the medium term, the Commission intends to broaden systemic risk considerations to other environment-related financial risks, cover non-bank financial intermediaries and assess where environmental exposures are unknown.

Action 4: The Commission will strengthen fiduciary duties and disclosure frameworks to accelerate the contribution of the financial sector to sustainability goals.

4 (a): The Commission will reinforce science-based target setting, disclosure and monitoring of financial sector's commitments.

Disclosure and reporting

- The CSRD proposal and the accompanying standard to be developed by EFRAG would require financial institutions including banks, investors and insurers to disclose their transition and decarbonisation plans and how they plan on improving their environmental footprint. [by 2022?].
- Building on the regulatory technical standard under the SFDR, the Commission will aim to strengthen the disclosure and effectiveness of decarbonisation action by financial market participants for all financial products.

Sustainability pledges

- With the input from the Platform on Sustainable Finance, the Commission will examine to what extent more guidance is necessary to ensure voluntary pledges are credible and to allow progress to be monitored over time across the EU. For example, financial institutions may use the EU Taxonomy and other sustainable finance tools to achieve their interim and ultimate targets at entity and portfolio level.

4 (b): The Commission will clarify the fiduciary duties and stewardship rules of investors to reflect the financial sector's contribution to Green Deal targets.

Fiduciary duties

- Ahead of the review of the IORP II Directive, the Commission will ask EIOPA to analyse the pension framework, notably to:
  - (i) assess the potential need to broaden the concept of the "long-term best interests of members and beneficiaries" and introduce the notion of double materiality, taking into account members and beneficiaries' sustainability preferences and broader societal and environmental goals; and
  - (ii) assess whether the prudent person rule should be clarified and/or explore possible avenues to require the integration of sustainability impacts in investment decision.
- In collaboration with the ESAs and building on the fiduciary duty package from April 2021, the Commission will consider policy and regulatory reform to enable financial market participants and advisers to consider sustainability impacts of their investment decisions systematically, including for UCITS, MIFID II entities, AIFMDs and the IDD. Such review would develop in continuity with the potential review of fiduciary duties through IORP II.

Stewardship

- The Shareholder Rights Directive (SRD II) provides a minimum baseline for stewardship activities, effective stewardship and long-term investment decision-making. Considering the review of the SRD II by 2023, the Commission will explore how the SRD II may better reflect impact considerations and global best practices in stewardship guidelines.

4 (c): The Commission will consider initiatives to improve the availability, integrity and transparency of ESG market research and ratings.
• By Q4 of 2021 at the latest, the Commission will organise a targeted public consultation on the functioning of the market for ESG ratings. • Subject to an impact assessment, the Commission will come forward with an initiative to strengthen the reliability and comparability of ESG ratings by Q1 2023. • In the course of 2021 and 2022, the Commission will assess certain aspects of ESG research, to decide on whether an intervention is necessary and on the possible appropriate measures as part of the review of MIFID II in 2022.
Action 5: The Commission will work to monitor an orderly transition and ensure the integrity of the EU financial system.
5 (a): The Commission will enable supervisors to address greenwashing.
• National Competent Authorities should make full use of their current legal mandates to address emerging issues and risks in the area of sustainable finance, including greenwashing. Member States may consider changing the legal mandates of National Competent Authorities in order to take into account sustainability-related factors when carrying out their tasks, in line with best practices. • In cooperation with the ESAs, the Commission will assess whether supervisory powers, capabilities and obligations of National Competent Authorities in the Member States are fit for purpose to fight greenwashing. This includes the monitoring of greenwashing risks by the ESAs and National Competent Authorities. • As part of this assessment, the ESAs will be asked to assess and report to the Commission whether the current supervisory and enforcement toolkit available to NCAs for monitoring, investigating and sanctioning greenwashing is sufficiently efficient, consistent and deterrent across the EU and whether it is fit for purpose in identifying possible greenwashing risks throughout the product lifecycle. • Subsequently, the Commission will consider whether further steps are necessary to enable supervisors to ensure a sufficient and consistent level of supervision and enforcement across the EU. The Commission will consider the need for a stronger coordination and convergence role by the ESAs or other amendments to EU legislation.
5 (b): The Commission will assist Member States in assessing the EU investment gap and developing a robust monitoring framework to measure progress made by their financial sectors.
• In order to assess the alignment of EU's financial sector, the Commission will assist Member States in designing a monitoring framework and a set of indicators. By June 2023, the Commission will invite Member States to prepare an assessment of their financial markets' contribution to the climate goals that will cover banks, asset managers, pension funds and insurance companies. • Based on the above, the Commission will present a consolidated report on the state of play of EU financial markets' transition by the end of 2023. In addition, the Commission will assess the impact of the EU sustainable finance agenda.

5 (c): The Commission will improve the cooperation between authorities to calibrate the right pace for the transition and monitor the alignment of the EU financial system.
• By 2022, the Commission will strengthen its cooperation with the ECB, the ESRB, the ESAs and the EEA, with the objective to develop a common methodological base and consistently and coherently integrate the double materiality perspective across the EU financial system. • This cooperation should help define intermediate targets for the financial sector, understand better whether ongoing and prospective progress is sufficient, and thus facilitate taking a more collaborative policy action by all relevant public authorities where necessary. This could lead to recommending policy measures, tools and methodologies to implement forward-looking alignment strategies and to address financial stability risks for use by supervisors, regulators and financial sector entities in the EU.
Fostering global ambition
Action 6: The Commission will commit to setting a high level of ambition in developing international sustainable finance initiatives and standards, embracing the concept of double materiality and supporting EU partner countries.
6 (a): The Commission will promote an ambitious consensus in international forums.
• Building upon this Strategy, the Commission will set a high level of ambition in the development of international sustainable finance initiatives and standards, in particular advocating for mainstreaming the concept of double materiality and agreeing on common objectives and principles for sustainable taxonomies. • The Commission will advocate for the development of a solid international governance on sustainable finance and suggest expanding the mandate of the Financial Stability Board to integrate the double materiality perspective. • The Commission invites all international partners to deepen cooperation on sustainable finance, in particular to provide the private sector with usable tools and metrics, such as taxonomies.
6 (b): The Commission will advance and deepen the work of the IPSF.
• The IPSF will accelerate its work on taxonomies, labels and disclosure, and the Commission will propose expanding the work of the IPSF to new issues, such as biodiversity and transition finance. • In autumn 2021, the IPSF will publish: - a Report on a Common Ground Taxonomy, setting out the common features in existing taxonomies developed by public authorities; - a Report on Sustainability-related Disclosures to provide a comprehensive comparison of requirements for companies, asset managers and institutional investors; - its Annual Report. • In addition, the IPSF will report on its work on a ‘Common Ground Taxonomy’ by including ‘new’ taxonomies, as they are developed by its member jurisdictions, and on sustainability disclosures. • The Commission will propose a stronger governance structure for the IPSF.

• To ensure impact on the ground, the Commission will propose the development of closer cooperation and interaction for the IPSF with the private sector.
6 (c): The Commission will support third countries in their transition efforts.
• The Commission will develop a comprehensive strategy to help scale up sustainable finance in EU partner countries and promote sustainability bond issuances in lower and middle-income countries. • To this end, a dedicated high-level expert group (HLEG) will be created to: - identify the challenges and opportunities that sustainable finance presents in EU partner countries building on the EU expertise, frameworks and tools; and - provide recommendations on the EU external action on sustainable finance, so as to accelerate private financial flows for the implementation of the external dimension of the Green Deal and a green, just and resilient recovery in EU partner countries. • The Commission will also support efforts to build back better globally, notably via the Neighbourhood, Development and International Cooperation Instrument (NDICI), by promoting the scaling up of the sustainability bond markets in lower and middle-income countries.

Glossary

AIFMD	Alternative Investment Fund Managers Directive	KPI	Key Performance Indicator
CRA	Credit Rating Agencies	MCD	Mortgage Credit Directive
CRD/CRR	Capital Requirements Directive/Regulation	MIFID	Markets in Financial Instruments Directive
CSRD	Corporate Sustainability Reporting Directive	NCAs	National Competent Authorities
DLT	Distributed ledger technologies	NECP	National Energy and Climate Plans
EBA	European Banking Authority	NFRD	Non-Financial Reporting Directive
ECB	European Central Bank	NGFS	Network of central banks and supervisors for Greening the Financial System
EEA	European Environment Agency	OECD	Organisation for Economic Co-operation and Development
EFRAG	European Financial Reporting Advisory Group	PSF	Platform on Sustainable Finance
EGD	European Green Deal	R&I	Research and Innovation
EIOPA	European Insurance and Occupational Pensions Authority	RSFS	Renewed Sustainable Finance Strategy
ESAs	European Supervisory Authorities	SFDR	Sustainable Finance Disclosure Regulation
ESAP	European single access point for financial and non-financial information	SFSG	Sustainable Finance Study Group
ESG	Environmental, Social and Governance criteria	SDG's	Sustainable Development Goals
ESMA	European Securities and Markets Authority	SMEs	Small and Medium-sized Enterprises
ESRB	European Systemic Risk Board	SPACs	Special Purpose Acquisition Company

EU GBS	EU Green Bond Standard	SREP	Supervisory Review and Evaluation Process
IDD	Insurance Distribution Directive	TCFD	Task Force on Climate-related Financial Disclosures
IFRS	International Financial Reporting Standard	UCITS	Undertakings for Collective Investments in Transferable Securities Directive
IORP	Institutions for Occupational and Retirement Provision	TEG	Technical Expert Group on Sustainable Finance
IPSF	International Platform on Sustainable Finance		