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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

EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal

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EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal

EXECUTIVE SUMMARY

The European Green Deal is Europe's growth strategy that aims to improve the well-being and health of citizens, make Europe climate-neutral by 2050 and protect, conserve and enhance the EU's natural capital and biodiversity. An Economy That Works For People also means a just Transition that creates employment and leaves no one behind. To achieve these goals, the European financial system needs to become more sustainable. This will require both robust financial legislation and a clear transition path for businesses. The scale of investment needed to bring about the necessary changes will put the European financial sector at the heart of a sustainable and inclusive economic recovery from the COVID-19 pandemic and of the long-term sustainable economic development of Europe.

The EU has taken major steps to build a sustainable finance ecosystem. The EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Benchmark Regulation form the foundation to increase transparency and provide tools for investors to identify sustainable investment opportunities.

The Commission is putting forward the **EU Taxonomy Climate Delegated Act,** a proposal for a **Corporate Sustainability Reporting Directive**, revising the Non-Financial Reporting Directive, and amendments to delegated acts to better reflect **sustainability preferences** in insurance and investment advice and sustainability considerations in **product governance** and **fiduciary duties.** They will help drive a greener, fairer, and more sustainable Europe and support the implementation of the Sustainable Development Goals.

The **EU Taxonomy** is a robust, science-based transparency tool for companies and investors. It introduces clear performance criteria for determining which economic activities make a substantial contribution to the Green Deal objectives. These criteria create a common language for businesses and investors, allowing them to communicate about green activities with increased credibility and help them to navigate the transition already under way. The EU Taxonomy will also play an important role in creating the EU Green Bond Standard and the EU Ecolabel for certain retail financial products.

Through the EU Taxonomy Climate Delegated Act, the economic activities of roughly 40% of listed companies,[1] which are responsible for almost 80% of direct greenhouse gas emissions in Europe, are already covered, with more activities to be added in the future.[2] Through this scope, the Taxonomy can significantly increase the potential that green financing offers to support transition, in particular for carbon-intensive sectors where change is urgently needed.

The proposal for the **Corporate Sustainability Reporting Directive** will set common European reporting rules that will increase transparency, requiring companies to report sustainability information in a consistent and comparable manner. The new reporting requirements would apply to all large and all listed companies, including listed small and medium-sized enterprises (SMEs). The Commission also intends to develop proportionate, voluntary reporting standards for SMEs that would not be subject to reporting requirements under the Directive.

I. INTRODUCTION

Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the "EU Taxonomy Regulation"), entered into force on 12 July 2020[3]. **Through this Regulation, the Council and the European Parliament mandated the European Commission to provide, in delegated acts, technical screening criteria for determining whether an economic activity can be considered as contributing substantially to environmental objectives.** Making a substantial contribution and causing no significant harm, along with meeting minimum social safeguards defined in the Taxonomy Regulation,[4] serve to qualify an activity as 'environmentally sustainable', in other words green, for investment purposes. **These criteria help establish appropriate definitions for companies, investors and financial market participants on which economic activities can be considered environmentally sustainable.**

This mandate is framed by the requirement that technical screening criteria need to be up to date and based on scientific evidence. These criteria must be clear, practicable and easy to apply, thus avoiding unnecessary administrative burden. The European Parliament and the Council have also recognised the importance of public consultation, and explicitly mandated the Commission to involve relevant stakeholders and to build on the advice of experts who have proven knowledge and experience in the relevant areas.

[1] Share of EU domiciled companies with more than 500 employees active in economic sectors covered by the EU Taxonomy Climate Delegated Act (Source: Bloomberg)
[2] Source: Eurostat
[3] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198.
[4] As announced in the Communication from the Commission to the European Parliament, the Council, the European Economic And Social Committee and the Committee of the Regions on The European Pillar of Social Rights Action Plan, COM(2021) 102 final, 4 March 2021, p. 35.

Acting on this request by the co-legislators, the Commission has adopted the **EU Taxonomy Climate Delegated Act**[5], in order to provide the first set of technical screening criteria of the EU Taxonomy and a common language around sustainable activities. The EU Taxonomy Regulation requires that investors and companies use these criteria for related disclosures, which will also serve as a reliable guide for investment decisions.

This is complemented by the proposal for the **Corporate Sustainability Reporting Directive**[6]**,** which will ensure that companies provide information on the sustainability of their business practices in a transparent and comparable manner. Through information on taxonomy-alignment, transition investments and sustainability risks, financial companies can evaluate the ambition and environmental performance of financed activities.

II. THE EU TAXONOMY CLIMATE DELEGATED ACT

The EU Taxonomy Climate Delegated Act adopted by the Commission, subject to scrutiny by the European Parliament and the Council, **delivers the first set of technical criteria for defining those activities that contribute substantially to climate change mitigation and adaptation, the first two out of six environmental objectives in the EU Taxonomy**[7].

These criteria have been developed based on recommendations by the Technical Expert Group (TEG) and following public feedback and advice by the Platform on Sustainable Finance. They reflect the ambition of the EU Green Deal and take account of the practical needs of European citizens, businesses and investors.

The volume of feedback received from stakeholders (including citizens, public authorities, businesses, non-profit organisations, and academia amongst others) reflected the importance of the issue. The vast majority of respondents reiterated the importance of the Taxonomy as a key tool supporting the process of transition under the European Green Deal. The full summary of the outcome of the public feedback is available on the Commission's sustainable finance website [link].

[5] Commission Delegated Regulation supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council as regards establishing the technical screening criteria for determining under which conditions an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and whether an economic activity causes significant harm to any of the other environmental objectives ('EU Taxonomy Climate Delegated Act'), formal adoption will take place in the near future.

[6] Proposal for a directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards sustainable corporate reporting by certain undertakings COM (2021) 189.

[7] Article 9 of the EU Taxonomy Regulation specifies the following six environmental objectives: (a) climate change mitigation, (b) climate change adaptation, (c) the sustainable use and protection of water and marine resources, (d) the transition to a circular economy, (e) pollution prevention and control, (f) the protection and restoration of biodiversity and ecosystems.

The feedback also revealed several concerns, including:

- **On the implications of an activity qualifying as environmentally sustainable or not**: some stakeholders were concerned that an activity not qualifying as green under the EU Taxonomy Climate Delegated Act risks being perceived as unsustainable, with possible consequences in terms of access to finance for those activities. *(Section 1)*
- **On the level of ambition and usability of criteria**: while many stakeholders welcomed the level of ambition of the criteria or even called for higher ambition, other stakeholders were concerned that the ambition of the criteria was too high, and suggested improvements in the usability of criteria. *(Section 2)*
- **On the scope of the EU Taxonomy**: some stakeholders were concerned about the scope of activities covered by the criteria being too narrow and the binary nature of the EU Taxonomy, which means it will not provide guidance to markets on how to deal with activities that do not meet, or are not covered by, the criteria listed in the Delegated Act. *(Section 3)*

The following three sections clarify the issues above and explain the steps the Commission has taken, or will take in the future, to address them.

1. The implications of an activity qualifying as ‘environmentally sustainable’ or not

Many stakeholders were concerned that the taxonomy defines which activities qualify as ‘environmentally sustainable’, which could be taken to mean that if an activity is not addressed in the delegated act it would automatically qualify as environmentally ‘unsustainable’. This is not the case. The mere fact that a company does not have Taxonomy-aligned activities does not mean that conclusions can be drawn regarding the company’s environmental performance or its ability to access finance.

The Taxonomy does not currently define how activities other than green are to be treated. It does not define or categorize any activities as ‘improving the current levels of environmental performance’ but not reaching the level of substantial contribution. These activities – while important in their own right to support the necessary broad transformation of the EU economy – will in themselves not be sufficient to reach our green objectives. Similarly, the Taxonomy does not define or categorize any activity as ‘environmentally unsustainable’. Also, not all green activities that can make a substantial contribution to the environmental objectives are yet covered by the EU Taxonomy Delegated Act and thus part of the Taxonomy. The taxonomy is a living document that will be added to over time and updated as necessary.

The EU Taxonomy is a transparency tool. It will introduce disclosure obligations on some companies and financial market participants, requiring them to disclose their share of Taxonomy-aligned activities. The disclosure of the proportion of Taxonomy-aligned green activities will allow the comparison of companies and investment portfolios based on this proportion. Companies, if they wish, can reliably use the EU Taxonomy to plan their climate and environmental transition and raise financing for this transition. Financial market participants, if they wish, can use the EU Taxonomy to design credible green financial products. It is expected that the taxonomy will be an enabler of change and encourage a transition towards sustainability. However, while the Taxonomy can guide market participants in their investment decisions, naturally it does not prohibit investment in any activity There is no obligation on companies to be Taxonomy-aligned, and investors are also free to choose what to invest in.

The taxonomy framework will increase access to sustainable financing beyond currently existing market-based green finance tools. It includes more economic activities and more environmental objectives than have been used so far in market-based green financing frameworks. Notably, it includes some carbon-intensive sectors, enabling market recognition for transitioning activities within those sectors.

Companies will be able to count not only turnover, but also certain expenditure as taxonomy aligned, which will further broaden the opportunities the Taxonomy will offer. For example, a cement manufacturing plant which sets out an investment plan to reach the performance level of the taxonomy could count capital expenditure committed as part of the plan as taxonomy-aligned. Estimates and early testing of the climate taxonomy criteria showed a low overall taxonomy alignment today in companies' activities and investment portfolios (between 1% and 5%, with many companies and investment portfolios standing at zero). While this figure is expected to rise significantly with the implementation of the Green Deal, it highlights the extent of the transition still required towards carbon neutrality by 2050.

The EU Taxonomy is designed for the specific purpose of providing a classification system and improving transparency. Other EU policies may use or be inspired by some elements of the EU Taxonomy without applying the criteria defined in the Taxonomy Climate Delegated Act. Examples of initiatives using some elements of the Taxonomy Regulation are the Recovery and Resilience Facility (RRF) and Cohesion Policy. The RRF Regulation uses the 'do no significant harm' principle of the Taxonomy Regulation enshrined in Article 17 but without requiring the use of the criteria defined in the Taxonomy Delegated Acts. The Commission published dedicated technical guidance,[8] providing more detail on how to apply the 'do no significant harm' principle for the purposes of the RRF. This means that the criteria defined in the Taxonomy Climate Delegated Act do not have any direct binding implication for the implementation of the RRF. The Cohesion Policy regulation also requires that the objective of its funds must use the "do no significant harm" principle of the Taxonomy Regulation in the 2021-2027 programming period, but without requiring the use of the criteria of the Taxonomy Delegated Acts.

[8] Commission Notice on Technical guidance on the application of "do no significant harm" under the Recovery and Resilience Facility Regulation, Brussels, OJ C58 of 18.02.2021, 12 February 2021.

2. The level of ambition and usability of criteria in the EU Taxonomy Climate Delegated Act

In designing the delegated acts to define criteria for economic activities, the European Commission is bound to comply with the mandate provided for by the European Parliament and the Council to identify the level of ambition needed for green projects to reach the EU´s environmental objectives.

The EU Taxonomy recognises as sustainable those activities that make a substantial, rather than a marginal, contribution to reaching EU environmental objectives. The EU Taxonomy sets the criteria for substantial contribution and no significant harm based on the level of ambition of the goals of the EU Green Deal.

Based on careful examination of the feedback received, modifications have been made, compared to the draft delegated act published for public feedback, to improve the usability of the criteria while safeguarding the level of ambition of the EU Green Deal objectives. Some of those changes are as follows:

- numerous clarifications to bolster the technical accuracy and usability of the criteria
- further improvements in usability in terms of simplifying criteria, reducing complexity and overall burden and, where appropriate, adjustments to make them more specific and flexible)
- clarifications to better reflect subsidiarity and shared competence between EU and Member State levels where appropriate (including several clarifications to better take into account national regulations)
- improved consistency with existing frameworks, sectoral legislation, and consideration of the upcoming reviews where appropriate
- specifications to the scope of some transitional and enabling activities and adjustments to make the taxonomy more usable by economic actors
- spelling out better a small number of activities that were covered as part of another activity, where there was a clear demand from stakeholders and where they are consistent with the objectives and requirements of the EU Taxonomy Regulation
- updated recitals underlining the need for future reviews and the introduction of additional activities later

A summary of the feedback received and a more comprehensive list of the improvements introduced can be found here.

3. The scope of the EU Taxonomy

Following the public feedback and taking into account recommendations by the Platform on Sustainable Finance, the Commission is considering further developments of the EU Taxonomy in accordance with the Taxonomy Regulation to address the remaining stakeholder concerns.

In particular, the current scope of the criteria outlined in the EU Taxonomy Climate Delegated Act will expand in the future. The criteria are dynamic and will be subject to regular review. This ensures that new sectors and activities, including transitional and enabling activities, may be added to the scope over time by amending this delegated act. In addition, another EU Taxonomy Delegated Act will focus on activities making a substantial contribution to the other four environmental objectives; the Platform on Sustainable Finance is working on recommendations for this Act. Stakeholders will have the opportunity to suggest activities to be included in the criteria via a web portal, which will be established in mid-2021 on the European Commission website. The Commission, with inputs from the Platform on Sustainable Finance, will assess the suggestions.

The Commission will also reflect on concerns some stakeholders raised about the binary nature of the Taxonomy and on the treatment of economic activities that are either not covered by the criteria, or do not meet the criteria. Possible ways to address these issues are being assessed in the on-going work of the Platform on Sustainable Finance. The latter will provide the Commission with advice to feed into the report required under Article 26 of the Taxonomy Regulation. That Article requires the Commission to assess by the end of 2021 whether and how the scope of the Taxonomy Regulation could be extended to cover other levels of environmental performance than substantial contribution, as well as other objectives, such as social objectives.

III. FINANCING THE TRANSITION TO SUSTAINABILITY

The transition to a sustainable economy is not a one-off event but a process. For companies, transition means to reduce carbon emissions and harm over time. For investors, transition means to improve the environmental performance of a portfolio over time. Members States may also plan and incentivise transition for certain sectors and the economy as a whole.

All companies can invest in green activities. As part of their corporate strategy, companies can use the EU taxonomy to make plans to transition specific activities to meet taxonomy thresholds. Other science-based metrics may help them to set sustainability performance targets for the company as a whole. The Taxonomy Climate Delegated Act and the Corporate Sustainability Reporting Directive are two important tools among others that help navigate the transition.

Companies currently without any Taxonomy-aligned activities can decide to plan and finance projects that either upgrade an existing activity to meet taxonomy criteria, or to set up a new activity that is taxonomy aligned. What counts is the environmental performance of the activity, which facilitates the gradual transition of a company as a whole.

The Taxonomy also aims to provide incentives to investors to finance transition projects. By clearly defining what is recognised as green, the Taxonomy aims to incentivise and inspire companies to launch new projects, or upgrade existing ones, to meet these criteria. The taxonomy will not block funding for activities that do not fulfil the taxonomy criteria.

While there are different ways to transition, the Taxonomy Regulation defines a series of activities as 'transitional activities' in a very specific way and within strictly-defined legal boundaries[9]. These are greenhouse gas intensive activities with a large potential for emissions reductions. the criteria must ensure that such 'transitional activities' make a substantial contribution to the climate objectives when no low carbon alternative exists, provided they are compatible with the 1.5 degree Celsius trajectory, reflect best-in-class performance and do not lead to lock-in.

This ensures that the criteria defining transitional activities do not compromise the level of ambition of the green taxonomy. Therefore, the transitional activities are on a par with, and equal to, other categories in the green taxonomy. The Commission is required to review the criteria established for transitional activities every 3-years, to reflect sectoral pathways towards the EU's goals of climate neutrality.

While the EU Taxonomy Regulation is an important tool in mobilising investments into long-term sustainable solutions, feedback from the public consultation and the wider reactions by MEPs, Member States, and stakeholders in recent months has highlighted the limitations of the Taxonomy in its current form. In particular, a widespread concern is that the current taxonomy regulation does not allow those activities that contribute to the decarbonisation of the real economy be acknowledged.

Furthermore, the preparatory phase leading up to the adoption of the delegated act has highlighted different opinions expressed by MEPs, member states and stakeholders as regards to the potential inclusion in the taxonomy delegated act of natural gas and related technologies, notably as a transitional activity facilitating the switch from coal and oil to renewables.

A similar level public interest and debate surrounding the question of the inclusion of nuclear technology in taxonomy delegated acts is taking place.

In this light and given the legal constraints of the EU Taxonomy Regulation, the Commission intends to put forward a separate legislative proposal in Q4 2021, specifically covering how certain economic activities, primarily in the energy sector, contribute to decarbonisation. This will bring clarity to the debate and will also enable the Commission to follow-up on the European Council conclusions of 11-12 December 2020 which acknowledge the role of transitional technologies such as natural gas. The proposal will have several advantages. On the one hand, it will allow a transparent debate by co-legislators on the contribution of natural gas and nuclear technologies to the decarbonisation objectives, respecting the right of Member States to determine their energy

[9] Article 10(2) of Regulation (EU) 2020/852 states as follows: "[…] an economic activity for which there is no technologically and economically feasible low-carbon alternative shall qualify as contributing substantially to climate change mitigation where it supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5°C above pre-industrial levels, including by phasing out greenhouse gas emissions, in particular emissions from solid fossil fuels […]".

mix in an appropriate way. On the other hand, it will clarify to investors in a timely manner how such investments should be treated from the perspective of environmental considerations.

A separate proposal for establishing specific screening criteria for decarbonisation activities will also have the advantage of addressing the concerns expressed by stakeholders on the binary nature of the current EU taxonomy, i.e. that it does not provide guidance on activities that do not meet its criteria. It is important to maintain the solidity and credibility of the taxonomy criteria for long-term sustainable activities.

At the same time, the transition to a climate-neutral economy is a process, and under the Commission's separate proposal it will be possible to acknowledge timeframes and intermediary steps for those economic activities that contribute to this process, a in a manner consistent with the timeframes and milestones determined by the Green Deal, thus reinforcing the contribution of finance to the Green Deal objectives.

Furthermore, transition is a key issue discussed by the Platform on Sustainable Finance, at the request of the Commission. In their report to the European Commission published in March 2021[10], the Platform put forward recommendations in the following broad categories: (i) maximise the use of the transitional activity category but maintain the level of ambition of the current EU Taxonomy framework as required by the legal text of the Taxonomy Regulation; (ii) opportunities to develop the future Taxonomy framework; and (iii) utilise other (non-Taxonomy) policies and tools to further support transition finance.

Specifically, to maximise the full potential of transition financing opportunities for both companies and investors, the Platform recommended, among other issues, further exploring options to:

- Recognising – outside the current framework of the green Taxonomy – the efforts made to significantly improve performance of activities towards (but not reaching) the substantial contribution criteria, which may help companies report on their transition;
- Establishing transition pathways: At the level of activities, establishing pathways for activities to meet the taxonomy criteria over a defined timeframe could allow companies to define intermediary steps on their transition towards Taxonomy-alignment. At the company level, also other metrics could be used, such as the EU Climate Transition Benchmark[11], TCFD metrics[12] or science-based targets;

[10] Report from the Platform on Sustainable Finance on Transition finance, 19 March2021, available at https://ec.europa.eu/info/files/210319-eu-platform-transition-finance-report_en.

[11] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, OJ L 317.

[12] Recommendations by the Task Force on climate-related financial disclosures, available at https://www fsb-tcfd.org/recommendations/.

- Encouraging the development of specific financial products to finance activities that are taxonomy-aligned or activities in the process of getting aligned, beyond green bonds, green loans and other financial products such as sustainability-linked bonds or structured funds.

These recommendations will feed into the work on an updated Sustainable Finance Strategy in June 2021 and other Commission initiatives to facilitate the development of a coherent and inclusive framework supporting transition finance. The Commission will consider whether additional tools are appropriate, in order to effectively support the efforts of the real economy towards sustainable growth.

Further details on the recommendations from the Platform on Sustainable Finance can be found here.

IV. CONSISTENT AND COHERENT CORPORATE SUSTAINABLE REPORTING

1. A new Corporate Sustainability Reporting Directive

The Commission is proposing a new **Corporate Sustainability Reporting Directive (CSRD)**, which would revise the existing reporting rules that were introduced by the Non-Financial Reporting Directive. The proposed CSRD would be the foundation of a consistent flow of sustainability information through the financial value chain and for other stakeholders. Information disclosed by companies would therefore be available for analysts in banks, insurance companies, asset management companies or credit rating agencies, for end investors and for NGOs and other stakeholders that wish to better hold companies to account for their social and environmental impacts. The proposed Directive would ensure that company sustainability reporting corresponds to the needs of financial market participants subject to the disclosure requirements of the Sustainable Finance Disclosure Regulation[13]. It also takes account of the Commission's intention to put forward a proposal for a Sustainable Corporate Governance Initiative later this year.

Most companies face rising costs due to uncoordinated information demands from investors and other stakeholders for corporate sustainability information. While the proposed CSRD would imply additional reporting costs for companies, it aims to reduce these costs over the medium and long terms by building consensus around the essential information that companies should disclose.

The proposed CSRD would apply to some 49 000 companies, compared to approximately 11 000 that are subject to the existing sustainability reporting rules (the Non-Financial Reporting Directive). All large companies, and all companies listed on EU regulated markets except listed micro-enterprises, would be subject to these reporting requirements. They would have to report information on the full range of environmental, social and governance issues relevant to their business. Consistent with the existing rules of the Non-Financial Reporting Directive, they would

[13] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019.

have to report about the risks to the company arising from sustainability issues, and about their own impacts on people and the environment. This will include information on companies' global supply chains, on issues such as forced labour. The information they report would be audited, and it would be digitally tagged so that it can feed into the European Single Access Point envisaged under the Capital Markets Union Action Plan.

The proposed CSRD would require companies to report according to mandatory EU sustainability reporting standards. The Commission will adopt delegated acts to provide for such standards taking into consideration technical advice from the European Financial Reporting Advisory Group (EFRAG), working with key stakeholders, and after consultation of Member States and relevant EU bodies, including the European Supervisory Authorities, the European Environment Agency, the European Agency on Fundamental Rights and the Platform on Sustainable Finance. The first set of standards would be adopted by October 2022.

The standards will be tailored to EU policies, while building on and contributing to international standardisation initiatives. Therefore, while moving ahead with EU standards to meet the ambition of the Green Deal and the growing information needs of investors, the Union will strive towards convergence of sustainability reporting at a global level, building on initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD).

In parallel with the development of the mandatory sustainability reporting standards that will be adopted under the proposed Directive, the Commission also intends to develop proportionate standards for unlisted SMEs – which are the vast majority of SMEs – to use on a voluntary basis.

2. Coherent corporate sustainability reporting requirements

The proposed CSRD aims to ensure consistency between reporting requirements under the Taxonomy Regulation and company sustainability reporting. Article 8 of the Taxonomy Regulation requires companies falling within the scope of the existing Non-Financial Reporting Directive, and additional companies brought under the scope of the proposed CSRD to report certain indicators on the extent to which their activities are sustainable as defined by the taxonomy. These indicators will be specified in a separate delegated act to be adopted by the Commission in June 2021, applying as of 2022. By publishing each year their key performance indicators on activities considered environmentally sustainable according to the taxonomy, companies will show objectively to investors and the public at large their trajectory towards environmental sustainability.

Companies will have to report these indicators alongside other sustainability information mandated by the CSRD. The mandatory reporting standards to be developed under the CSRD will fully take into account these indicators, and they will build on the screening criteria and do-no-significant-harm thresholds of the taxonomy. In particular, the sustainability reporting standards developed under the proposed CSRD will include indicators that are aligned with the indicators that financial market participants will have to report according to the Sustainable Finance Disclosure Regulation.

The Commission will ensure that reporting standards reflect not only the current taxonomy-alignment of a company's activities, but also its forward-looking business plans, and that the standards facilitate both capital market-based and bank-based finance. Mandatory reporting under the Taxonomy Regulation will apply from January 2022 for the climate change mitigation and adaptation objectives, and from January 2023 for the other four objectives, as agreed by the European Parliament and the Council in the Taxonomy Regulation.

The Commission will explore, including with input from the Platform on Sustainable Finance and the European Financial Reporting Advisory Group, appropriate guidance and options for how entities covered by reporting obligations set out in the Taxonomy Regulation can meaningfully report in the first year of their reporting obligations, taking into account certain data gaps.

V. SUSTAINABILITY PREFERENCES AND FIDUCIARY DUTIES

The Commission is introducing in existing delegated acts under MiFID II[14] and IDD[15] the assessment of client's **sustainability preferences**, as a top up to the suitability assessment. Insurance and investment advisers will be required to obtain information not only about the client's investment knowledge and experience, ability to bear losses, and risk tolerance as part of the suitability assessment, but also about their sustainability preferences. This will ensure that sustainability considerations are taken into account on a systematic basis when the advisers assess the range of financial instruments and products in their recommendations to clients.

This action will empower retail investors to decide where and how their savings should be invested. This way, everyone will have a chance to make a tangible positive impact on climate, environment and society if there is a desire to do so. The change will increase the demand for financial instruments and products with sustainable investment strategies and those that consider adverse impact on sustainability.

By amending existing rules on **fiduciary duties** in delegated acts for asset management, (re-)insurance and investment sectors, the Commission is clarifying the current rules also encompass sustainability risks such as impacts of climate change and environmental degradation on the value of investments.

VI. CONCLUSION

The EU Taxonomy Climate Delegated Act, the proposal for the Corporate Sustainability Reporting Directive outlined in this Communication, as well as the amendments to delegated acts regarding sustainability preferences, fiduciary duties and product governance are important steps in the implementation of the existing Action Plan on Financing Sustainable Growth and the delivery of the European Green Deal.

[14] Commission Delegated Regulation (EU) 2017/565
[15] Commission Delegated Regulation (EU) 2017/2359

This enabling sustainable finance ecosystem is part of a wider strategy to achieve change and ensure a just transition to reach our sustainability goals. They are the building blocks to increase transparency and provide tools for investors to identify sustainable investment opportunities. They will enable a number of future tools, such as the EU ecolabel for retail financial products and the EU Green Bond Standard to be developed.

Dialogue, cooperation and strong partnership between authorities, corporate and financial actors, social partners, civil society, and the research and academic community will be crucial to further develop the sustainable finance toolbox, including though the Platform on Sustainable Finance.

Momentum is growing with many of our international partners increasing ambition and pursuing more sustainable development pathways aligned with the Paris Agreement. Global markets' appetite for sustainable products is also growing, offering more opportunities for sustainable investments. Global convergence of standards is essential to avoid fragmented markets and enable cross-border investments to help achieve the global climate and environmental goals. The EU remains committed to playing a leading role in strengthening global cooperation through the International Platform on Sustainable Finance and other international fora such as the G20 and G7.

The updated Sustainable Finance Strategy to be adopted by the Commission in June 2021 will focus on the successful implementation of the ongoing policy measures, while mapping out further elements in the EU's sustainable finance toolkit.