2030 EU POLICY ROADMAP
ACCELERATING PRIVATE INVESTMENT FOR THE ECONOMIC TRANSITION
MARCH 2024
THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

PRI’s MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

DISCLAIMER

This document is provided for information only. It should not be construed as advice, nor relied upon. PRI Association is not responsible for any decision or action taken based on this document or for any loss or damage arising from such decision or action. All information is provided “as-is” with no guarantee of completeness, accuracy or timeliness and without warranty of any kind, expressed or implied. PRI Association is not responsible for and does not endorse third-party content, websites or resources included or referenced herein. The inclusion of examples or case studies does not constitute an endorsement by PRI Association or PRI signatories. To inform this paper, the following group has been consulted: the Global Policy Reference Group and the Europe Regional Policy Reference Group. Except where stated otherwise, the opinions, recommendations and findings expressed are those of PRI Association alone and do not necessarily represent the views of the contributors or PRI signatories (individually or as a whole). It should not be inferred that any third party referenced endorses or agrees with the contents hereof. PRI Association is committed to compliance with all applicable laws and does not seek, require or endorse individual or collective decision-making or action that is not in compliance with those laws. Copyright © PRI Association (2024). All rights reserved. This content may not be reproduced, or used for any other purpose, without the prior written consent of PRI Association.
CONTENTS

FOREWORDS 4
EXECUTIVE SUMMARY 7
INTRODUCTION 10
CHAPTER 1: FINANCE THE TRANSITION 13
CHAPTER 2: CLARIFY SUSTAINABLE INVESTMENT DISCLOSURES 19
CHAPTER 3: STRENGTHEN INVESTOR STEWARDSHIP AND DUTIES 23
CHAPTER 4: ENSURE EFFECTIVE CORPORATE GOVERNANCE AND REPORTING 30
CHAPTER 5: PROMOTE GLOBAL INTEROPERABILITY 34
CHAPTER 6: IMPLEMENT CLIMATE, NATURE AND SOCIAL POLICIES 36
CONCLUSION 48
ANNEX 49
In a 2018 report, experts stated: “sustainable finance cannot thrive if it is undermined by short-termism”. Research warns that some Earth system tipping points are no longer black swans, but rapidly becoming very likely. When a tipping point is reached, it has a profound impact on both people and planet. The financial sector must act now. As Mark Carney said, “once climate change becomes a defining issue for financial stability, it may already be too late”. Our economies and societies cannot afford short-termism, from either a social, financial, or ecological perspective.

With this in mind, the EU launched the sustainable finance action plan, aiming to place financial metrics and sustainability indicators on an equal footing, and to redirect private investment towards sustainable activities. This plan was ambitious. It meant rethinking the system, which had developed over the 20th century to measure, verify and distribute financial information and the industry of controllers, accountants and auditors that emerged with it. Yet much of the original ambition has been realised. At the core are transparency requirements and sustainability standards (as outlined in the EU Taxonomy). These requirements have had an impact on reporting and on financial markets which will only grow, as additional regulations kick in.

Yet, is it enough to make long-term investment and investors thrive and to redirect financial funds towards sustainable investment? I would like to argue, no. Funds still flow towards activities like fossil fuel exploitation and exploration that are not aligned with the accepted Paris scenarios, and that do not fit – now or later – in the transition towards sustainable economies. We need to be as ambitious now as we were back in 2018.

That is why the PRI EU 2030 Policy Roadmap comes at a critical junction. It will help to show what is needed to fulfil the ambition of sustainable finance and guide us toward the long-term goal of sustainable economies and societies. These actions must be taken now for a truly sustainable future.
The EU Green Deal has demonstrated the willingness of the European Union to tackle the great challenge of the transition to a net-zero world. It provided a comprehensive plan and set of regulations to catalyse the efforts of different stakeholders within its ecosystem, from corporates to end investors.

At AXA, we welcomed this progress. As a global, diversified investor, and an early joiner to the industry net-zero coalitions, the EU sustainable finance framework represented an opportunity to consolidate our efforts, now required not only by our own sustainability strategy and voluntary net-zero commitments but also by new regulation. We were quick to see how the new framework could support our ambition, including via enhanced corporate sustainability reporting to facilitate the transition financing of investee companies, and the innovations needed to support it. We also saw how the framework could facilitate the understanding of our sustainability strategy by our teams and our clients by providing comparability in an industry that lacked common definitions.

Looking back at how things have evolved since the 2019 European parliament elections, the EU sustainable finance framework has undeniably helped change behaviours within the financial industry and beyond, with ESG becoming part of every product development discussion and every client meeting. A common language is starting to appear. However, usability issues and the sequencing of regulations and guidance have led to significant costs and difficulties for investors in interpreting and implementing the legislation. These challenges were certainly unavoidable, given the level of ambition and the transformative nature of a framework that is still in its early days.

Some challenges will be probably easier to solve than others thanks to the experience now acquired. Addressing the challenges will require efficient collaboration between European institutions, and the many users of the framework, to allow the EU to deliver its sustainability goals. Capacity building and initiatives to improve literacy and understanding of the goals and principles by all stakeholders, including the end client, are top priorities, and regulatory action will equally be needed.

The PRI's 2030 EU Policy Roadmap provides a very useful, well-structured overview of priorities in terms of sustainable finance and real-economy policies – the two needing to be thought of together – and helpful recommendations for the EU institutions. For the EU framework to continue to support the European ecosystem to transition to net zero and reach ambitious GHG reduction for 2030, improvements will need to come fast, and in an orderly manner.
With crucial elections in the EU looming, the publication of the PRI’s 2030 EU Policy Roadmap provides a pivotal opportunity to assess the EU’s sustainable finance agenda. This new report examines its implementation on the ground and identifies the remaining tasks necessary to achieve its overarching goals: redirecting capital flows toward sustainable investments and transitioning the financial sector to a net-zero, resilient, environmentally sustainable, and inclusive economy.

Over the preceding half-decade, the EU has unequivocally positioned itself as a vanguard in global sustainable finance. Pioneering initiatives include the EU Taxonomy, the world’s inaugural comprehensive benchmark for environmental performance, as well as mandatory disclosure requirements through the Sustainable Finance Disclosure Regulation (SFDR) for investors and the Corporate Sustainability Reporting Directive (CSRD) for companies. These regulations are designed to guarantee the widespread accessibility of sustainability information throughout the economic landscape.

Notably, recent developments have seen co-legislators proposing a law on corporate sustainability due diligence. This legislation aims to standardise due diligence duties across Europe and require companies to develop and implement transition plans to achieve net-zero emissions by 2050, thereby making transition planning a legal requirement.

In addition, the EU has equipped the market with tools and voluntary standards such as the EU Climate Benchmarks and the EU Green Bond Standard. These mechanisms empower market players to align their investments with the environmental goals set by the EU in a credible and transparent manner.

Now, as we enter the second half of this critical decade, we have two main priorities.

As implementation of these laws and measures unfold, we need to collaborate to comprehend how the market is utilising the Taxonomy and the broader framework and address implementation challenges. Improving the quality and availability of disclosures, data, and tools will empower market actors to make more informed investment decisions and secure financing for their sustainability transitions.

Secondly, the Commission and the Platform will need to remain committed to facilitating the use of the Taxonomy and other tools within the sustainable finance framework by non-EU actors seeking access to sustainable finance in Europe. Additionally, EU efforts should aim to boost sustainable investments where they are most needed, particularly in the developing world. The International Platform on Sustainable Finance and the recent establishment of the Net Zero Policy Taskforce serve as crucial arenas where the EU can share its learning and progress in sustainable finance policy.

The policy decisions made under the next European Commission, and the market’s adeptness in implementing them, will be pivotal in defining the success of the EU Green Deal and making Europe the global sustainable finance hub. The PRI’s 2030 EU Policy Roadmap is an excellent starting point.
EXECUTIVE SUMMARY

The European Commission’s 2018 Action Plan on Financing Sustainable Growth was a turning point in terms of the role of finance in an economic transition. The Action Plan, followed by the Commission’s Strategy for Financing the Transition to a Sustainable Economy in 2021, demonstrated that EU policy makers recognised the urgent need to ensure that Europe’s environmental and social policy objectives were being incorporated into financial activities. Over the past six years, significant progress has been made in the form of new legislative measures that serve as the building blocks for a sustainable finance policy framework.

While responsible investors have welcomed this progress, the speed, complexity and sequencing of the various measures have posed substantial implementation challenges. Further, the EU’s legislative reforms have largely focused on driving sustainable capital allocation via improved corporate and investor disclosure, overlooking other levers that investors have, or the barriers that they face.

To accelerate private investment to fully support the transition to a sustainable and equitable economy, the next Commission, along with the European Parliament and Member States, should fine-tune and improve the usability and coherence of the existing sustainable finance framework, build on it where necessary, and develop and strengthen the links with broader EU Green Deal policies.

This report sets out the recommendations needed to achieve those objectives over the next five-year mandate leading up to 2030. They demonstrate the range of policy actions and tools available to the next Commission to create a financial system that rewards responsible investment, operates within planetary boundaries, promotes human rights and achieves equitable societies. These outcomes are fundamentally intertwined with EU competitiveness, security and resilience.

The recommendations, summarised below, are based on interviews with PRI signatories, European policy makers, and civil society members throughout 2023; a survey completed by 103 PRI signatories (of which 87% are based in the EU and 73% are investment managers, 22% asset owners and 5% service providers) over Q3 2023; and a signatory roundtable held in October 2023.

The report is split into six chapters. Each chapter looks at how the current sustainable finance framework can be consolidated and clarified, and what further amendments or legislation is needed to deliver the objectives of the EU Green Deal.

Not all of these recommendations can be implemented at once, nor should they be, and some may be more impactful in creating effective change quickly. Recommendations have not yet been prioritised.

Instead, this report is a starting point for the PRI’s conversation with the next European Commission, European Parliament and the Member States. We look forward to continuing this engagement, based on our signatories’ feedback, to help design and implement efficient policy frameworks to successfully support the economic transition. The policy decisions made in the next five years will be critical in defining the success of the EU Green Deal and for the prosperity of EU citizens and resilience of EU ecosystems.
POLICY RECOMMENDATIONS

CHAPTER 1
Finance the transition
To achieve the goals of the EU Green Deal, private sector investments must significantly increase to bridge the €620 billion per year financing gap. Investors are increasingly calling for tools that allow them to invest in companies and activities that are aligning with sustainability goals. The EU has introduced measures that support transition planning, but further work is needed to provide an enabling environment and to fully leverage public finance.

1.1 Swiftly develop sector roadmaps
1.2 Encourage governments to adopt national transition strategies
1.3 Mandate companies to adopt and disclose robust transition plans
1.4 Further develop the EU Taxonomy for sustainable economic activities
1.5 Extend the EU Taxonomy
1.6 Leverage EU funding instruments to crowd in private investments

CHAPTER 2
Clarify sustainable investment disclosures
While SFDR has played an important role in structuring investors’ ESG strategies and allowing them to report with common metrics, it is not achieving its overarching objective of mobilising capital towards sustainable activities. A timely review of SFDR is needed to address the effectiveness and usability of the regulation.

2.1 Develop clear categories and disclosures for financial products
2.2 Ensure meaningful entity-level disclosures
2.3 Provide guidance on using estimates for PAI and Taxonomy reporting
2.4 Increase consistency with the EU Taxonomy

CHAPTER 3
Strengthen investor stewardship and duties
As noted by two thirds of EU-based signatory respondents to the PRI in a Changing World Signatory Consultation, the future of responsible investment must combine managing ESG risks, and identifying and acting on sustainability outcomes. Clearer and more supportive legislation on stewardship and fiduciary duties is needed to achieve this and enable investors to facilitate the economic transition.

Stewardship
3.1 Revise the definition of stewardship
3.2 Clarify and expand stewardship rights and duties
3.3 Support collaborative stewardship
3.4 Make stewardship disclosures and monitoring mandatory

Investor duties and sustainability preferences
3.5 Further develop and clarify fiduciary duties
3.6 Explore how financial legislation can better reflect clients’ and beneficiaries’ sustainability preferences

Due diligence
3.7 Develop comprehensive and consistent due diligence obligations for the financial sector
CHAPTER 4
Ensure effective corporate governance and reporting

Robust and appropriate corporate governance arrangements, combined with consistent, reliable and comparable corporate sustainability disclosure, enables companies and investors to support sustainable policy objectives through improved sustainability practice.

Corporate governance
4.1 Mandate sustainability-linked executive remuneration
4.2 Promote fair, efficient and sustainable taxation
4.3 Advance responsible political engagement

Corporate reporting
4.4 Mandate the disclosure of key sustainability indicators in the ESRS
4.5 Review the effectiveness of the ESG ratings regulation

CHAPTER 6
Implement climate, nature, and social policies

While strong and effective sustainable finance policy is essential to address the financing gap for achieving the European Green Deal, it cannot drive the transition by itself. An equitable net zero transition requires credible and robust policies that address economic externalities. These policies should also provide incentives for investments in low-carbon, nature-positive solutions, and ensure that there are social safeguards and transition support for vulnerable households and affected communities.

Climate
6.1 Implement carbon pricing and fiscal reforms to incentivise industry innovation
6.2 Prioritise energy demand management in public and private sectors
6.3 Accelerate renewable energy deployment and avoid new carbon lock-in
6.4 Propose an EU climate target of at least 90% net emission reductions by 2040

Nature and biodiversity
6.5 Ensure effective implementation of the EU Nature Restoration Law
6.6 Prioritise effective implementation of the EU Deforestation regulation and expand its scope
6.7 Shift from biomass for energy to restoring nature for climate and biodiversity
6.8 Align the Common Agricultural Policy with EU climate and environmental law
6.9 Scale up nature-based solutions

Social issues and a just economic transition
6.10 Ensure the costs of transition activities are distributed fairly
6.11 Protect human rights in critical raw materials supply chains
6.12 Protect communities when developing renewable energy infrastructure
6.13 Increase the resilience of the European economy

CHAPTER 5
Promote global interoperability

As the first mover, the Commission has a very important role in collaborating with policy makers worldwide to seek consensus and increase overall support for sustainable finance reform and sustainability outcomes.

5.1 Seek consensus on the importance of sustainability outcomes-focused policy
5.2 Contribute to harmonising global corporate reporting
5.3 Collaborate to improve international interoperability of investor disclosure
5.4 Communicate effectively around sustainable finance legislation

ANNEX
Throughout its next mandate, the Commission should continue to enhance the consistency and usability of the overall sustainable finance framework. To achieve this, the Annex to this report lists our recommendations for required technical amendments.
Since the start of their legislature in 2019, the current European Commission, Parliament and Council have faced an unprecedented ‘polycrisis’. The Covid crisis brought a full stop to the global economy and increased social hardship for locked-down citizens. A slow economic recovery came with rising inflation, energy and food prices, and exacerbated inequality and poverty. Russia’s war in Ukraine then led to a shortage of oil and gas imports, concerns about energy security, and millions of new refugees, while recent escalation of tensions in the Middle East brings further geopolitical instability.

All of this is happening against the backdrop of previously unseen and extreme weather events hitting European Member States. The impacts of climate change have never been more visible, as global temperatures have risen by 1.2°C since preindustrial times, with 2023 the hottest year on record. Europe is warming almost twice as fast as the global average.

The economic transition is the process by which the economy is transformed from its current extractive and unsustainable state to one that is sustainable and equitable, and that benefits both the economy and natural and social systems.

It is fundamental for economic prosperity and the financial returns it generates, supporting nascent low-carbon sectors, such as renewables, while transforming unsustainable sectors. This increases competitiveness as well as energy and material security and affordability, and minimises firm and system-level risk. A well-executed economic transition will lead to a more stable and resilient market.

**THE EU SUSTAINABLE FINANCE FRAMEWORK: A STRONG FOUNDATION**

The EU has recognised the urgency of responding to this polycrisis and has used sustainable finance as a key lever. Since the 2018 Action Plan on Financing Sustainable Growth, the EU has adopted a series of legislative measures as the foundation of its sustainable finance regulatory framework (see Figure 1). The renewed sustainable finance strategy (2021) and dedicated recommendation on transition finance (2023) also indicate a growing understanding within the European Commission that sustainable finance policies and public finance instruments should work to align capital flows with the EU’s sustainability goals and real-economy policies.

---

**Figure 1: A timeline of progress on the EU sustainable finance framework**

<table>
<thead>
<tr>
<th>January</th>
<th>December</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Action Plan on Financing Sustainable Growth</td>
<td>Final High Level Expert Group report on sustainable finance published</td>
<td>EU Taxonomy Regulation adopted</td>
<td>EU Climate law</td>
<td>Climate Benchmarks delegated regulation adopted</td>
<td>Majority of Fit for 55 files (ETS, CBAM, EED, RED III, LULUCF) and Green Bond Standard adopted</td>
</tr>
<tr>
<td>2018</td>
<td>2019</td>
<td>2020</td>
<td>2021</td>
<td>2022</td>
<td>2023</td>
</tr>
<tr>
<td>March</td>
<td>January</td>
<td>June</td>
<td>June</td>
<td>August</td>
<td>December</td>
</tr>
<tr>
<td>Sustainable finance communication &amp; ESG ratings proposal</td>
<td>Adopted</td>
<td>Renewed Sustainable Finance Strategy</td>
<td>SFDR RTS adopted</td>
<td>UCITS, MIFID, AIFMD, Solvency II and IDD delegated acts on sustainability risks, factors and preferences adopted</td>
<td>ESAP adopted and provisional agreement on CSDD</td>
</tr>
<tr>
<td>2022</td>
<td>2023</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---
Early evidence suggests that the market is starting to adopt the EU framework to structure its sustainable finance activities, across a variety of sectors and financial instruments:

- **Taxonomy reporting for fiscal year 2022** – its first year of reporting – has provided some encouraging results. Companies that reported disclosed on average around 23% alignment for capital expenditure (capex), 24% for operational expenditure and 17% for revenues. Taxonomy reporting has also highlighted transition efforts, with high-impact sectors consistently showing higher levels of capex aligned with the EU Taxonomy (e.g., in one study, companies surveyed in the energy, utilities and resources sector averaged 35% of Taxonomy-aligned capex in FY 2022).

- An analysis conducted by CDP and Clarity AI, based on a sample of 1,700 companies subject to the Non-Financial Reporting Directive (NFRD), found that around 600 companies referenced EU Taxonomy KPIs as part of their financial planning and transition plans.

- In its fact-finding exercise on Taxonomy reporting in FY 2022, ESMA found that 70% of issuers used the mandatory templates appropriately, although further improvements are still needed.

- Funds disclosing under Article 8 and Article 9 are reported to now account for 56% of total EU assets. According to Morningstar, 10% of funds reporting under Article 8 have set a carbon reduction objective, as of October 2023. This trend reflects an increase in net-zero commitments by investors for their financial products.

- The EU climate transition benchmarks and EU Paris-aligned benchmarks set standards for the design of portfolios with decarbonisation objectives. According to MSCI, investment funds that track those benchmarks have grown considerably and were valued at €120bn in July 2023.

The EU has made unprecedented progress in establishing a sustainable finance framework and there are encouraging signs of market adoption. However, the framework is facing important usability challenges and, arguably, its impact is limited by its focus on transparency.

In its next phase, the EU’s sustainable finance agenda should pursue a more holistic approach for the financial system to fully support the real economy’s transition towards meeting the EU’s climate and environmental goals under the EU Green Deal.

---

1 Bloomberg (June 2023). European Commission Communication on Transition Finance. These data exclude companies that reported 0% Taxonomy alignment, often due to the lack of robust data available to assess alignment given the nascent nature of reporting against the EU Taxonomy.
The Commission’s new mandate, underpinned by the work of the European Parliament and the European Council, will be crucial to further establish such an approach to the economic transition. Most notably, the EU should:

- **Keep the economic transition on the leaders’ agenda.** The ambition of the EU Green Deal should be maintained and become the overarching objective on the policy agenda. This will require strong political leadership from the European Commission, the European Parliament and Member States.

- **Strengthen governance structures to break down the siloed approach to sustainability.** The European Commission already has tools to ensure this, but we make further recommendations in the introduction to chapter 6 for the next European Commission to increase coherence.

- **Adopt an EU-wide transition strategy.** This should include short, medium and long-term targets for sustainability issues aligned with natural science and international norms, technology pathways to reach these targets, as well as considering the allocation of public finances and total investment needs.

- **Deepen and expand its policy framework** to make the EU Green Deal’s 2030 targets a reality, and promptly set the EU on a course towards its long-term objectives.

Policy makers should mobilise all stakeholders in the economic system to achieve a successful economic transition. This requires accelerated policy action across three interconnected areas: sustainable finance; corporate practice; and the real economy. Figure 2 below shows how each of the six policy priorities outlined in this report fit within this system.²

---

² Please note Figure 2 is a simplification of the economic system and associated policies. It does not reflect the complexity of the system or the interconnected effects of policy implementation. For example, while corporate governance and reporting legislation primarily affects corporate practice, it will of course have implications for the real economy and sustainable finance.
The European Commission has defined transition finance as “the financing of climate and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU”. Existing EU legislation (e.g., the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD) transition plan disclosures, the EU benchmark regulation, and the EU Green Bond Standard) can contribute to financing the economic transition.

However, only 11% of survey respondents consider the current legislative framework for transition finance sufficient. This indicates a need for additional, more focused policy interventions that direct public finance and private capital into the economic transition. Such policies should be adopted across the areas of sustainable finance, corporate practice, and the real economy, and apply to all relevant levels of the economy (see Figure 3).

**Figure 3: Sustainable finance transition policies across the economy**
RECOMMENDATIONS TO THE NEXT EUROPEAN COMMISSION

Recommendations to improve coherence

- Continue to promote consistency and interoperability of transition plans across the EU sustainable finance framework
- Consider updating the entity-level principal adverse impact (PAI) statement for climate portfolio alignment (under SFDR Article 4) so that it is consistent with transition plan requirements under CSRD and CSDDD
- Ensure regulatory transition planning requirements for market actors are consistent with and complemented by transition planning tools at sector, national and European levels
- Establish a common Taxonomy calculation methodology for entity and product level, based on the Platform’s recommendations

For more details see the Annex to this report.

Recommendations for policy development

1.1 Swiftly develop sector roadmaps

- Encourage governments to adopt national transition strategies
- Mandate companies to adopt and disclose robust transition plans
- Further develop the EU Taxonomy for sustainable economic activities
- Extend the EU Taxonomy
- Leverage EU funding instruments to crowd in private investments

1.1 SWIFTLY DEVELOP SECTOR ROADMAPS

Sector roadmaps should detail a shared vision and understanding of what the decarbonisation of economic sectors looks like; how and within what timelines different sectors, industries and specific technologies are expected to progress; and what role public and private finance and companies should play in enabling and accelerating this net-zero transition.3

Over half – 56% – of survey respondents identified sector roadmaps as one of the most important policy instruments to incentivise transition finance in the EU. This reflects a growing demand for policy makers to develop such instruments to better prepare for emerging investment risks and opportunities.

The EU has already made progress in establishing sector roadmaps. Article 10 of EU climate law mandates the European Commission to “engage with sectors of the economy within the Union that choose to prepare indicative voluntary roadmaps towards achieving the climate-neutrality objective”. Furthermore, the European Commission and the EUs Industrial Forum have developed a blueprint for sector roadmaps, based on stakeholder feedback.

We recommend the next Commission to:

- Move swiftly to develop net-zero roadmaps for the sectors that are most material for climate change, in line with Article 10 of EU climate law and as part of the process to define a 2040 climate target.
- Align sector roadmaps with advice from the independent European Scientific Advisory Board on Climate Change.
- Develop sector roadmaps in cooperation with stakeholders from industry, finance, and civil society.
- Explore how sector roadmaps can be developed for other sustainability issues, building on experience gained from climate change-focused roadmaps.

3 For example, the UN Race to Zero and the Glasgow Financial Alliance for Net Zero (GFANZ) have developed investment roadmaps.

For more details see the Annex to this report.
1.2 ENCOURAGE GOVERNMENTS TO ADOPT NATIONAL TRANSITION STRATEGIES

Too often, governments still address sustainability issues in isolation. For instance, the EU has already adopted or intends to adopt requirements for Member States to report separately on several interrelated issues, such as climate change (National Energy and Climate Plans, or NECPs), agriculture (CAP Strategic Plans as part of EU Common Agriculture Policy) and nature (National Restoration Plans as part of the pending Nature Restoration Law). These reporting requirements are also only partly connected to how Member States spend EU funds, for instance, the Recovery and Resilience Fund (RRF).

Fragmented reporting and policy development undermines the effectiveness and efficiency of government approaches to sustainability. Governments should adopt national transition strategies that span all sustainability commitments and are informed by science and international norms. Such strategies should combine short, medium and long-term sustainability targets, and define the allocation of public financing as well as total financing needs to achieve these targets.

The specific details of each strategy and its implementation will depend on factors including economic context; economic structure; political and institutional capacity and expertise; the sources and types of finance available to the country; domestic economic, social and environmental priorities; and the relationships between the various actors in the policy development and implementation processes.

Climate change is an area for which policy solutions are generally well understood. Policy planning and reporting should therefore be more detailed and serve as a learning ground for other sustainability issues. In the EU, clear and robust NECPs can help investors by providing high-level information on how Member States will achieve energy security, deploy renewables, reduce emissions, ensure the connection of energy grids, and achieve research and innovation ambitions. However, NECPs should be improved in terms of their useability, comparability, and coordination. This includes better alignment with Member States’ Long-Term Strategies (LTS).

We recommend the next Commission to:

- **Encourage harmonisation of national plans** to ensure that companies and investors’ investments and transition plans are based on a shared and transparent understanding of Member States’ short, medium and long-term sustainability targets, related allocation of public financing, and overall investment needs.
- **Make NECPs fit for purpose for investors** by providing clear national climate targets and estimated public and private financing needs, ensuring policy certainty for long-term planning, improving reporting requirements to include costs, impacts and resource allocation for different economic sectors and activities, and harmonising the process on regular reporting of progress against these targets.
1.3 MANDATE COMPANIES TO ADOPT AND DISCLOSE ROBUST TRANSITION PLANS

Companies and financial actors should plan how they will achieve decarbonisation and other sustainability outcomes across their economic activities and value chains, as well as across their investment strategies and portfolio decisions. Transition plans should translate time-bound, science-based targets into actionable steps. For decarbonisation, science-based means aligned with the Paris Agreement, e.g. the 1.5°C scenarios of the International Energy Agency (IEA) or the Intergovernmental Panel on Climate Change (IPCC).

The proliferation of transition plan frameworks (Transition Plan Taskforce, Glasgow Financial Alliance for Net Zero, etc.) over the past five years demonstrates the growing demand from companies, industry and finance for harmonised transition plan disclosure and guidance. The EU has developed transition plan disclosure requirements across a variety of policies, most notably the European Sustainability Reporting Standards (ESRS) under the CSRD. The Corporate Sustainability Due Diligence Directive (CSDDD) goes one step further, mandating transition plans for climate mitigation from companies in scope. Please see the Annex for a more detailed analysis of transition planning requirements in the EU sustainable finance framework.

The provisions under the CSRD / ESRS and CSDDD are an important step to ensure meaningful corporate action. They will help investors to better engage and assess a company’s future resilience and sustainability performance, as well as track progress.

The European Commission should continue to guide companies on how to set science-based transition plans that are aligned with existing initiatives and industry momentum. The Commission should also consider the interoperability between transition plan requirements and other policy files (sector roadmaps, the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), Capital Requirements Directive (CRD), Solvency II, etc.).

We recommend the next Commission to:

- Ensure effective implementation of ESRS 1 and 2 and timely adoption of the sector-specific ESRS. Regarding ESRS 1 and 2, this would include providing further guidance, for example, on how to calculate and report on locked-in GHG emissions.
- Develop a robust standard for investor transition plans – based on science-based pathways and scenarios – under the sector-specific ESRS for the financial sector, building on industry best practice.

1.4 FURTHER DEVELOP THE EU TAXONOMY FOR SUSTAINABLE ECONOMIC ACTIVITIES

Along with the World Bank, our policy toolkit defines a sustainable finance Taxonomy as a “classification system to help investors and other stakeholders understand whether an economic activity is environmentally and socially sustainable”. Effective taxonomies should comprise of three elements: (i) objectives, (ii) lists of eligible activities that can make a positive contribution to these objectives, and (iii) ‘significant contribution’ and ‘do no significant harm’ performance criteria that determine which of the eligible activities are aligned with the objectives of the Taxonomy.

The EU Taxonomy’s design, as adopted in 2020 through the EU Taxonomy regulation, corresponds to the definition in the policy toolkit. The EU has also made progress in defining technical screening criteria (TSCs) for sustainable economic activities for a broad range of sectors and environmental objectives through the adoption of delegated acts, and reporting requirements for companies and investors are gradually being rolled out. However, not all the TSC that were proposed by the Platform on Sustainable Finance (PSF) have been transposed into law yet, and a review clause requires the European Commission to evaluate the possible need to revise and complement the adopted TSCs.

We recommend the new Commission to:

- Adopt into law TSCs for all the economic activities that were included in the report by the PSF; and assess on a continuous basis the need and feasibility to further extend the scope of economic activities covered by the EU Taxonomy based on future proposals from the PSF.
- Consider reviewing adopted TSCs (e.g., for climate change mitigation) in light of changed circumstances or increases in EU ambition (e.g., Fit for 55 package).
1.5 EXTEND THE EU TAXONOMY

The above-mentioned policy toolkit notes that taxonomies can go beyond sustainable economic activities and include economic activities that: (i) enable a transition towards achieving social or environmental goals, and / or (ii) are inherently harmful (henceforth ‘extended taxonomies’).

Article 26 of the EU Taxonomy regulation mandates the EU Commission to publish a report describing the provisions required to extend the scope of this regulation to:

- “Economic activities that do not have a significant impact on environmental sustainability and economic activities that significantly harm environmental sustainability” (henceforth ‘extended environmental taxonomy’).
- “Other sustainability objectives, such as social objectives” (henceforth ‘social taxonomy’).

The PSF has outlined how Article 26 can be put into practice:

- An extended environmental Taxonomy could be designed by distinguishing between economic activities that are delivering a substantial contribution to an environmental objective (green), economic activities that are causing significant harm to an objective (red), and economic activities that are demonstrating intermediate performance but are neither significantly harmful nor substantially contributing (amber), and low environmental impact / no-significant impact economic activities.
- The PSF has also published a report on a social Taxonomy.

With regards to the extended environmental extension, the current EU Taxonomy framework already allows users to identify transition activities to some extent. For example, reporting capital expenditure can indicate how much companies are increasing investments towards Taxonomy-aligned economic activities, which will in turn and over time lead to increased revenue. However, extending the Taxonomy, as outlined by the PSF, would further enhance its usefulness as a transition tool and add nuance to the environmental impact of business activities.

However, developing an extended Taxonomy will take time: intermediate policy solutions should therefore be envisioned, most notably in response to the need to urgently direct capital towards improving the environmental performance of / phasing out the most harmful economic activities.

Only 23% of investors surveyed think an extended environmental Taxonomy would not be a useful policy tool

We recommend the next Commission to:

- Publish a report, as mandated by the EU Taxonomy regulation, that initiates and defines the modalities for the extension of the level 1 Taxonomy regulation. This review should be informed by the PSF report on the extended environmental taxonomy. It should also consider a phased approach by sequencing delegated acts, focusing first on sectors where the definition of TSCs for the extended Taxonomy is most relevant and feasible.
- Review the Article 8 delegated act so that it requires companies to disclose their revenues and capex from economic activities that are not meeting the significant harm threshold. This will create transparency of companies' exposures to such activities.
- Expedite the definition of TSCs for 'always significantly harmful' (ASH) economic activities and how these can be phased out, for instance in the form of guidance, and encourage companies to voluntarily report against these criteria in existing reporting frameworks. The European Commission could promote the use of thresholds for ASH economic activities in line with the recent European Supervisory Authorities' (ESAs) proposals for a revised PAI framework under SFDR.
- Identify non-regulatory measures, such as guidance, to promote a standard for social investments based on the PSF's proposal while investigating how an effective and practicable social Taxonomy could be established.
1.6 LEVERAGE EU FUNDING INSTRUMENTS TO CROWD IN PRIVATE INVESTMENTS

Public finance should crowd in private investment to fund the €620bn required to meet the EU Green Deal objectives. Public finance bodies can do this through (i) concessional finance, (ii) grants, (iii) guarantees and other risk-sharing instruments, (iv) long-term credit lines and (v) investment guidelines, depending on the risk and maturity of the investment. Public finance bodies can also provide technical expertise to the private sector in their transition planning: this will become increasingly important as legislative and client / societal expectations for robust transition plans become mainstream.

The EU has various public financing streams in place. These include:

- the post-Covid NextGenerationEU and the Recovery and Resilience Facility (RRF);
- guarantee-based instruments like InvestEU;
- support through the Multiannual Financial Framework (MFF) that dedicates 30% of funds for climate-relevant investments; and
- the European Investment Bank’s (EIB) commitment to support €1 trillion of green investment in the decade to 2030, to align all new operations with the Paris Agreement, and to devote more than 50% of its financing to climate action and environmental sustainability by 2025.

However, questions remain as to whether the EU’s public resources and institutional expertise are deployed optimally. Creating more transparency on how public funds can be accessed and deployed, and efficiently sharing risk between the public and private sectors, will increase trust between actors, crowd-in private investments, and ultimately support the economic transition.

It is also crucial to carefully assess sectors and technologies that would benefit from de-risking measures, for example hydrogen and carbon capture and storage, and differentiate these from technologies that are already bankable and attract ample liquidity, for example solar and wind power installations.

Even if deployed optimally, the current EU public finance streams will not be sufficient to cover all public spending needs in Member States. For instance, analysis by Agora Energiewende that focuses on clean energy, resource and energy efficiency investment finds EU funds can cover only one quarter of Europe-wide public spending needs for the period 2021-2027.

This leaves the EU the choice between increasing EU-centralised funding or leaving Member States to fend for themselves. In the wake of the pressures caused by the US Inflation Reduction Act, the EU opted for the second option by relaxing EU state-aid rules: a Temporary Crisis and Transition Framework (TCTF) was put in place that allows EU Member States to match a subsidy offer from a third country outside Europe in a bid to convince the companies to invest in Europe instead. Data disclosed by the European Commission indicate that richer Member States have benefited most from this relaxation, with over 70% of subsidies for industrial development being approved in Germany and France, as such creating competitive distortion within the EU.

More than half of investors surveyed consider fiscal incentives or subsidies as one of the most important policy tools to encourage more transition investment.

Finally, public authorities can also influence capital flows to sustainable and transition activities beyond direct support through public finance bodies – most notably by:

- Clear prioritisation: the Green Deal Industrial Plan’s Net-Zero Industry Act aims to scale up investment in products that are key in meeting the EU’s climate neutrality goals.
- Public spending: the EU estimates its public purchase of goods and services at around €2trn, or 13.3% of GDP. Green public procurement can therefore drive market development of low-carbon products and services; for instance, by using KPIs that are aligned with EU net-zero targets and decarbonisation pathways (e.g., linked to the EU Taxonomy technical screening criteria).

We recommend the next Commission to coordinate with Member States, national development banks, and the EIB to:

- Provide a better overview of and more transparent access to EU financing streams and de-risking instruments to crowd-in private finance more efficiently. Improved access to funds and better knowledge-sharing between EU institutions, national authorities and investors will encourage government funding, equity investment, and bank loans into sustainable companies and projects.
- Consider increasing EU centralised funding to mobilise the additional annual investments of over €620bn annually that are needed to meet the EU Green Deal objectives. A coordinated EU-wide approach will avoid competitive distortion based on Member States’ ability to draw on domestic public finances.
- Finalise and implement the Net-Zero Industry Act to provide investors with regulatory certainty.
- Align public procurement guidelines with necessary transition investments in low-carbon solutions. Guidelines may include net-zero technologies, manufacturing and material efficiency, and circular economy approaches.
The SFDR, adopted in 2019 and in force since 2021, has been an important but challenging piece of the EU’s sustainable finance policy framework. The regulation sets out requirements on sustainability-related disclosures in the financial services sector, both at entity and product levels. In doing so, it aims to address greenwashing concerns by providing increased transparency and comparability in the market. In time, lawmakers also hope the regulation will incentivise institutional and retail investors to channel their investments towards more sustainable financial products and economic activities.

As well as addressing how investors manage the sustainability risks of their investment portfolios, the regulation also encourages investors to identify, assess and mitigate the potential adverse impacts of their investments on society and the environment. This is consistent with the direction of the broader sustainable finance agenda, as investors work towards understanding the social and environmental outcomes of their investment activities.

Given the full reporting requirements on PAIs only entered into force in July 2023, it is arguably still too early to assess the effectiveness of this regulation. However, early evidence suggests SFDR has played an important role in structuring institutional investors’ ESG product strategies and disclosures by introducing common concepts and sustainability indicators.

Yet, investors have found the requirements complex and burdensome to implement, and it is unclear whether the regulation is achieving its overarching objective of mobilising capital towards sustainable activities. Given the various challenges faced by investors to comply with the rules (interpretation issues with key terms and concepts such as ‘sustainable investments’, availability and quality of data, consistency with other EU policies), the European Commission undertook a comprehensive assessment of SFDR, with a view to reviewing the legislation under its next mandate. The following sections propose some key features and recommendations, based on our consultation response, to develop an effective framework for sustainability-related financial products and disclosures in the EU.

The expected changes to the SFDR regulation should be carefully sequenced with recent proposals to amend the regulatory technical standards and develop guidance on fund names. Investors should be given sufficient time to implement the new requirements and potential product categories, given the cost of regularly updating processes to comply with the legislation.
2.1 DEVELOP CLEAR CATEGORIES AND DISCLOSURES FOR FINANCIAL PRODUCTS

Designed to increase transparency of sustainability-themed investment products, the product categories under Articles 8 and 9 of SFDR appeared to be deliberately broad to capture as many products as possible. Yet, the requirement under Article 9 to invest only in sustainable investments (defined in Article 2.17) blurs the lines between a disclosure framework and a product standard or label. This has led to market uncertainty and allegations of greenwashing – with many investors changing classifications of their products following evolving interpretations of the rules.

The Commission had already committed in its most recent sustainable finance strategy to set “minimum sustainability criteria, or a combination of criteria for financial products that fall 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 and incentivise transitional efforts”. The French financial market authority (AMF) has also made concrete proposals for minimum environmental standards for financial products falling within the scope of Articles 8 and 9.

We support developing minimum sustainability criteria to better distinguish financial product categories under SFDR and set clear expectations for what they can and can’t achieve. The Commission could set such criteria for the existing Article 8 and 9 categories, given these designations are now widely established and recognised in the market, or existing Article 8 and 9 categories, given these designations are now widely established and recognised in the market, or

Regardless of the chosen approach, we recommend the Commission to:

- Clarify the intended audience of the product categories and associated disclosures – retail investors, institutional investors, or both.
- Differentiate product categories based on the product’s sustainability objective (i.e., what it aims to achieve), not the investment process. Investors can demonstrate through disclosures how different strategies and practices are used to achieve the objective over the life of the product.
- Avoid creating a hierarchy between different categories based on current levels of sustainability performance. This could unintentionally discourage investments in sectors that urgently need funding to transition away from harmful levels of performance.
- Ensure minimum criteria applied to product categories are proportionate and adapted to different asset classes.
- Link any new product categorisation system with the existing rules for integrating client sustainability preferences under the Markets in Financial Instruments Directive (MiFID 2) and the Insurance Distribution Directive (IDD).
- Enhance interoperability with financial product categorisation regimes under development in other markets (notably in the UK and in the US).

We also recommend the Commission to develop a baseline of sustainability disclosures for all financial products, regardless of their sustainability claims. This would contribute to creating a level playing field regarding sustainability reporting obligations and increase comparability across financial products in the EU. This baseline could include disclosures on:

- how sustainability risks are integrated into the investment process (more detail than the current Article 6) or, if they are not integrated, why not;
- whether the product pursues positive sustainability outcomes, how (e.g., what investment levers or approaches are used) and why;
- the share of Taxonomy-aligned environmentally sustainable investments (comply or explain);
- the share of sustainable investments (where the activity or objective is not listed under the Taxonomy, investors should articulate the methods and criteria used to assess contribution to an objective); and
- a limited number of PAI indicators (e.g., total greenhouse gas (GHG) emissions, human rights violations).

61% of investors surveyed are in favour of the EU clarifying expectations for Article 8 and 9 categories by adding minimum standards. However, there were more mixed views in terms of what those minimum standards should be based on: PAI indicators (47%); investment and / or stewardship practices and processes (46%); alignment with international norms such as OECD MNE guidelines and UNGPs (42%); and EU Taxonomy alignment (39%)

The Legal Framework for Impact report, authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI and the Generation Foundation, is a ground-breaking legal study on whether the law in 11 jurisdictions around the world permits or even requires investors to tackle some of the world’s most urgent sustainability challenges by setting and pursuing sustainability impact goals. The report developed the concept of investing for sustainability impact (IFSI) and presents two types: ‘instrumental IFSI’ is where achieving the relevant sustainability goal is ‘instrumental’ in realising the investor’s financial return objectives; and ‘ultimate ends IFSI’ is where achieving the relevant sustainability goal – and the associated overarching sustainability outcome it supports – is a distinct goal, pursued alongside the investor’s financial return objectives, but not wholly as a means of achieving them.
2.2 ENSURE MEANINGFUL ENTITY-LEVEL DISCLOSURES

Under Article 4 of SFDR, larger institutional investors must disclose how they consider and mitigate adverse impacts of investment activities at entity level. This includes reporting against all mandatory PAI indicators at the level of the investor’s entire portfolio.

Indicators at the portfolio or entity level typically focus on decisions made at top of an organisation: policy; governance; stewardship; and due diligence. These indicators can be supplemented by quantified impact measures, but the aggregation must be done carefully and respecting the processes surrounding management of individual funds. Many of the PAI indicators in Annexes I, II and III of the SFDR Delegated Regulation could be suitable for assessing the performance of an individual fund but can become misleading when aggregated at the entity level. This is due to a wide variation in how investors aggregate PAIs and therefore results in very limited comparability. PAI reporting at investor entity level also presents substantial methodological and data collection challenges, leading to a substantial reporting burden for limited additional value.

Most investors are exposed to financial risks (and opportunities) associated with undiversifiable, system-level sustainability issues such as climate change, biodiversity collapse or social instability. To manage such exposure in line with their fiduciary duties, many investors are pursuing positive sustainability outcomes to directly address the drivers of these system-level risks and create long-term value. Therefore, what is of much more significance is to what extent and why the relevant entity embeds the pursuit of positive sustainability outcomes across its product and service offering. This applies as much to products and services that are explicitly branded as ‘sustainable’ as those that are not, since sustainability risks may have adverse impacts even on products and services with only financial returns as an objective. Stewardship is an important mechanism for investors to exercise their influence, whether as an independent tool, or in combination with investment decisions.

Therefore, we recommend the Commission ensures entity-level indicators are accompanied by entity-level disclosures which evidence the quality of an investor’s sustainability due diligence and stewardship. The Commission should ensure consistency between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under CSRD, CSDDD and SRD II (see Annex 1 for more detail).

With regards to CSRD, it will be particularly important to ensure any investor entity-level requirements under SFDR do not overlap with or duplicate future obligations under a financial sector ESRS standard. The European Commission could consider streamlining investor entity-level reporting under SFDR with CSRD, as many large investors are also in scope of the latter. This option should be assessed in light of the future financial sector ESRS standard to ensure disclosures are adapted to the specificities of investors.
2.3 PROVIDE GUIDANCE ON USING ESTIMATES FOR PAI AND TAXONOMY REPORTING

Financial market participants have had to meet reporting obligations under SFDR before being able to access publicly-reported corporate data under the CSRD and Taxonomy regulation. This has led to the widespread use of third-party data providers and estimates to address these gaps, often affecting both the quality and comparability of reported data.

The recent adoption of the ESRS standards is an important milestone, and their upcoming application will be crucial to address issues of data availability and quality. But gaps will likely remain, in particular for investments outside the scope of the CSRD, such as certain non-EU companies and unlisted SMEs. We welcome the recent clarification by the Commission\(^6\) that the use of estimates for companies not in scope or not yet reporting under the CSRD / Taxonomy regulation is permitted. However, more guidance is needed as soon as possible.

Therefore, we recommend the Commission to work with the ESAs and the PSF to develop guidance with criteria for the use of estimated data and proxies in a way that is consistent with the wider EU sustainable finance framework. The guidance should:

- Clarify the acceptable parameters for conducting estimates for both PAI and Taxonomy reporting (including how to apply the precautionary principle), and what constitutes a ‘reasonable assumption’.
- As a starting point, employ the advice of the PSF in its data and usability report (see page 45 of the PSF’s report).
- Detail which estimation methods can be used (e.g., regression, sector median, extrapolation) when data is not available.
- Specify whether estimation methodologies should be published when estimated data constitutes a significant portion of aggregated portfolio data.
- Clarify whether investors should gain assurance and verification for estimated data to ensure credibility.

2.4 INCREASE CONSISTENCY WITH THE EU TAXONOMY

There are numerous areas of misalignment and overlap between the SFDR and the Taxonomy, particularly related to do no significant harm (DNSH) assessments for sustainable and Taxonomy-aligned investments, the underlying metrics used for PAI indicators and Taxonomy criteria. These inconsistencies add complexity to the overall framework and increase reporting burden for investors.

Some of these issues were addressed in the Commission’s June 2023 notice on the links between the Taxonomy regulation and SFDR. Notably, the Commission clarified that investments in Taxonomy-aligned ‘environmentally sustainable’ economic activities automatically qualify as ‘sustainable investments’ in the context of the product-level disclosure requirements under the SFDR. However, for general equity or debt investments, the investor would still need to check additional elements under the SFDR to consider the investment as sustainable.

Therefore, we recommend the European Commission works with the ESAs and the PSF to ensure a coherent vision for sustainable investments and DNSH assessment within the SFDR. For such a framework to be workable and coherent, the Commission would need to:

- Clarify expectations for assessing and calculating sustainable investments under SFDR. 70% of PRI signatories surveyed supported clarifying the requirements and calculation methods for sustainable investments under SFDR.\(^7\) Ideally, such guidance should be published ahead of a future review of SFDR under the next European Commission (see our consultation response to the SFDR review consultation for detailed policy recommendations).
- Align the underlying metrics and methodologies of environmental PAIs with the Taxonomy criteria. The PSF’s report on data and usability provides more detailed examples of how this could be done (pp.143-146).
- Further align social and governance PAIs with the Taxonomy’s minimum social safeguards based on international standards (OECD guidelines for MNEs, the UNGPs). We welcome the ESA’s recent proposals in this direction. Guidance should be based on the PSF’s recommendations on applying minimum safeguards.

---

\(^6\) European Commission, Commission Staff Working Document – Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework (2023), p 11: “The use of estimates is only permitted in cases where FMPs cannot reasonably access information about economic activities carried out by undertakings that are not reporting (or not reporting yet) under the Taxonomy Disclosures Delegated Act, such as unlisted SMEs. This clarification was provided in the SFDR Q&A published in April 2023. The aim is to simplify the disclosure obligations and alleviate burdens on both companies and FMPs when facing difficulties in accessing sustainability data.”

\(^7\) Investors can currently make a binary assessment of an investee company’s overall sustainability performance or count the specific share of its sustainable revenues or activities
CHAPTER 3: STRENGTHEN INVESTOR STEWARDSHIP AND DUTIES

System-wide sustainability risks are undiversifiable, meaning they cannot be mitigated simply by diversifying the investments in a portfolio. Therefore, investors must look beyond capital allocation to facilitate the transition to a sustainable economy. This will require more supportive stewardship legislation coupled with clearer duties, including due diligence requirements.

RECOMMENDATIONS TO THE NEXT EUROPEAN COMMISSION

Recommendations to improve coherence

- Ensure Article 4.2(c) of the SFDR is updated in line with the stewardship policies required under the new omnibus legislation
- Amend Article 8(2) of the SFDR RTS, which details the disclosure requirements for the engagement policy, to complement the new omnibus legislation
- Ensure the report on additional sustainability due diligence requirements regarding the provision of financial services and investment activities is based on a thorough and detailed legal review. This should be accompanied by a legislative proposal to harmonise and clarify the understanding of good due diligence and provide investors with a level playing field across Member States

For more details see the Annex.

Recommendations for policy development

Stewardship

3.1 Revise the definition of stewardship
3.2 Clarify and expand stewardship rights and duties
3.3 Support collaborative stewardship
3.4 Make stewardship disclosures and monitoring mandatory

Investor duties and sustainability preferences

3.5 Further develop and clarify fiduciary duties
3.6 Explore how financial legislation can better connect clients’ and beneficiaries’ sustainability preferences

Due diligence

3.7 Develop comprehensive and consistent due diligence obligations for the financial sector

STEWARDSHIP

Establishing regulatory frameworks to enable effective stewardship is a key part of the broader policy toolkit to build a sustainable financial system. Such a framework should support investors to use stewardship practices to meet their fiduciary duties and sustainability objectives, improve risk-return, and ultimately contribute to public policy goals. The need to strengthen stewardship principles to align the financial sector more closely with long-term perspectives/sustainability goals has been recognised by the EU High Level Expert Group (HLEG) on Sustainable Finance and the European Commission. Yet EU law still lacks the clarity and detail needed to enable investors to maximise the benefits of this investment tool.

Almost one third (31%) of investors surveyed said they do not think the current EU legislative framework allows them to conduct effective stewardship activities focused on addressing sustainability outcomes

We – in line with 40% of survey respondents – recommend a significant shift in stewardship legislation in the EU. This cannot be achieved via piecemeal revisions to the shareholder rights directive (SRD II). Instead, a new piece of omnibus stewardship legislation is needed to set out expectations for investors’ stewardship practices in a much broader sense and support them to meet these expectations by (i) clarifying their rights and responsibilities and (ii) reducing the barriers they face in engagement activities and investee monitoring.

It is important to note that investor stewardship practices can support or enable wider public policy objectives effectively if policy makers provide investors with the environment to do so. This requires effective stewardship-specific and real-economy policy reform (detailed below) and policy certainty to ensure sustainable corporate practice is economically and technologically feasible. For more information, see the UN-convened Net-Zero Asset Owner Alliance 2022 report, The Future of Investor Engagement.
3.1 REVISE THE DEFINITION OF STEWARDSHIP
The concept of stewardship under SRD II is very narrow. It neglects asset classes other than listed equity and the role for investor stewardship beyond investee engagement and voting. Sustainability factors are mentioned only once (Article 3g, regarding monitoring of investees) although ‘long term’ is mentioned more frequently (Articles 3h and 3i). Even the topics covered under Article 3g are not presented as expectations of investor practice but merely comply-or-explain disclosure obligations.

Stewardship should be considered in a much broader sense. It plays a key role in enabling investors to address sustainability issues and outcomes, which is likely a fiduciary requirement if doing so can help achieve their financial objectives. We define stewardship as “the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients’ and beneficiaries’ interests depend”. Stewardship can be applied regardless of the investment strategy or asset class and there are many tools and approaches, not all of which are resource-intensive.

Therefore, we recommend the next Commission ensures that the new omnibus stewardship legislation:

- Defines stewardship using our joint definition with the CFA Institute and the Global Sustainable Investment Alliance as reference, and clarifies stewardship rights and duties with regards to sustainability preferences and objectives (see the next section).
- Acknowledges and encourages the application of stewardship across a broader range of asset classes including fixed income, private markets (i.e., private equity, real estate, infrastructure, other real assets) and hedge funds.
- Highlights the importance of investor engagement with non-issue stakeholders, such as policy makers, standard-setters and communities affected by corporate activities, when tackling system-level risks. Policy engagement will be most effective and impactful if it is done in collaboration with, and informed by engagement with, a broad range of stakeholders.9
- Includes a comprehensive list of stewardship tools (e.g., voting at shareholder meetings, policy engagement, nomination of directors to the board etc.) to reflect the wide variety of actions that different types of investors or asset managers with different investment strategies can take.

3.2 CLARIFY AND EXPAND STEWARDSHIP RIGHTS AND DUTIES
Conducting stewardship activities within investment portfolios is one of the most direct levers that investors have to meet their financial and sustainability objectives and achieve real-world sustainability impact.

From a resource perspective, a baseline level of stewardship practice is accessible to all investors. However, asset owners and asset managers, including IORPs (occupational pensions), UCITS, and life insurance companies, must by law avoid undue costs. Furthermore, unlike in other markets, EU legislation does not encourage investors to consider beneficiaries’ preferences and priority issues when undertaking their stewardship activities. Also, although investors are subject to disclosure requirements about their engagement policies under Article 3g SRD II and the SFDR, this is not a substantive requirement to develop a policy.

We recommend the next Commission to:

- Clarify that an investor has a duty to consider undertaking stewardship in ways that are consistent with achieving financial and sustainability objectives and serving beneficiaries’ and clients’ best interests. Investors in scope of the new omnibus legislation should be required to:
  - Adopt a stewardship policy that aligns stewardship practice with their sustainability and financial objectives. This policy should be adapted to the particular risks faced by their investments and reflect a stewardship approach that balances mitigating sustainability risks with any associated costs. It should also include the institution’s approach to voting.
  - Align stewardship activities with the sustainability preferences of their clients, beneficiaries, customers or equivalent, where possible. For example, the European Insurance and Occupational Pensions Authority (EIOPA) suggested in its latest IORP II technical advice that engagement activities should reflect members’ and beneficiaries’ sustainability preferences when IORPs can gauge them.

---

8 A Legal Framework for Impact, a report authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI and the Generation Foundation, demonstrated that investors are likely to have a legal obligation to consider pursuing sustainability impact where it can help achieve their financial objectives. See the section Investor duties and sustainability preferences for more information about the report.
9 Jody Horntvedt (2023), Five reasons to involve others in public decisions; UN-convened Net-Zero Asset Owner Alliance (2022), The Future of Investor Engagement
11 The UK and Japanese Stewardship Codes encourage signatories to consider beneficiaries’ interests and preferences. The CRSA Code in South Africa also encourages investors to engage with ultimate beneficiaries to “identify and understand information requirements”
12 None of the April 2021 delegated acts introducing sustainability preferences legislation, nor their associated delegated acts or original directives, mention stewardship or equivalent in the context of client / beneficiary (or equivalent) preferences. This is also the case for accompanying guidance from ESMA and EIOPA. Sustainability preferences are not mentioned in SRD II
3.3 SUPPORT COLLABORATIVE STEWARDSHIP

Collaboration is central to evolving stewardship practice. In many cases, collaboration with other investors is likely to reduce costs and increase the likelihood of better sustainability outcomes. Collaborative stewardship can also reduce the burden placed on companies, increase the quality of investor analysis and insight, and improve the impact of policy engagement. However, collaborative engagement was selected the most frequently by our survey respondents as the key challenge to effective stewardship in the EU.

SRD II has limited reference to collaborative engagement and does not encourage it as a cost-effective tool. In addition, while the recently published Commission guidance clarifies how investors could / should collaborate in line with competition rules, we recommend the next Commission brings further certainty and encourages collaboration by:

- Clarifying via guidance that investors should consider collaborating to achieve their objectives (for example, addressing system-level risks to achieve their financial objective).
- Considering developing a form of a prima facie legal presumption in favour of investor collaboration to achieve their objectives, unless there are solid reasons against. For example, where a given sustainability factor reasonably creates a risk to the long-term value of a particular investment, there would be a prima facie presumption that (a) the relevant asset owner / investor should not just consider its position individually, but also how it can collaborate in ways that can reasonably be expected to help to address the risk; and (b) that collaborative activities can assist in discharging duties to pursue a given investment objective even if it is not possible to precisely quantify that benefit or the difference the investor has made. Moreover, investors could be invited or required to disclose which sustainability factors they consider relevant in pursuing their investment goals and their approach to engaging in collaborative action concerning those factors and, if they do not act collaboratively, their reasons for not doing so.

40% of investors surveyed don’t collaborate with others as much as they want to when it comes to stewardship activities

---

14 UN-convened Net-Zero Asset Owner Alliance (2022), The Future of Investor Engagement, p.18
15 Article 6 states shareholders acting individually or collectively have a right to put items on the agenda of the general meeting and table draft resolutions. Article 39 states shareholders must disclose how they cooperate with others
3.4 MAKE STEWARDSHIP DISCLOSURES AND MONITORING MANDATORY

Stewardship activities can be prolonged and iterative. This, as well as limited data availability, can make it challenging for investors to report on investee-level changes that result from stewardship. There can also be a fear of perceived greenwashing, especially given increasing regulatory scrutiny. However, effective and appropriate stewardship disclosure is much needed. It increases transparency and accountability, enabling clients and beneficiaries to understand how stewardship responsibilities have been fulfilled.

Stewardship disclosure requirements already exist under the SRD II and SFDR. Yet many sustainability-linked requirements under SRD II are comply or explain only and the stewardship-related disclosure requirements under the SFDR are mandated to be brief and limited to the PAIs considered by the investor. A new omnibus stewardship legislation can improve on this.

Therefore, we recommend the next Commission to:

- **Enforce mandatory disclosure requirements around stewardship and engagement.** This should be on an annual basis, reflecting activity over the previous year, and include:
  - Stewardship policies and strategies and how effectively they have been implemented to serve the best interests of clients or beneficiaries.
  - Records of stewardship activities including progress made. For investors that have set out sustainability objectives at entity or product level, stewardship outcomes should be disclosed against those sustainability objectives.
  - Disclosure on how stewardship is governed, incentivised and resourced, both internally and via service providers. (To this end, the Principle 2 of the UK Stewardship code can be followed.)

- **Provide clear and precise guidance on best practice for stewardship reporting** (this could include providing a disclosure template).17

- **Require proxy advisers to disclose whether and how they consider sustainability impacts** in their voting analysis and recommendations (for coherency purposes, proxy advisers could be encouraged to use PAIs as referred to in the SFDR, to guide their engagement).

Focus on proxy advisers: PRI support for ESMA’s recommendations for SRD II

We support ESMA’s conclusion that the current regulatory framework for proxy advisers under SRD II is robust (i.e., there is no need for further regulation) but the Commission should make some improvements. A balanced approach to proxy advisory firm regulation that ensures transparency while safeguarding operational flexibility for all market participants is needed. Therefore, we recommend the next Commission to:

- **Refine the definition of proxy advisers (Article 2(g))** for market certainty. The definition should encapsulate all entities serving similar roles on a professional and commercial basis but not inadvertently capture other functions. Specifically, entities focused on general financial consulting, market analysis, or legal advice should not fall under the proxy adviser definition. Potential duplication and / or conflicts with other regulatory frameworks should also be avoided.

- **Consider whether the general reference to a code of conduct (Article 3(i)) should detail what features such a code should have, in particular an independent monitoring mechanism, to provide further market clarity.**

- **In cases where self-regulatory dialogue has not been successful and critical issues or alleged violations of codes of conduct remain, consider whether ESMA should facilitate dialogue as a last resort.** ESMA could facilitate dialogue (using information from Article 3(j) between issuers / investors and the proxy advisers involved. However, any ESMA recommendations should be non-binding.

- **Enhance disclosure, especially of ESG data under Article 3j(2)(b), to clarify what types of public data proxy advisers use to formulate research and recommendations. This would be particularly important for E and S data and methods where there is less consensus in comparison to G data.**

- **Consider whether more detailed disclosure obligations under Article 3j(3) vis-a-vis proxy advisers’ clients may improve investors’ understanding of possible conflicts of interest.** However, proxy advisers should be able to decide how such disclosures are made.

- **Introduce a registration mechanism under Article 3j(4) at the EU level.** A published list of proxy advisers, with the codes they adhere to, could be a valuable resource for potential clients and investors. Yet it should not be onerous for the proxy advisers to complete.

---

16 Any omnibus stewardship legislation should recognise that engagement strategies are often multi-year and therefore outcomes may not be reportable on an annual basis. However, such reports should be able to disclose activities (e.g., what measures have been taken to pursue the engagement in the reporting period) and progress, even if limited

17 Policy makers could consider, for example, something similar to the requirement in the US for investors / funds to categorise their voting under various sustainability topics. This aims to make voting data clearer and thus more useful when holding asset managers’ voting actions to account to ensure alignment of voting records with investment.
INVESTOR DUTIES AND SUSTAINABILITY PREFERENCES

To align capital markets with sustainability goals, a paradigm shift from risk / return, to risk / return / impact is needed. Our Fiduciary Duty in the 21st Century report demonstrated that investors who are not incorporating ESG risks are failing their fiduciary duties and are increasingly likely to be subject to legal challenges.

Going one step further, while the primary objective of mainstream investors is to achieve financial return, the Legal Framework for Impact (LFI) report demonstrated that investors are likely to have a legal obligation to consider pursuing sustainability impact where it can help achieve their financial objectives (referred to as instrumental investing for sustainability impact in the LFI report).

Moreover, in some circumstances, investors can pursue sustainability goals for reasons other than / in parallel to achieving financial goals (referred to as ‘ultimate ends IFSI’). See Figure 4 below for more detail on IFSI. The following policy recommendations (3.5 and 3.6) will give mainstream investors greater confidence to pursue sustainability impacts goals through investment activities and stewardship.

71% of investors surveyed think that pursuing positive sustainability impacts is important to mitigate system-level risks

Figure 4: The difference between ESG integration and investing for sustainability impact (IFSI)

Intention for sustainability impact

- Intention for sustainability impact as ‘instrumental’ for financial return
- No intention for sustainability impact

Instrumental IFSI
Achieving the relevant sustainability impact is ‘instrumental’ in realising the investor’s financial goals

Ultimate ends IFSI
Achieving the relevant sustainability impact is a goal in its own right, pursued alongside the investor’s financial goals

ESG integration
Incorporation of ESG issues into investment analysis and decision-making processes to mitigate ESG-related risks for portfolio value

An investor engaging in IFSI will always be using its powers to try to bring about assessable changes in behaviour or circumstances that support positive sustainability outcomes (including reduction of negative outcomes)
3.5 FURTHER DEVELOP AND CLARIFY FIDUCIARY DUTIES

The EU’s new requirements around impact better reflect the financial sector’s contribution to sustainability goals. However, more EU guidance on what this means in practice is required, and these new duties should not be developed in isolation from other policy interventions.

Therefore, we recommend the next Commission to:

- Undertake further work on new impact duties under MiFID II, UCITS, AIFMD and IORP II. Almost a third – 28% – of survey respondents support introducing sustainability impact requirements in these files.

- Develop further guidance to explain what these new requirements mean in practice as they can be interpreted in different ways due to their high-level nature. As set out in the EU LFI report, the requirement to consider sustainability impact should extend to actively pursuing positive sustainability impacts when necessary to address sustainability risks. This aligns with the EIOPA opinion from 2019: “Taking into account ESG factors to reduce the risk exposure of IORPs toward ESG risks is also likely to help IORPs in the pursuit of sustainability goals.”

The guidance should clarify:

- that the requirement to consider sustainability impact includes not only investment decisions (i.e., concerning the acquisition or disposal of investments), but also all investors’ activities (i.e., stewardship, including engagement with policy makers, standard setters, industry groups, and other actors of the financial system);

- how investors should assess sustainability risks and impacts; how they may set and pursue sustainability impact goals, either when those support financial goals (instrumental IFSI) or when they are pursued in their own right (ultimate ends IFSI); and

- how sustainability impact goals relate to financial goals and duties.

- Clarify that stewardship is an essential tool to be considered by investors when discharging their impact duties.

3.6 EXPLORE HOW FINANCIAL LEGISLATION CAN BETTER REFLECT CLIENTS’ AND BENEFICIARIES’ SUSTAINABILITY PREFERENCES

We recommend the next Commission to:

- Clarify how the concept of sustainability preferences can lead to real-world impact. For example, investors should be given the option to choose that their money is managed in ways that result in assessable, positive sustainability impacts. It is not clear if and how current sustainability preferences options identified under MiFID II, Solvency II and IDD contribute to positive sustainability impacts.

- Consider requiring investors to set investment strategies that involve pursuing positive sustainability impacts as a default option. The April 2021 delegated regulation amending MiFID II requires investment managers to recommend sustainable financial instruments only if the client expresses sustainability preferences. However, individual investors should be systematically offered sustainable investment products as one of the default options when available, at a comparable cost and if those products meet the suitability test. This may increase the likelihood that clients choose the more sustainable investment. For example, the French PACTE law enforced a systematic offering of ESG-labelled funds for new unit-linked life insurance policies, as of 2020.

- Encourage pension funds to consider the sustainability preferences of their beneficiaries, depending on the fund’s size and specific characteristics. EU regulators can encourage this by revising the relevant files such as the IORP II directive, developing guidance to explain when and how pension funds can do this and sharing good practices.
DUE DILIGENCE

Due diligence is an important and necessary part of a responsible investor’s toolkit and many PRI signatories already implement the UNGPs and OECD Guidelines for Multinational Enterprises and support mandatory due diligence legislation.

The provisionally agreed CSDDD has many positive elements in terms of company requirements: a risk-based approach including prioritising adverse impacts in line with international standards; providing remedy; and conducting meaningful stakeholder engagement. This will give investors a greater understanding of in-scope companies and their value chains, supporting risk and impact assessments.

However, due diligence requirements for the financial sector are limited to the upstream part of their chain of activities (this may change subject to a mandatory report as set out in a review clause in the directive). This is a significant missed opportunity to correct the piecemeal approach to due diligence within existing financial legislation, to harmonise expectations and requirements, and level the playing field across the EU. A clear and harmonised legislative framework is needed to support investors to understand and manage the impact of their investment decisions via proportionate due diligence aligned with international standards.

3.7 DEVELOP COMPREHENSIVE AND CONSISTENT DUE DILIGENCE OBLIGATIONS FOR THE FINANCIAL SECTOR

If drafted well, mandatory investor due diligence requirements should support investors’ sustainability assessments; enhance risk analysis and processes for impact prevention, mitigation and remediation; and enable better-informed engagement with investees, to respect human rights and give due consideration to environmental issues.

Therefore, we recommend the next Commission to:

- Ensure the report regarding financial due diligence, as required in Article 29 of the CSDDD, is undertaken promptly and based on a thorough legal review.
- Publish a legislative proposal alongside the report to ensure future due diligence obligations for the financial sector are practicable, effective and beneficial to the industry. These due diligence requirements should be grounded in international standards, follow a risk-based approach, complement existing due diligence-related obligations and be accompanied by precise, concise and timely guidance that includes different investors’ abilities to exercise influence over a company.

23 36% of investment manager and asset owner signatories based in EU Member States used the UNGPs and / or OECD guidelines to either set policies and / or identify sustainability outcomes from their activities. Our Advance initiative has 121 participants and 220 endorsers (participating investors have made a policy commitment to respect human rights and implement a human rights due diligence process). We also have more than 70 case studies of investors implementing due diligence across the globe

24 Due diligence is referenced in SFDR, AIFM and UCITS delegated acts, and indirectly in SRD I. However, these requirements are either limited to disclosures or are very high level. There is not a harmonised approach to due diligence
CHAPTER 4: ENSURE EFFECTIVE CORPORATE GOVERNANCE AND REPORTING

Corporate disclosure and governance play a key role in the transition to a sustainable economy. Investors need consistent, reliable and comparable data from corporates to make informed, sustainable investment decisions. Through robust and appropriate corporate governance arrangements, businesses can promote long-term value creation, support positive sustainability impacts, and help achieve the Commission’s objectives.

4.1 MANDATE SUSTAINABILITY-LINKED EXECUTIVE REMUNERATION

The HLEG’s final report of 2018 recognised the importance of consistency between remuneration policies and long-term goals. If structured appropriately and implemented effectively, sustainability-linked pay can rebalance the emphasis on short-term performance targets in typical remuneration packages, which may run contrary to long-term financial and sustainability objectives.

Therefore, we welcome the requirement, in the provisional agreement of the CSDDD, for companies to have an appropriate policy to promote the implementation of their climate change mitigation plan, including through financial incentives to members of the administrative, management or supervisory bodies concerned. However, focusing on climate change disregards the importance for remuneration packages to incentivise performance on the most material sustainability factors (which may not always be climate change). It is also inconsistent with ESRS 2, paragraph 29, which introduces remuneration-related reporting requirements on targets applicable to any sustainability issue considered.

Therefore, we recommend the next Commission to:

- Consider a revision of the CSDDD to allow directors to select relevant E, S and/or G factors and the appropriate balance of these factors in the remuneration package. This would allow companies to focus on the sustainability metrics most material to them, while also enabling progress across different sustainability goals.

- Accompany any requirements on executive remuneration with guidance to prevent pay rewards for business as usual or the achievement of insufficiently challenging targets and other potential unintended consequences. This guidance should also encourage remuneration committees to exercise and report on their use of discretion to ensure pay is adjusted where targets have been met as a result of external factors outside the control of executives. This will ensure the use of sustainability-related criteria in executive compensation are driving better outcomes on sustainability.

CORPORATE GOVERNANCE

Sound corporate governance is essential to ensure and strengthen business integrity in the EU. A sustainable corporate governance regime means directors must consider the interests and needs of all stakeholders and the social and environmental impact of company operations. In this way, companies preserve and enhance their social licence to operate, which helps them deliver value for shareholders and contribute to the economic transition.

RECOMMENDATIONS TO THE NEXT EUROPEAN COMMISSION

Recommendations for policy development

4.1 Mandate sustainability-linked executive remuneration
4.2 Promote fair, efficient and sustainable taxation
4.3 Advance responsible political engagement

Recommendations for policy development

4.4 Mandate the disclosure of key sustainability indicators in the ESRS
4.5 Review the effectiveness of the ESG ratings regulation
4.2 PROMOTE FAIR, EFFICIENT AND SUSTAINABLE TAXATION

Our work and engagement with investors have shown that tax risks translate into earnings, reputational and governance risks at the company level, and contribute to macro-economic and societal risks at the system level. There is increasing recognition that it is in investors’ financial interests to better identify tax-related factors that could present a downside risk and integrate those risks in valuation and investment decisions.

Therefore, we support the Commission’s commitment to promote fair, efficient, and sustainable taxation. Specifically, we support the aims and objectives of the following:

- **Unshell directive**: Tackling the misuse of shell entities should be at the heart of cracking down on tax avoidance.
- **BEFIT package**: A common set of rules for EU companies to calculate their taxable base appears necessary to ensure a more effective and fairer allocation of profits between EU countries given the issues associated with transfer pricing.
- **Proposal for a Transfer Pricing Directive**: The EU should seek to simplify transfer pricing rules among EU countries to reduce opportunities for companies to use transfer pricing for aggressive tax planning purposes.

We also recommend the next Commission to:

- **Encourage global progress on tax policy by continuing to advocate for the implementation of the OECD Pillar 1 and supporting efforts to increase international tax cooperation at the UN level.** The Commission should also ensure that Member States that have missed the June 2023 transposition deadline for public country-by-country reporting transpose it promptly. We have been raising awareness of the benefits for investors of increased tax transparency including comprehensive public country-by-country reporting across jurisdictions, including in the EU.

- **Work as part of the Code of Conduct Group (CoCG) to improve and strengthen the EU list of non-cooperative jurisdictions** as it can be an effective mechanism to reduce the number of harmful tax regimes. Many investors use this list to assess the tax practices of their companies, and the ESAs have proposed a mandatory SFDR PAI indicator based on the list. We encourage the CoCG to strengthen the list by expanding the scope of jurisdictions and the criteria considered for the assessment, and continuing to strengthen the defensive measures against non-cooperative jurisdictions.

- **As part of the CoCG, consider that some emerging countries may be included (especially on the grey list) because of capacity constraints to comply with the assessment criteria.** The CoCG should be aware that the list will be more effective if it includes jurisdictions that have a material impact on global tax avoidance and evasion.

- **Table the long-awaited proposal on Securing the Activity Framework of Enablers (SAFE).** This will be important to address the role of enablers of tax avoidance and evasion.
4.3 ADVANCE RESPONSIBLE POLITICAL ENGAGEMENT

When corporate political engagement is not carried out in a responsible, fair, and transparent manner, it can result in the interests of some corporations having a disproportionate impact on policy-making and impede progress on sustainability challenges.

Therefore, we recommend the next Commission to:

- **Expand lobbying registries and increase the scope of policy makers required to disclose information on their interactions with stakeholders.** For example, the EU’s Transparency Registry should be updated to require entrants to disclose industry meetings with Commission and Council staff. An OECD report supported by the PRI has shown that current regulatory frameworks in most jurisdictions including the EU cannot guarantee responsible political engagement.

- **In the next review of the ESRS, introduce disclosure requirements for third parties’ lobbying activities, including trade associations.** The information captured in lobbying registries at the EU and Member State level (where they exist) provide much-needed transparency but is not sufficient for investors to assess the political engagement and lobbying activities of their investee companies. Management reports should also contain lobbying-related disclosures. Therefore, we welcome the ESRS disclosure requirements in ESRS G1.5 – Political influence and lobbying activities but this should be expanded to include third-party lobbying activities.

**CORPORATE REPORTING**

The Commission’s adoption of its first delegated act of the ESRS is an important step towards investors having the data they need to assess the sustainability risks, opportunities and impacts of investee companies – an essential requirement to guide investment decisions towards the net-zero transition and other sustainability objectives.

However, as identified in a joint statement with more than 90 investors, the Commission’s decision to subject all issue-specific reporting to a materiality assessment is very concerning. Explanations as to why a particular sustainability topic is or is not deemed material are now voluntary and ultimately it is up to corporates to determine what is material to report. This means the ESRS may not guarantee investors access to the data they need to comply with their own mandatory reporting obligations – such as those under the SFDR – and allocate capital in line with sustainability goals, such as those of the European Green Deal, the EU Biodiversity Strategy for 2030 and the EU Climate Law.

Given the above, the European Financial Reporting Advisory Group’s (EFRAG) draft implementation guidance for the materiality assessment will be an important step to enable comparability of reporting and to ensure reporting entities consistently apply their materiality assessment.

---

**70% of investors surveyed consider strengthening corporate disclosure requirements key to reducing the harmful effects of corporate lobbying**

**Over half – 55% – of investors surveyed said materiality assessment guidance should be in the Commission’s top three actions to develop over the coming years to improve the decision-usefulness of corporate sustainability reporting for investors**
4.4 MANDATE THE DISCLOSURE OF KEY SUSTAINABILITY INDICATORS IN THE ESRS

Given climate change is a growing and acute system-level risk, and in light of the EU's climate objectives and investors' own climate commitments, reporting on GHG emissions, transition plans and climate targets should always be considered material and reported on by all companies subject to the CSRD. This will ensure that investors can access information from their holdings and support alignment of their portfolios with net zero and the Paris Agreement targets.

Looking beyond climate change, investors are also subject to broader sustainability reporting obligations, such as those under the SFDR, and may have non-climate sustainability goals. Therefore, in the next review of ESRS 1 and ESRS 2 we recommend the Commission to:

- Make key climate disclosure indicators mandatory, including Scope 1, 2, and 3 GHG emissions, enabling investors to assess the credibility of corporate transition plans.
- Make environmental and social indicators relevant to investor reporting requirements mandatory, covering SFDR, EU Climate Benchmark Regulation and Climate Benchmarks Delegated Acts, Pillar 3 disclosures amongst others.
- Require explanations as to why certain sustainability topics (e.g., biodiversity) are not considered material for a company, where applicable.
- Reconsider the fully optional nature of: (i) own workforce metrics for non-employees (e.g. total number of non-employees in the workforce and the type of work they perform); and (ii) biodiversity transition plans to provide investors with information on how companies will align their strategy and business models with the EU Biodiversity Strategy for 2030 and the Kunming-Montreal Global Biodiversity Framework.

4.5 REVIEW THE EFFECTIVENESS OF THE ESG RATINGS REGULATION

ESG ratings based on clear objectives, transparent methodologies and reliable information can enable investors to make better informed decisions that support the economic transition. However, investors have noted that current ESG rating and data product methodologies are sometimes not completely transparent and verifiable, for both underlying estimated data or data taken directly from companies. Transparency and verifiability should be improved to enable investors to fully assess investee's ESG information.

Therefore we support the proposed regulation on the transparency and integrity of ESG rating activities which should increase investor confidence in the quality and integrity of ESG information.

At time of writing, a provisional agreement on the ESG rating regulation was reached during trilogues. We therefore encourage the next Commission to conduct an implementation and effectiveness review of the ESG regulation by the end of its next mandate and consider further extending the scope to bring in ESG data product providers. In the meantime, the Commission should encourage the global alignment of data products’ practices and drive further transparency across markets. This could take the shape of an industry code of conduct for EU ESG data products providers, aligned with other codes already developed by regulators, especially ICMA global voluntary Code of Conduct for ESG ratings and data products providers.
CHAPTER 5: PROMOTE GLOBAL INTEROPERABILITY

The Commission’s commitment to continue and strengthen its engagement on sustainable finance policy in global forums is strongly welcomed. International policy divergence reduces the effectiveness of policy implementation and impact. The Commission should maintain its ambition while supporting and collaborating with policy makers worldwide to improve global comparability and interoperability across sustainable finance frameworks and increase global support for embedding sustainability in financial regulations.

5.1 SEEK CONSENSUS ON THE IMPORTANCE OF SUSTAINABILITY OUTCOMES-FOCUSED POLICY

As shown in our LFI report, investors likely have a legal obligation to consider pursuing sustainability impact goals, where doing so can contribute to achieving their investment objectives. In fact, sustainability outcome-related integration and disclosure requirements are increasingly expected of investors worldwide. This reflects a growing recognition among investors and policy makers that financial investments drive real-world outcomes on sustainability issues and that financial returns depend on the stability of social and environmental systems, especially in the long term.

Therefore, we support the focus on sustainability outcomes alongside financial returns in the EU legislative framework, including in the CSRD and its incorporation into the ESRS. We recommend EU policy makers and standard setters continue to promote and seek consensus on the importance of outcomes-focused policy, including via IOSCO and through the International Sustainability Standards Board’s (ISSB) Jurisdictional Working Group.

Specifically on corporate reporting, we have encouraged non-EU jurisdictions to work in this direction by adopting the ISSB Standards and supplementing these with impact-related requirements within the GRI Standards and the ESRS. Equally, the interoperability of taxonomies, through similar objectives, common design principles and consistent metrics, is critical to ensure a clear understanding of which activities can be defined as sustainable and to increase capital flow towards them. The EU should accelerate its work on this as part of the International Platform on Sustainable Finance (IPSF).

---

26 PRI (2022), How policy makers can implement reforms for a sustainable financial system, pp.6-7
5.2 CONTRIBUTE TO HARMONISING GLOBAL CORPORATE REPORTING

Interoperability between jurisdictional requirements – allowing companies to collect data and report in a manner that serves both local and global requirements – is a key concern for global investors. As shown in our Investor Data Needs Framework, sustainability-related information is crucial to not only assess companies’ risks and opportunities, but also a company’s sustainability performance, its alignment with sustainability goals and thresholds, and its exposure to systemic risks. This sustainability data should be consistent across portfolios to enable investors to allocate capital efficiently and address sustainability goals.

Therefore, we recommend the Commission works towards maximum possible interoperability of the ESRS with global sustainability reporting standards and frameworks – including the ISSB and the Global Reporting Initiative (GRI) standards – while ensuring the ESRS align with the goals of the EU Green Deal. We welcome the work of EFRAG and the European Commission in aligning ESRS Set 1 with global standards, evidenced by the recent EFRAG-GRI Joint Statement of Interoperability. Guidance on interoperability between the ISSB Standards and ESRS is needed to support investors to compare information and see where key differences exist.

5.3 COLLABORATE TO IMPROVE INTERNATIONAL INTEROPERABILITY OF INVESTOR DISCLOSURE

Since the EU adopted SFDR in 2019, other jurisdictions have proposed their own investor disclosure legislation, including the FCA, the SEC and the Hong Kong Monetary Authority. Numerous regulatory efforts have also emerged to address market fragmentation in the use of ESG names and standards in various jurisdictions and regions.

For global institutional investors, a fragmented policy landscape risks inconsistent sustainability reporting requirements for financial products marketed in different jurisdictions, which could lead to higher costs for investors developing and / or marketing these products. Therefore, we recommend the next Commission to:

- Work towards interoperability with non-EU investor disclosure frameworks under development (notably in the UK and the US), to ensure a baseline of disclosures (based on existing frameworks and the IOSCO 2021 guidelines) and compatibility for sustainability-related fund categories.

- Include in the upcoming SFDR review a mapping of how the proposals align with or diverge from other regulatory investor reporting standards and principles worldwide (IOSCO, SEC, FCA, HKMA, etc.).

5.4 COMMUNICATE EFFECTIVELY AROUND SUSTAINABLE FINANCE LEGISLATION

Many jurisdictions appreciate the EU being proactive in setting out good practice and testing new ideas for sustainability policy. The next Commission should continue to lead by example, ensuring alignment between policy decisions and outcomes and the goals of the EU Green Deal. This is crucial to protect the common understanding of the importance of responsible investment and the broader sustainability agenda. The EU’s role within the IPSF will be central to this work.

There is also a need to better communicate the aim and purpose of EU sustainable finance policies, as well as the accompanying terminology. Key files such as the EU Taxonomy and SFDR occasionally have been misinterpreted. This may lead to incoherencies between policies or rejection of the idea in principle. Furthermore, clear policy communication is increasingly important given the ESG-related backlash in the US. Therefore, we recommend the Commission clarifies what practices and goals each legislation is (and is not) designed to achieve.
CHAPTER 6: IMPLEMENT CLIMATE, NATURE AND SOCIAL POLICIES

The European Green Deal’s goal to transform the EU into a modern, resource-efficient, and competitive economy is based on three pillars:

- **Climate**: Decreasing net emissions of greenhouse gases to zero by 2050.
- **Nature**: Decoupling economic growth from resource use while restoring nature.
- **Social equity**: Developing social measures to ensure no person and no place is left behind.

These real-economy transition goals, covering a wide range of sectors, are interlinked and indivisible. A just transition would bring about the reduction of greenhouse gas emissions while ensuring social equity and that socioeconomic aspects, such as living standards, incomes and communities, are not negatively impacted, or that such potential impacts are managed and addressed. These goals also require a significant increase in private sector funding. Strong and effective sustainable finance policy is essential to address the financing gap, but it cannot drive the transition by itself. Credible and robust real-economy policies are needed to shape and push for the economic transition.

The Fit for 55 package and related legislation – if implemented coherently – will provide clarity around the expected investment environment and enable investors to better identify risks and opportunities to support the EU’s sustainability goals. The legislation should be implemented promptly, considering the time lag from financial planning to construction and operation of large-scale infrastructure and technologies.

The next Commission, in concert with Parliament and Council, will have to show strong political leadership within a new political setting after the elections. Its new mandate is the last opportunity to support and guide Member States in achieving their sustainability targets for 2030 and beyond.

ENSURING A COHERENT WHOLE-OF-GOVERNMENT APPROACH TO THE ECONOMIC TRANSITION

To promote and support an effective economic transition, the European Commission’s work on financial and real-economy sustainability policy should be aligned, including across Member States where possible. We recommend the next Commission to:

- **Continue to have a dedicated Commissioner, appointed to oversee European Green Deal (EGD) policies and their implementation.** This Commissioner should ideally sit in the role of Vice President or Executive Vice President.
- **Create an independent coordinator role within the cabinet of the next EGD Commissioner, separate from the Head of Cabinet.** This would enable greater resources to be dedicated to ensuring a horizontal approach of the work done by all Directorate-Generals (DGs) involved in EGD policies. This EGD coordinator could also coordinate the existing (principal) advisers within the DGs for environment (DG ENVI), climate (DG CLIMA) and energy (DG ENER).
- **Consider creating a taskforce within the Secretariat General of the Commission, to support the existing EGD adviser role.** This taskforce could be created in a manner similar to the RECOVER taskforce and would be in charge of coordinating the inter-institutional EGD work at the technical level.
Recommendations to the next European Commission

**Climate**

6.1 Implement carbon pricing and fiscal reforms to incentivise industry innovation
6.2 Prioritise energy demand management in public and private sectors
6.3 Accelerate renewable energy deployment and avoid new carbon lock-in
6.4 Propose an EU climate target of at least 90% net emission reductions by 2040

**Nature and biodiversity**

6.5 Ensure effective implementation of the EU Nature Restoration Law
6.6 Prioritise effective implementation of the EU Deforestation regulation and expand its scope
6.7 Shift from biomass for energy to restoring nature for climate and biodiversity
6.8 Align the Common Agriculture Policy with EU climate and environmental law
6.9 Scale up nature-based solutions

**Social issues and a just economic transition**

6.10 Ensure the costs of transition activities are distributed fairly
6.11 Protect human rights in critical raw materials supply chains
6.12 Protect communities when developing renewable energy infrastructure
6.13 Increase the resilience of the European economy

**CLIMATE**

Financial institutions are increasingly recognising the extent of climate risks and their impact on every sector. Many institutions are reviewing their investment activities to support limiting global warming to 1.5°C above pre-industrial levels and fund the transition to a climate-secure, zero-carbon future.

There are also several investor initiatives that set targets to achieve net-zero emissions by 2050, including the Net Zero Asset Owner Alliance (NZAOA), the Glasgow Financial Alliance for Net Zero (GFANZ) initiatives, the Science Based Targets initiative (SBTi), Climate Action 100+, The Investor Agenda and the new Taskforce for Net Zero Policy launched at COP28.

Nevertheless, investors still face a significant number of barriers to shift their portfolios. A robust Fit for 55 package with clear objectives, a pathway to 2040 climate targets and transparent and effective implementation measures is fundamental to increase transition finance.
6.1 IMPLEMENT CARBON PRICING AND FISCAL REFORMS TO INCENTIVISE INDUSTRY INNOVATION

Carbon pricing and compliance markets represent strong levers to shift incentives towards sustainable investments. As noted by the NZAOA, carbon pricing is a “necessary part of the climate policy toolkit required to achieve net-zero emissions and reach the Paris Agreement goals”. It enables investors to better identify and price in climate risks in their decisions, increases the number of viable sustainable investment opportunities, creates new markets for the net-zero economy, helps de-risk new technologies and business models, and raises capital for the transition.

The EU has significantly reformed its carbon pricing policy, in three parts: expanding the emission reduction levels and scope of the EU Emissions Trading System (ETS); covering emissions from building and transport sectors in the new ETS II, which means three quarters of EU territorial emissions will be covered by 2030; and implementing the Carbon Border Adjustment Mechanism (CBAM) to avoid carbon leakage outside the EU. These reforms provide an investment climate favourable to industry innovation, green investments, and raising transition capital. At the same time, these incentives to make polluters pay should not be counteracted by fiscal incentives for unsustainable investments, in particular investments in emission-intensive energy sources.

We recommend the next Commission to:

- **Safeguard households and communities that are vulnerable to transition impacts.** Limiting price increases in ETS II should provide some level of protection to consumers from price volatility for essential energy services. Nevertheless, these funds will likely need to be supplemented by additional financial measures.

- **Use ETS proceeds for a just and socially equitable transition.** Proceeds should continue to support industry innovation and modernisation in Member States, but not to the detriment of compensating impacted communities. Introducing carbon dividends – giving back revenues from ETS II to citizens – will provide greater income support for those households most harshly affected by the transition.

- **Assess the overall emission cap and the pace of phasing out free allowances to align with 2030 and upcoming 2040 climate targets and related carbon budgets.** This assessment should be based on the best scientific evidence as provided by the European Scientific Advisory Board on Climate Change, the independent expert body set up for this task under the European Climate Law.

- **Ensure gradual implementation of CBAM** in line with phasing out free ETS allowances at a pace that is consistent with 2030 emission reduction targets. CBAM implementation should adapt to and integrate new information and lessons learned given its novelty at the international scale and its potential impact on trade with the EU.

- **Support reforming the Energy Taxation Directive in line with the EU Green Deal and climate neutrality objectives.** As set out in our 2023 economic transition report, subsidy reform and providing tax exemptions and / or subsidies for clean technologies and sectors, in combination with pricing instruments and emission trading schemes to address negative externalities, are key levers for a whole-of-government approach to the economic transition. The full and equitable phase-out of all fossil fuel subsidies **should be a target of all G20 members** including eliminating all subsidies for fossil fuel exploration and production.
6.2 PRIORITISE ENERGY DEMAND MANAGEMENT IN PUBLIC AND PRIVATE SECTORS

The cheapest and most sustainable energy is energy saved by not being used in the first place. The primary drivers to curb usage are energy demand and management and improving energy efficiency. The IEA Net Zero Emissions by 2050 Scenario finds that doubling the energy efficiency rate from 2% to just over 4% annually would reduce global energy demand by a third by 2030, a commitment endorsed by the EU and 130 governments in the Global Renewables and Energy Efficiency Pledge launched at COP28.

A key strategy for the European Green Deal is to reduce future energy supply and infrastructure needs, as well as resource use and GHG emissions. For example, heating and cooling in the building sector accounts for about 40% of total energy demand. Combining the increased use of heat pumps, better insulation and large-scale district heating would reduce fossil fuels by 37% by 2030, and up to 97% by 2040.

The EU has acted on energy demand management by adopting the revised Energy Efficiency Directive (EED). It increases the energy savings target to 11.7% by 2030, requiring Member States to reduce energy consumption by 1.5% per year. However, stronger efforts are required for policy implementation, as previous EU efficiency targets have been consistently missed by Member States.

Lower resource consumption – also referred to as a circular economy approach – also saves on energy and reduces emissions. Using fewer raw materials requires less energy-intensive mining and extraction, makes production more resource-efficient, and can provide higher value at lower costs.

Climate, energy, and economic benefits from more circular approaches are assessed in the recently revised EU Circular Economy monitoring framework. Circular economy strategies feature prominently in the provisionally agreed Ecodesign for Sustainable Products Regulation (ESPR), which focuses on increasing energy and resource efficiency. The ESPR would set a wide range of requirements for new products, including: (i) circular economy attributes, i.e. durability, reusability, upgradability and reparability of products; (ii) their recycled content; and (iii) better data on products’ material composition as well as carbon and environmental footprints. Circular economy policies help create new business models, promote technological innovation, and offer investment opportunities for the net-zero economy.

Therefore, we recommend the next Commission to:

- **Support implementation of the EED in the public sector.** Public bodies and municipalities should lead by example, applying energy efficiency requirements in procurement guidelines for products, services, buildings, and infrastructure projects; shifting to performance-based energy contracts; increasing the rate of renovations; and providing energy-saving examples across a wide range of activities, including buildings, transportation, and public utilities.

- **Assess and integrate emission reductions from energy savings, more efficient material use, and industry circular economy approaches into emission reduction strategies across the value chain.** Such an assessment may also consider co-benefits of circular economy strategies for sustainability (e.g., reduced ecosystem loss and lower risk of human rights abuses), resilience, competitiveness, and autonomy of the EU, as aligned with the objectives of the proposed ESPR.

- **Accelerate energy efficiency for heating and cooling in buildings.** This includes electrification of heating and cooling in buildings by incentivising the installation of heat pumps, combined with better insulation, and providing large-scale district heating where possible.
6.3 ACCELERATE RENEWABLE ENERGY DEPLOYMENT AND AVOID NEW CARBON LOCK-IN

In addition to energy efficiency, research shows that cost-effective renewable energy and electrification solutions are also considered ‘no-regret options’ for the net-zero transition. These options are proven, feasible low-carbon energy technologies. They already exist in the Fit for 55 package, should be further upscaled after 2030, and will inevitably hold a significant role in the long-term transition.

The IEA Net Zero Emissions by 2050 Scenario requires the share of all renewable energy to triple by 2030 to keep to the 1.5°C goal, a position the EU supported and endorsed at COP28. In the EU, decarbonising the power sector is progressing faster than at the global level, due to accelerating rates of renewable energy deployment. Power generation from low-cost and quick-to-deliver wind and solar capacity doubled from 11% in 2014 to 22% in 2022, for the first time overtaking the share of power generated by both gas (20%) and coal (16%).

The higher ambition of the Renewable Energy Directive (RED III) is core to this energy sector transition. The revised RED III has more than doubled targets for the overall renewable energy share, from 20% in 2020 (which was narrowly achieved) to 42.5% in 2030. It also introduced individual targets for key sectors like heating and cooling in buildings, industry, and transport, and provided strong policy signals for increased investment into the energy sector. It will also simplify the permit-granting process for renewable energy installations which will further support energy service companies, project developers, and financial market actors.

However, stronger sustainability criteria and emission thresholds for deployed energy sources and infrastructure investments are crucial to avoid carbon lock-in and protect the climate neutrality objective for 2050. Nearly 60% of all renewable energy in the EU still derives from biomass, posing significant risks of increased emissions and reduced carbon storage. The current method in which biomass is extracted and used for energy also negatively affects nature policy objectives, such as increasing biodiversity, nature restoration targets, and the supply of biomaterials for a decarbonised net-zero economy (see nature section below).

Therefore, we recommend the next Commission to:

- **Accelerate electrification with no-regret renewable energies that minimise the risk of carbon lock-in as part of RED III.** The Commission should support Member States to implement RED III targets for key sectors – buildings, industry, and transport – with carbon-free energy sources, such as onshore and offshore wind, solar power, and electrified heating and cooling in buildings via heat pumps. Subsidies also should shift from fossil fuels and limited bioresources to low or zero-carbon renewable energy alternatives.

- **Assess the alignment of different renewable energy options with net-zero emission targets.** The European Scientific Advisory Board on Climate Change’s (ESABCC) assessment on low-carbon energy pathways to achieve the 2040 climate target should inform sustainability criteria and which renewable energies to prioritise in RED III. The assessment should also guide the use of REPowerEU funds which contribute to new fossil gas and oil pipelines and LNG terminals, and increase the risk of long-term infrastructure carbon lock-in.

- **Review sustainability criteria for classifying biofuels, bioliquids, and biomass for energy in RED III and the EU Taxonomy by 2027.** The classification of biomass for energy use as carbon-neutral and the resulting exclusion from the ETS does not align with best available scientific evidence and will lead to significant supply challenges both in the EU and abroad. The ESABCC assessment of bioenergy contributions to 2030 and 2040 emission reduction targets should inform and identify appropriate emission allowances for primary biomass used for energy under the ETS.
6.4 PROPOSE AN EU CLIMATE TARGET OF AT LEAST 90% NET EMISSION REDUCTIONS BY 2040

A large emission gap remains, both for the 2°C and even more so for the 1.5°C target pathways. To reach its net-zero targets, as well as address its fair share of emission reductions, the EU should lay out a future decarbonisation pathway beyond 2030, to provide planning security for transition investments from the private sector and financial markets. As a first step, this requires a climate target for 2040, which will inform and complement sectoral roadmaps for industry (as pointed out in chapter 1, Financing the transition).

The independent ESABCC, established under the European Climate Law, recommends a net emission reduction target of 90-95% by 2040, or 11-14 Gt CO2-equivalent, in line with limiting global warming to 1.5°C. This mirrors the 92% target from the net-zero pathway scenarios by the PRI-commissioned Inevitable Policy Response.

Investors require policy certainty over a long-term investment horizon to adequately assess transition risks and opportunities. We recommend the next Commission to:

- Propose a science-based climate target of at least 90% net emission reductions by 2040 aligned with a 1.5°C pathway. This would match up with public commitments by the current EU Commissioner for Climate Action, Wopke Hoekstra, and Executive Vice President for the European Green Deal, Maroš Šefčovič. The scientific basis for any proposed target should not fall below the recommendations from the ESABCC as set up in the European Climate Law.

- Assess any new European legislation with relevant climate mitigation impacts. As all EU policies should align with the European Climate Law’s binding 55% reduction target by 2030, as well as carbon neutrality by 2050, climate-relevant legislation should be advised by ESABCC recommendations. If the decision is made to not follow the Advisory Board’s advice, it should be justified in the respective legislative proposals.

NATURE AND BIODIVERSITY

Nature is an integral part of the European Green Deal yet, according to the EU, 81% of natural habitats are in poor status and only 23% of species monitored are in good health. At the same time, every €1 invested into nature restoration adds between €8 and €38 in benefits. As highlighted by the European Central Bank, our economies depend on a thriving nature, with approximately 72% of companies in the Eurozone highly dependent on at least one ecosystem service. Resilient ecosystems also play an important role in meeting climate mitigation and adaptation targets: nature-based solutions could provide 37% of the mitigation needed by 2030 to meet the Paris Agreement targets.

Conserving and protecting remaining natural habitats will not suffice to halt and reverse biodiversity loss as has been mandated by the Kunming-Montreal Global Biodiversity Framework. Restoration and regeneration measures are also needed to reverse this trend, set nature on a path to recovery by 2030 and ensure its long-term resilience. Restoring wetlands, rivers, forests, grasslands, marine ecosystems and the species they host is vital to:

- increase biodiversity and secure crucial ecosystem services, like water and air purification, pollinating crops, and flood protection;
- strengthen the natural climate solutions to support limiting global warming to 1.5°C in line with Paris Agreement commitments; and
- build up Europe’s resilience and strategic autonomy by mitigating natural disasters and reducing risks to food security.

The scientific basis for any proposed target should not fall below the recommendations from the ESABCC as set up in the European Climate Law.

- Assess any new European legislation with relevant climate mitigation impacts. As all EU policies should align with the European Climate Law’s binding 55% reduction target by 2030, as well as carbon neutrality by 2050, climate-relevant legislation should be advised by ESABCC recommendations. If the decision is made to not follow the Advisory Board’s advice, it should be justified in the respective legislative proposals.

77% of investors surveyed consider legislation on nature and biodiversity as a high or very high priority for the next European Commission.
6.5 ENSURE EFFECTIVE IMPLEMENTATION OF THE EU NATURE RESTORATION LAW

With a provisional agreement reached, the effective implementation of the NRL is now crucial to support the objectives set in the EU Biodiversity Strategy 2030 and follow through on the commitments under the Global Biodiversity Framework. This will set the groundwork for advancing climate and biodiversity finance, which plays a central role in delivering national and global sustainability frameworks.

We recommend the next European Commission to support effective implementation of the NRL by ensuring that Member States:

- provide publicly accessible National Restoration Plans that specify the respective habitats, measures, and timelines for implementing nature restoration targets, based on best available science;
- create strong governance mechanisms built on existing national legislation (where already in place);
- set objectives for 2030, 2040 and 2050 on specific restoration measures for national natural habitats, species and ecosystems, to be assessed by the European Commission in a transparent way and coordinated with other national plans to ensure a cohesive EU approach; and
- include estimated financing needs and sources for restoration measures in their plans.

The adoption of the Kunming-Montreal Global Biodiversity Framework provides governments and non-state actors with an ambitious and tangible course of action to halt and reverse biodiversity loss by 2030. Its implementation into regional and national legislation and action plans will be fundamental to its success. The Global Biodiversity Framework’s objectives are mirrored in the EU Biodiversity Strategy for 2030 and the EU Nature Restoration Law (NRL). Below we set out recommended policy actions to achieve these objectives.

Awareness in the private sector of the biodiversity crisis and the need for transformative action has increased exponentially over recent years. In December 2022, more than 150 financial institutions (representing nearly US$25tn of assets under management) signed a statement, coordinated by the PRI, UNEP Finance Initiative and Finance for Biodiversity Foundation, calling for an ambitious Global Biodiversity Framework ahead of the UN Biodiversity Conference COP15.
6.6 PRIORITISE EFFECTIVE IMPLEMENTATION OF THE EU DEFORESTATION REGULATION AND EXPAND ITS SCOPE

Investors in the EU recognise the importance of addressing forest loss and land degradation – 41% of the 129 worldwide endorsers of PRI's new Spring initiative are based in EU Member States. Therefore, we recommend the next European Commission to ensure successful implementation of the EU Deforestation Regulation by:

- providing support and guidance to in-scope companies;
- collaborating closely with producing countries to ensure a 'just implementation' and increase data availability and comparability for more effective monitoring (a new EU Forest Monitoring Framework Regulation as proposed by the Commission would be helpful to ensure higher data quality and consistency); and
- supporting the transition to sustainable and deforestation-free production at the source to ensure system-level change and avoid the risk of deforestation-linked products being exported outside of the EU instead.

We welcome the planned review of the EU Deforestation Regulation which will consider:

- Extending the scope of the Regulation to include:
  - Other wooded land. The definition of ‘forest degradation’ should be clarified to include degradation within existing forests due to timber harvesting and large-scale clear-cutting of native forests (see recommendations on biomass below).
  - Other natural ecosystems, such as grasslands, peatlands and wetlands. This is important for EU climate targets for their carbon sequestration and storage potential.
  - Other forest-risk commodities, such as corn, additional soy-fed animals, or critical minerals (nickel, bauxite, gold). This will lead to better-informed risk analysis.
  - The role of financial institutions in preventing financial flows that contribute to deforestation and forest degradation and the need to provide for any specific legislative obligations. Any new requirements should be practicable, proportionate and support investors risk and impact analysis.

We recommend the next Commission to ensure this impact assessment of the EU Deforestation Regulation is carried out in time and is accompanied by legislative proposals which support investors’ assessment of deforestation-related risks and impacts. It should also consider the global shift in reporting expectations for nature-related risks and opportunities, including reporting requirements driven by the Taskforce on Nature-related Financial Disclosures (TNFD). This would ensure coherence and consistency across markets, and meaningful data for investors (and other stakeholders) to support their decision-making.
6.7 SHIFT FROM BIOMASS FOR ENERGY TO RESTORING NATURE FOR CLIMATE AND BIODIVERSITY

Choosing to maintain living biomass as part of healthy ecosystems not only supports carbon sequestration and storage but also helps to achieve key objectives for the EU Nature Restoration Law and the Biodiversity Strategy 2030. Therefore, policy makers should aim to reduce the use of biomass resources to cases where alternatives are more limited (e.g., material substitution to reduce dependency on fossil and mineral sources) or where the biomass resource is genuine waste and/or residue (i.e., it cannot be functionally used in a material or chemical form, and where energy recovery is the last step in the value chain). When using bioresources, it should be for high-value purposes, in smaller quantities and within a circular bioeconomy (e.g., as a material for chemicals or construction), instead of in large quantities for one-time, low-value uses (e.g., combustion for energy).

For this proposed shift from ‘biomass for energy’ to ‘biomass for climate and nature’, we recommend the Commission to:

- Cap or restrict the supply of biomass for energy from primary sources and transition to using waste biomass and residues.
- Utilise the carbon storage potential of biomass according to Land Use, Land Use Change and Forestry (LULUCF) requirements.
- Prioritise the high-value, low-quantity use of biomass for the circular bioeconomy, to decarbonise raw materials and food stocks.
- Shift subsidies from burning biomass resources for energy and heating towards zero-carbon renewable energy alternatives (such as solar, wind, and heat pumps).
- Reassess carbon accounting methodologies in climate-related EU legislation (such as the ETS, RED III and Taxonomy TSC) to more accurately reflect GHG emissions from biomass removal. Such an assessment should consider the carbon intensity of using biomass in other sectors of the bioeconomy, and the accumulated carbon debt of biomass burned for energy related to the time needed for regrowth of forests and other bioresources.

6.8 ALIGN THE COMMON AGRICULTURE POLICY WITH EU CLIMATE AND ENVIRONMENTAL LAW

Global food systems are the primary driver of biodiversity loss. The Global Biodiversity Framework emphasises the need for sustainable management of agriculture, aquaculture, fisheries and forestry and an increase of biodiversity-friendly practices. It also mandates substantial and progressive reduction of incentives (including subsidies) that are harmful to biodiversity by 2030, following their identification by 2025.

In the EU, the CAP 2023-27 contains several policy reforms to support the transition towards sustainable agriculture and forestry. The inclusion of at least 3% of arable land dedicated to biodiversity and non-productive elements is a small step in the right direction, as is dedicating at least 25% of direct payments for eco-schemes for climate and environmentally-friendly farming practices (e.g., organic farming, agro-ecology, and carbon farming). However, agriculture remains a large contributor to EU GHG emissions. In the second quarter of 2023, it amounted to 14.3% of emissions, ahead of transportation and storage.29

Commission data shows that while carbon-storing peatlands cover 8% of EU land area, 50% of them are estimated to be drained, mainly for agricultural purposes. This makes the EU the second largest emitter of greenhouse gases from drained organic soils worldwide and requires increased efforts to rewet and restore peatlands.

The CAP Strategic Plans provided by each Member State and approved in 2022 provide a robust basis for the first performance review by the Commission in 2025 to request specific follow-up actions by EU countries (if necessary).

In upcoming reviews, we recommend the next European Commission to assess to what extent Member State CAP Strategic Plans and the overall CAP 2023-27 align with achieving EU 2030 climate and biodiversity targets. These upcoming reviews should:

- assess the reduction of agricultural practices that harm biodiversity, and how far the incentive structure rewards farmers proportionally in terms of their decarbonisation efforts;
- monitor the uptake and progress of sustainable agricultural farming practices that add to nature objectives, including more diverse habitats and farmland landscapes;
- assess climate and nature benefits through mitigation technologies, better soil management, biomass production, reduction in fossil fuel intensity of farm production, and reduction in agricultural production losses and waste; and
- adapt and expand eco-schemes and other support measures that have proven most effective into the next CAP from 2027.

29 The other economic sectors contributing to GHG emissions were manufacturing (23.5%), households (17.9%), and electricity and gas supply (15.5%). See https://ec.europa.eu/eurostat/web/products-eurostat-news/-/doi-20231115
6.9 SCALE UP NATURE-BASED SOLUTIONS

The European Climate Law target of negative emissions by 2050 depends largely upon restoring and expanding natural habitats and ecosystems to reduce emissions from land use, capture and sequester carbon in natural sinks, and increase ecosystem resilience for climate adaptation. However, without significant scaling up of nature restoration, nature-based net emission removals are projected to decrease to 200 MtCO2e per year in 2020-2040, down from the historic average of 300 MtCO2e for 1990-2019.

Therefore, we welcome the LULUCF regulation, which sets the EU-level objective of 310 MtCO2e of net removals in LULUCF sectors by 2030, and the EU Biodiversity Strategy for 2030, which includes the EU’s commitment to unlock €20bn for biodiversity every year. Targeted finance can provide the benefits of nature-based solutions as well as address the challenges faced by projects to date.

We recommend the Commission to:

- **Focus on nature-based solutions to increase climate mitigation and reap the co-benefits for nature, biodiversity and social objectives.** Nature-based climate solutions, including restoring peatlands, agroecosystems, and forests, hold immense potential to safeguard carbon stocks and increase sequestration necessary for climate neutrality. Peatlands, for example, occupy around 3% of the Earth’s surface, but store nearly 30% of global soil carbon, double that stored by all forests. Restoring drained peatlands could save up to 25% of Europe’s land-based greenhouse gas emissions. Reversing biodiversity loss and restoring nature is a core component for achieving the European Climate Law and honouring the EU’s interrelated climate and biodiversity commitments. The next Commission should therefore:
  - **Scale up de-risking mechanisms**, including through new blended facilities (like the legacy Natural Capital Financing Facility) and channelling finance through project aggregators.
  - **Design dedicated debt instruments for corporates with tailored eligibility criteria.**
  - **Enhance the biodiversity dimension of advisory services for financial intermediaries** under the InvestEU programme.
  - **Foster collaboration among financiers, project developers, affected stakeholder communities, farmers, and smallholders.**

- **Ensure carbon removal targets, as specified in LULUCF, are not at risk from renewable energy targets.** Climate plans and carbon removal assessments, as well as the co-benefits from ecosystem services and increased resilience, should inform decisions on renewable energy expansion. Nature-based solutions and carbon sinks are increasingly important for climate targets and connect key Fit for 55 files, including LULUCF, RED III, and the proposed Nature Restoration Law.

SOCIAL ISSUES AND A JUST ECONOMIC TRANSITION

In the next 25 years to 2050, there will be transformative changes with significant social implications.

- **A shift towards a low-carbon economy:** If managed poorly, this will likely exacerbate inequalities and result in stranded workers and communities (the demand for future skills was noted as a key challenge in the Commission’s 2023 Strategic Foresight Report). There are, however, significant opportunities to be reaped from this transition.

- **Demographic changes:** By 2050, it is estimated that the number of people aged 60-plus will double, while the youth population will continue to expand. This will lead to a significant number of workers exiting the workforce as well as a growing population of young people transitioning into employment.

- **Technological advances:** An estimated 30% of jobs are at high risk of automation by the mid-2030s. This may further exacerbate the tensions already present in the workforce, including those connected to the growth of the gig economy.

These trends represent a huge opportunity for the European economy. However, they also entail several risks: not considering the social effects of the transition would undermine any related policy intervention and erode trust in European institutions working towards this goal.

In this sub-section we recommend how to mitigate these risks, focusing on the climate transition, which is currently the most visible of these trends and a priority for our signatories. We also suggest measures to ensure the fairness of the economic and jobs transition, which is increasingly important given the cost-of-living crisis.

64% of investors surveyed consider legislation on the just transition as a high or very high priority for the next European Commission.
6.10 ENSURE THE COSTS OF TRANSITION ACTIVITIES ARE DISTRIBUTED FAIRLY

When asked about the social effects of the net-zero transition, a significant majority of signatories (75% of survey respondents) said European policy makers should prioritise mitigating internal impacts on EU citizens including via fiscal measures, reskilling of the effected workforce, etc.

The European Central Bank states that fiscal policy plays a prominent role in climate change mitigation and adaptation, especially in the form of carbon taxation. However, the ECB recognises there is vigorous debate over the distributional consequences of these policies which, if not properly designed, risk being regressive and increasing inequalities. New taxes will not be accepted unless developed in a revenue-neutral way, especially for the bottom 90% of the population.

Therefore, we recommend the next Commission to:

- **Adopt social equity and the just transition as key principles in the design of any carbon pricing mechanism.** Any provision the Commission adopts should employ at least a part of the carbon pricing revenues to support disproportionally disadvantaged citizens.

- **Strengthen the Social Climate Fund, established alongside the new EU ETS.** The reduction of the fund from the original proposal (from €144.4bn to €86bn and from additional national funding of 50% to only 25%) means it will most likely not be able to cover the resources needed to offset the risk of negative effects of ETS II on families and communities. The fund should be reinforced and set the model for similar interventions around the world.

6.11 PROTECT HUMAN RIGHTS IN CRITICAL RAW MATERIALS SUPPLY CHAINS

As highlighted by the IEA’s latest Critical Minerals Market Review, the market of key energy transition minerals has doubled over the past five years, reaching US$320bn in 2022. There is growing recognition that policy interventions are needed to ensure adequate and sustainable mineral supplies. In 2023 the European Commission published the proposal for the Critical Raw Materials Act, proposing a “comprehensive set of actions to ensure the EU’s access to a secure, diversified, affordable and sustainable supply of critical raw materials”. This was further reinforced by the G7 Five-point plan for critical mineral security.

The net-zero transition should be carried out in a fair and just manner. Any initiative in this sector should be underpinned by the corporate responsibility to respect human rights – as set out in the UNGPs – and, specifically for workers, the minimum safeguards identified in the our 2022 paper on decent work. Over half – 57% – of survey respondents said policy makers should focus on supporting external communities and stakeholders along the supply chain, for example through ensuring companies prevent modern slavery (e.g., forced labour bans). Therefore, we recommend the next Commission to:

- **Ensure mining projects for critical raw materials are developed in consultation with local and indigenous communities, applying the principles of Free, Prior and Informed Consent.** The OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector should be used as a model for these consultations.

- **Ensure effective implementation of the CSDDD by providing strong, precise and timely guidance for companies operating in high-risk sectors, such as metal and mining.** This will provide a bedrock for interventions in this area.

- **Consider the use of import bans as an interim measure, in cases where due diligence provisions are not effective, for example due to lack of collaboration from third parties (private or public).** The proposal to introduce an import ban on products made with forced labour could form the basis for similar regulation specifically focused on critical raw materials.

---

30 Andersson and Atkinson (2020), The distributional effects of a carbon tax: The role of income inequality. See also Word Bank (2022), What a carbon tax can do and why it cannot do it all and OECD (2022), Tax Policy and Climate Change (p.20)
6.12 PROTECT COMMUNITIES WHEN DEVELOPING RENEWABLE ENERGY INFRASTRUCTURE

The need to consider the interests of affected communities is also relevant when developing renewable energy infrastructure. Opposition from local communities can delay and potentially *detrade the development of new renewable energy projects*. The next Commission should *limit this risk through introducing a requirement for meaningful consultation when developing renewable energy infrastructure*, in line with the UNGPs and the OECD Guidelines for Multinational Enterprises. Again, the principle of *Free, Prior and Informed Consent* should guide interventions when the stakeholders include indigenous communities.

6.13 INCREASE THE RESILIENCE OF THE EUROPEAN ECONOMY

Last January, the European Parliament highlighted that the rising cost of living is the most pressing worry for 93% of Europeans, followed by the threat of poverty and social exclusion (82%). While the situation seems to be *slowly improving*, the high levels of inflation are still a cause for concern, especially for those who are the most economically vulnerable.

The next Commission should act to increase the resilience of the European economy, to ensure that cost-of-living crises are not repeated. A central pillar of this work should be addressing income inequality via coordinated interventions as part of a whole-of-government approach to policy-making. Therefore, building upon our 2018 recommendations on how investors can respond to income equality, we recommend the next Commission to:

- **Support Member States to implement the Directive on adequate minimum wages in the EU effectively.** This directive should promote freedom of association and collective bargaining, and act as a springboard to ensure that the *four pillars of decent work* (workers’ voice and social dialogue; living wage; access to benefits, health and safety and social protection; equal opportunity and treatment) are implemented across the European labour market.

- **Promote fair, efficient and sustainable taxation.** The effects of taxation on inequality are *well documented*, as are the advantages of a fair tax system towards social cohesion and the growth of a healthy and engaged middle class. We welcome the Commission’s *commitment to focus fiscal policy on protecting vulnerable households and firms*, while ensuring a balance is struck between taxes being affordable and incentivising sustainable behaviour. For an overview of our recommendations on the EU’s tax policy agenda, see section 4.2.
To realise the EU Green Deal’s objectives and secure a successful economic transition, policy makers should mobilise all stakeholders in the economic system via a whole-of-government approach. Urgent, well-tailored and transformative policy action is required, across sustainable finance, corporate practice and the real economy.

Our 2030 EU Policy Roadmap sets out key recommendations to achieve these goals and ensure legislative coherence and usability. Amongst other key actions, the European Commission, alongside the Parliament and Council, must look to:

1. Finance the transition via swiftly developed sector roadmaps, comprehensive national strategies, robust corporate transition plans, an extended EU Taxonomy, and efficiently leveraged EU funding instruments.
2. Clarify sustainable investment disclosures through a revised SFDR framework which includes a baseline of disclosures for all financial products and product categories with proportionate minimum criteria.
3. Strengthen investor stewardship with a new omnibus legislation which recognises the critical role all forms of engagement play in sustainable finance policy, and further develop and clarify fiduciary duties.
4. Ensure effective corporate governance via policy reform on taxation and political engagement and continue to improve corporate reporting in reviews of the ESRS.
5. Promote global interoperability by collaborating with policy makers worldwide to seek consensus on the importance of sustainability-outcomes focused policy.
6. Implement climate, nature, and social policies, as these issues are increasingly relevant for investment decisions, and financial markets depend on the effective implementation of these policies for the economic transition.

The actions EU policy makers take up to 2030 will play a defining role in determining whether the EU’s sustainability goals can be achieved. These goals are not only fundamental for EU competitiveness, security, market stability and resilience but also for the viability of humanity living within planetary boundaries.

European policy makers should adopt the recommendations of this report to ensure a comprehensive, coherent and effective sustainable finance policy framework. Only in this way can we enable and encourage investors to accelerate the private finance needed to achieve the economic transition.
ANNEX - ANALYSIS OF CONSISTENCY ISSUES ACROSS KEY EU SUSTAINABLE FINANCE REGULATIONS

The speed and complexity of the EU sustainable finance regulatory developments over recent years are leading to some implementation challenges, particularly in relation to the consistency of the various rules and concepts that they introduce. This annex identifies some of these consistency issues and offers possible solutions, with the ultimate objective of ensuring a coherent policy framework that accounts for sustainability risks, opportunities and impact by investors and companies.

Overview of consistency issues covered

<table>
<thead>
<tr>
<th>2030 Roadmap chapter</th>
<th>Consistency issue</th>
<th>SFDR</th>
<th>CSRD / ESRS</th>
<th>CSDD</th>
<th>Taxonomy</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transition plans</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X - Banking regulation</td>
</tr>
<tr>
<td>1</td>
<td>Taxonomy-alignment calculation methodology</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Sustainable investments</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Do No Significant Harm</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X - Benchmarks Regulation</td>
</tr>
<tr>
<td>2</td>
<td>Investor entity level reporting</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Use of third-party data and estimates</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X - ESG Ratings</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Stewardship</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X - SRD II / new omnibus legislation</td>
</tr>
<tr>
<td>3</td>
<td>Investor due diligence</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X - AIFMD / UCITS / SRD II / OECD / UNGPs</td>
</tr>
</tbody>
</table>
CHAPTER 1 - CONSISTENCY ISSUES ON TRANSITION FINANCE

RECOMMENDATIONS TO IMPROVE COHERENCE

- Continue to promote consistency and interoperability of transition plans across the EU sustainable finance framework
- Consider updating the entity level PAI statement for climate portfolio alignment (under SFDR Article 4) so that it is consistent with transition plan requirements under CSRD and CSDDD
- Ensure regulatory transition planning requirements for market actors are consistent with and complemented by transition planning tools at sector, national and European levels
- Establish a common Taxonomy calculation methodology for entity and product-level, based on the Platform’s recommendations

These requirements can be summarised as follows31:

<table>
<thead>
<tr>
<th>File</th>
<th>Scope</th>
<th>Regulatory requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity-level plans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSRD (Article 19a) and ESRS E1-1</td>
<td>Corporates, some financial institutions</td>
<td>Disclose information about transition plans, including whether they are compatible with limiting global warming to 1.5°C.</td>
</tr>
<tr>
<td>CSDDD (Article 15)</td>
<td>Corporates, some financial institutions</td>
<td>Adopt and put into effect a 1.5°C compatible transition plan. Companies that report a transition plan in accordance with the CSRD shall be deemed to have complied with the adoption obligation (but not the obligation to put the plan into effect).</td>
</tr>
<tr>
<td>CRD review (Article 76.2 and Article 87.a.4)</td>
<td>Banks</td>
<td>Develop plans and targets to monitor and address the risks of misalignment with the EU sustainability goals. Possible inclusion of transition plans in Pillar 1 framework (EBA report).</td>
</tr>
<tr>
<td>Solvency II review final compromise (Article 44, Para 2b)</td>
<td>Insurers</td>
<td>Develop and monitor the implementation of specific plans (quantifiable targets and processes) to address specific risks arising from sustainability factors (in relation to EU Climate Law).</td>
</tr>
<tr>
<td>EU GBS (Article 12.3.a)</td>
<td>Issuers (corporates and financial institutions)</td>
<td>Explain in the EUGBS impact report how the EU green bond links with the CSRD transition plan, specifically how the proceeds are intended to contribute to funding and implementing those plans.</td>
</tr>
<tr>
<td>SFDR (Article 4)</td>
<td>Large financial institutions</td>
<td>Disclose a PAI statement, including, where relevant, the degree of alignment with the objectives of the Paris Agreement.</td>
</tr>
</tbody>
</table>

TRANSITION PLANS

CSRD/ESRS, SFDR, CSDDD, Capital Requirements Directive (CRD), EU GBS, Benchmarks Regulation, and Taxonomy Regulation

Consistency issues

Transition planning has emerged as a key component of the EU’s sustainable finance framework, with different requirements applying to a variety of economic actors (large companies, investors, banks, etc). As market actors seek to align their activities with sustainability goals, such regulatory obligations and standards are important to ensure an adequate level of disclosure, comparability and integrity for transition planning in the EU single market.

---

31 As of 30/01/2024. Not intended as an exhaustive list of EU transition planning requirements
As the table above shows, there are various linkages between the different requirements for transition planning. This reflects the fact that transition planning instruments can be used at all relevant levels of the economy (economic activity, company, sector, Member State, EU) and should feed into the broader EU sustainable / corporate responsibility framework (disclosure, stewardship, due diligence, labels). Except for SFDR and the Benchmarks Regulation, the requirements refer to the transition plan disclosures under CSRD.

The transition plan reporting requirements are most detailed under the CSRD. ESRS E1-1 requires companies in scope to disclose whether they have a transition plan for climate change mitigation in place. If so, there are disclosure requirements covering (inter alia):

- time bound targets, including absolute emission reduction targets;
- decarbonisation levers and key actions planned;
- investments and funding supporting the implementation of the transition plan; and
- the role of the administrative, management and supervisory bodies with regard to the plan.

If not, the company shall indicate whether and, if so, when it will adopt a transition plan.

Possible fixes

The Commission’s June 2023 communication on transition finance is a welcome first step in bringing coherence across the various requirements in the EU framework. It explicitly encourages the use of the EU Taxonomy (and specifically activity-level Capex plans) as part of the undertaking’s overall transition plan.\(^3\) Taxonomy-related information, used in the context of a transition plan, can allow investors and other stakeholders to identify the proportion of that company’s turnover and spending that are making (or plan to make) a substantial contribution to an environmental objective. This is particularly relevant to quantify the company’s investments supporting the implementation of its transition plan.

EU policymakers should continue to promote consistency and interoperability of transition plans across the EU sustainable finance framework, and the systematic integration of EU Taxonomy KPIs in transition plans to enhance accountability and reliability, in line with ESRS E1-1. While the ESRS transition planning standard does reference Taxonomy KPIs (E1-1 16.c and e), more could be done to allow for better integration of Taxonomy-related reporting (Taxonomy-aligned revenues, Opex, Capex, and Capex plans) into the ESRS.\(^3\) It will be particularly important to improve coherence and provide practical examples of the interaction between activity-level capex plans (financial planning) and entity-level GHG emission targets.

---

\(^3\) European Commission (2023) Recommendation (EU) 2023/1425 on facilitating finance for the transition to a sustainable economy. (Recommendation 3.3. Sustainable finance tools, in particular the Taxonomy or the EU climate benchmarks as well as credible transition plans can be used to support the definition of transition targets and articulate specific transition finance needs at the level of the undertaking and at the level of economic activities.)

\(^3\) See PSF response to the European Commission consultation on the draft ESRS for more detail.
For financial institutions, it may also be necessary to update the entity level PAI statement for climate portfolio alignment (under SFDR Article 4) such that it is consistent with transition plan requirements under CSRD and CSDDD. Given that investors’ activities differ significantly from real economy companies, the SFDR could outline specific requirements and metrics for how investors should define their entity-level GHG reduction targets and transition plans. Such requirements would need to ultimately align with the upcoming sector specific ESRs for capital markets, insurance and credit institutions, currently expected to be adopted by the European Commission by 2026.

More broadly, regulatory transition planning requirements for market actors should be consistent with and complemented by transition planning tools at sector, national and European levels, as part of a whole-of-government approach to the EU’s economic transition. EU-level, 1.5°C aligned sector roadmaps and national transition strategies will be crucial to support the development and assessment of robust targets and transition plans by market actors (see Chapter 1 of the main report).

Finally, the European Commission and the ESAs should work towards linking the EU framework on transition planning to international developments in this area (e.g. ISSB, TPT, G20, IPSF, IOSCO), with a view to increasing comparability across jurisdictions on key building blocks, while maintaining the high level of ambition in EU legislation.

TAXONOMY-ALIGNMENT CALCULATION METHODOLOGY

Taxonomy Regulation and SFDR delegated regulation (SFDR DR)

Consistency issues

Methodologies for calculating Taxonomy-alignment ratios at entity-level (under the Article 8 Delegated Act) and at product-level (under Art 5/6 Taxonomy Regulation and SFDR DR) are not always aligned with respect to the asset classes that can be included in the numerator and denominator. Key differences exist in the approaches to sovereign bonds, derivatives and SMEs. This complicates the calculation of Taxonomy alignment for investors.

Possible fixes

Policy makers should establish a common Taxonomy calculation methodology for entity and product-level, based on the EU Platform on Sustainable Finance’s (PSF’s) recommendations. All investments should be included in the denominator, even those that cannot yet be judged against the Taxonomy (such as sovereign bonds). Otherwise, there is a risk that the calculations for products containing a substantial proportion of such asset classes become skewed. We encourage work and guidance, in collaboration with the PSF, to clarify how specific asset classes like sovereign bonds and derivatives could be assessed against the Taxonomy in the future.

Taxonomy-related disclosures (at entity and product level) could include: i) the total AuM, ii) the percentage that is eligible and iii) the percentage that is aligned. This would allow investors and clients to see the whole picture and understand the extent to which the portfolio can actually be measured against the Taxonomy.
CHAPTER 2 - CONSISTENCY ISSUES ON SUSTAINABLE INVESTMENT DISCLOSURES

RECOMMENDATIONS TO IMPROVE COHERENCE

- Clarify expectations for the calculation of sustainable investments under SFDR as soon as possible
- Establish a framework that would allow investors to assess an investment’s sustainability performance at both activity level (using the Taxonomy where possible) and entity level (using the PAI indicators and ERSR standards)
- Ensure that PAI indicators capture activities that always cause significant harm and for which no technological solution to transition is feasible
- Issue guidance to clarify how investors should assess compliance or violation of the UNGPs and the OECD guidelines

SUSTAINABLE INVESTMENTS

SFDR, Taxonomy Regulation and Benchmark Regulation

Consistency issues

The definitions of ‘sustainable investment’, under Article 2.17 of SFDR and ‘Taxonomy-alignment’ under Article 3 of the Taxonomy Regulation both aim to capture an investment’s (positive) contribution to sustainability objectives. But the two concepts are misaligned.

- While sustainable investments can be determined at the level of the investee entity or the economic activity (as clarified in the Commission’s FAQ), the Taxonomy only provides criteria at activity-level.
- While the Taxonomy provides quantitative thresholds for assessing substantial contribution and “do no significant harm” (DNSH), the sustainable investment definition does not. Investors can set their own thresholds for harm according to Principal Adverse Impact (PAI) indicators.34
- The sustainable investment definition covers contribution to social objectives currently not defined under the Taxonomy Regulation. Taxonomy-aligned investments can therefore be considered as a sub-set of sustainable investments.

Having two separate frameworks can add complexity and extra layers of reporting for investors. Different interpretations and applications of the sustainable investment definition may also make it more challenging for end-investors to compare the sustainability performance of different products and may expose investors subject to SFDR to allegations of mis-selling or greenwashing.

There is also a risk that, under the new rules for suitability assessments under MiFID II / IDD, clients (with limited knowledge of these concepts) may be unlikely to understand the nuances between “percentage Taxonomy alignment” and “percentage of sustainable investments”. Given the lower levels of Taxonomy alignment expected in the first few years, this may create a disincentive for clients / distributors to use the Taxonomy, in favour of the less robust and comparable “sustainable investment” framework.

Possible fixes

PRI welcomes the Commission’s recent clarification that Taxonomy-aligned “environmentally sustainable” economic activities, and products tracking Climate Transition or Paris-Aligned Benchmarks, can automatically qualify as “sustainable investments” under SFDR.

Whilst an optional safe harbour for environmental DNSH for Taxonomy-aligned investments may be suited for certain use of proceeds instruments, operational implementation for other general-purpose investments will remain complex (as it will only cover a portion of an investee company’s activities or revenues). Therefore, the safe harbour alone will not offer sufficient clarity to market participants on how to treat Taxonomy-aligned investment in the SFDR product-level disclosures.

PRI therefore sees merit in a framework that would allow an assessment of an investment’s sustainability performance at both activity (using the Taxonomy where possible) and entity-level (using the PAI indicators and ERSR standards). As part of its comprehensive assessment of SFDR, the Commission should aim to align the sustainable investments definition (in SFDR Art 2.17) with the concepts and terminology of the Taxonomy Regulation, where relevant and feasible.

In the shorter-term, the PRI encourages the European Commission to work with the ESAs and the PSF to clarify expectations for the calculation of the sustainable investment concept under SFDR as soon as possible - to help ensure the underlying components are applied consistently. Whilst the Commission’s recent FAQ clarified that investors have flexibility to determine their own methodologies, further guidance will be necessary to ensure the integrity and comparability of disclosures. This guidance should also clarify expectations for how investors should assess sustainable investments pursuing social objectives or those invested in activities not covered by Taxonomy criteria.

34 Joint Committee of the European Supervisory Authorities (2023) Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288)
DO NO SIGNIFICANT HARM (DNSH)

SFDR, Taxonomy Regulation and Benchmark Regulation

Consistency issues
The “do no significant harm” principle is key to the EU’s sustainable finance framework but is not always consistently applied across the various regulations – notably Taxonomy Regulation, SFDR and Benchmarks Regulation.

- The Taxonomy Climate Delegated Act provides screening criteria for establishing whether an activity is causing significant harm according to the EU’s climate objectives. The criteria can be based on quantitative thresholds, processes, or compliance with EU legislation.
- The PAI indicators (as defined in annex 1 of the SFDR DR) attempt to quantify the impact of investee companies at asset / entity level, but without putting that impact into context with respect to the EU’s environmental or social objectives. The legislation does not set or require any thresholds for determining whether an adverse impact does significant harm.
- The Benchmark Regulation sets minimum exclusion criteria for Climate Transition and Paris-Aligned Benchmarks. These criteria combine different types of considerations such as:
  - ethical considerations (companies involved in tobacco or controversial weapons),
  - social and governance considerations based on international norms (companies violating UN Global Compact principles or OECD Guidelines for multinational enterprises); and
  - environmental considerations (companies with revenues derived from certain fossil fuels, emission-intensive electricity generation, and those that are considered to harm other environmental objectives).

Having distinct frameworks for assessing harm can be confusing for clients and end-investors and create overlapping layers of DNSH assessment for product-level reporting (Art 8 and 9) under SFDR. The double reporting risks disincentivising investors from using the more robust Taxonomy framework. When assessing DNSH for sustainable investments (under Art 2.17 SFDR), the ESAs have advised that best practice could be to “show the impact of the sustainable investments” against the PAI indicators and to compare the PAI data with “similar metrics” in the Taxonomy climate delegated acts.

Possible fixes
Firstly, it will be necessary to better account for Taxonomy DNSH criteria within the PAIs. This can be done by:

- Aligning the underlying metrics and methodologies of environmental PAIs with the Taxonomy criteria, where feasible. The PSF report on data and usability provides more detailed examples of how this could be done (pages 143-146).
- Aligning social and governance PAIs (including reference to good governance in SFDR) and EU Climate Benchmarks exclusion criteria to the Taxonomy’s minimum social safeguards based on international standards (OECD guidelines, UNGPs). PRI welcomes the ESAs proposal to align the social PAIs (referencing UN Global Compact) with the UN GPs.

In the mid to longer-term, it will be crucial to ensure clear and consistent definitions and, where relevant, thresholds for environmentally and socially harmful activities, set relative to planetary boundaries, sustainability goals and international standards like the Paris Agreement and the UNGPs.

Environmental harm
An extension of the EU Taxonomy to cover activities with intermediate and harmful levels of performance, as proposed by the PSF, would be an appropriate way to incentivise the urgent transition of such activities. The PSF’s report on an extended environmental Taxonomy acknowledges that there are certain activities for which no technological possibility of improving their environmental performance to prevent significant harm exists (e.g. thermal coal mining for climate change mitigation). Such activities should be distinguished from those that have a potential to transition out of significant harm.

Until a Taxonomy addressing always significantly harmful (ASH) activities is developed, the Commission should ensure that PAI indicators capture activities that always cause significant harm and for which no technological solution to transition is feasible. Such a list of ASH activities could be used as a basis for minimum standards for a future product categorisation system under a revised SFDR. Investee companies with (or spending capital expenditure on) ASH activities could be subject to exclusions or prioritised for investment / engagement as part of a decommissioning plan. This would help investors assess the risk of stranded assets within their products / portfolios and would complement the PAI disclosures.

The quality and comparability of disclosures could be improved by expanding disclosure of SH / ASH data across an entity’s entire revenues and capex (not just those activities that are Taxonomy-aligned) under the upcoming review of Article 8 Delegated Act of the Taxonomy Regulation. Companies under the scope of CSRD will already be required to report under ESRS E1-1 16.f significant capital expenditure on coal, oil and gas-related economic activities.
Social harm (including violation of human rights)
To support the effective application of the minimum safeguards (MS) under the Taxonomy regulation, we encourage the European Commission to work with the ESAs and the PSF to **issue guidance to clarify the steps investors should undertake to assess compliance or violation of the UNGPs and the OECD guidelines.**

This guidance should build on the [PSF’s recommendations on the application of minimum safeguards](#) and could advise investors to focus on the following areas as a sign of non-compliance with MS:

- Inadequate or non-existent corporate due diligence processes on human rights, including labour rights, bribery, taxation, and fair competition.
- Final liability of companies in respect for breaches of any of these topics.
- Lack of collaboration with a National Contact Point (NCP), and an assessment of noncompliance with OECD Guidelines by an OECD NCP.
- Non-response to allegations by the Business and Human Rights Resource Centre.

**INVESTOR ENTITY LEVEL REPORTING**

**SFDR, CSRD, CSDDD and SRD II**

**Consistency issues**
In its [recent consultation](#) on the implementation of SFDR, the Commission recognises that financial market participants (FMPs) may face overlapping entity-level reporting requirements under the CSRD and SFDR.35

Under Article 4 of SFDR, larger institutional investors must disclose how they consider and mitigate adverse impacts of investment activities at entity level. This includes reporting against all mandatory PAI indicators at the level of the investor’s entire portfolio. While many of the PAI indicators are reflected in the ESRS standards, further analysis is required to assess whether SFDR disclosures could be sufficient to demonstrate compliance with certain CSRD reporting requirements for companies in the financial sector covered by both legislations.

**Possible fixes**
As argued in section 2.2 of the main report, PRI believes that **entity-level indicators should be accompanied by disclosures that evidence the quality of an investor’s sustainability due diligence and stewardship processes and activities** (see section on stewardship below for more detail). This information is important to put the PAI reporting into the context of the investor’s activities and to support end-investors in the selection and monitoring of investment managers.

With regards to CSRD, it will be particularly important to **ensure any investor entity-level requirements under SFDR do not overlap with, or duplicate, future obligations under a financial sector ESRS standard.** The European Commission could consider streamlining investor entity-level reporting under SFDR with CSRD, as many large investors are also in scope of the latter. This option should be assessed in light of the future financial sector ESRS standard to ensure disclosures are adapted to the specificities of investors.

Likewise, investor entity-level disclosures targeting due diligence and stewardship practices should aim to complement and not duplicate existing provisions under the CSDDD (for due diligence) and SRD II (for stewardship).

Furthermore, as noted in PRI’s [consultation response](#) (page 13) to the exposure draft European Sustainability Reporting Standards, EFRAG’s approach towards sector-specific standards should be driven by an ambition to close transparency gaps, and not duplicate existing sector-specific reporting requirements (such as extending SFDR requirements to financial companies at consolidated level).

---

35 European Commission (2023) [Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)](#) - Question 2.3. See PRI’s response to the consultation [here](#).
USE OF THIRD-PARTY DATA AND ESTIMATES
CSRD/ESRS, SFDR, Taxonomy Regulation and ESG Ratings Regulation

Consistency issues
FMPs have had to meet reporting obligations under SFDR before being able to access publicly reported corporate data under the CSRD and Taxonomy Regulation. This has led to the widespread use of third-party data providers and estimates to address these gaps, often affecting both the quality and comparability of reported data. The recent adoption of the ESRS standards is an important milestone, and their upcoming application will be crucial to address issues of data availability and quality. But gaps will likely remain, in particular for investments outside the scope of the CSRD, such as certain non-EU companies and unlisted SMEs – the use of estimates and third-party data by investors is therefore likely to continue to be widespread in years to come.

The existing rules on the use of third-party data and estimates are not always consistent or clear within the EU sustainable finance framework:

- **Entity-level Taxonomy reporting (Disclosures Delegated Act of the Taxonomy Regulation – Art 7.7).** Financial undertakings are allowed to use estimates for non-EU companies, but under very specific circumstances. They must demonstrate alignment with substantial contribution criteria but can estimate compliance with DNSH and minimum safeguards if they disclose methodology and assumptions, and percentage of estimated exposures. Company data must be used as the source of estimations.

- **Product-level Taxonomy reporting (SFDR Delegated Regulation – Art 17.2.b).** Investors can only use third party data for companies out of scope of the Taxonomy Regulation if data is deemed “equivalent information”.

- **PAI reporting (SFDR Delegated Regulation – Art 7.2).** Investors shall include details of “best efforts” to obtain information from companies or by research, third party data providers, or external experts making “reasonable assumptions”. It is not specified what precisely would count as a reasonable assumption.

Possible fixes
PRI welcomes recent steps taken by EU policy makers to clarify the rules around the use of estimates and third-party data under SFDR, notably:

- For Taxonomy disclosures at financial product level under SFDR, the European Commission clarified (measure 4 page 17) that the use of complementary (i.e. additional) assessments and estimates is permitted, but only in cases where FMPs cannot reasonably access information about economic activities carried out by undertakings that are not reporting (or not reporting yet) under the Taxonomy Disclosures Delegated Act, such as unlisted SMEs.

- In its Final Report on draft RTS under SFDR, the ESAs propose to replace the term ‘equivalent information’ with the term ‘estimates’ to improve consistency with the Taxonomy Regulation. It also proposes to disclose the share of the PAI data that has been estimated (Paragraph 13, page 9) to increase transparency on the share of data obtained via estimates or reasonable assumptions, compared to publicly reported data.

While these clarifications are helpful, more guidance will be needed to ensure that estimates are used in a consistent and robust manner. The Commission has said it will assess the feasibility of issuing guidance to stakeholders on how to construct robust and reliable Taxonomy estimates. It should engage with the PSF, building on its previous work, and ensure that the guidance covers and harmonises the concepts of estimates under the whole EU sustainable finance framework (Taxonomy Regulation, SFDR, CRR).

In particular, the guidance should:

- As a starting point, employ the advice of the PSF in its data and usability report (see page 45).

- Clarify the acceptable parameters for conducting estimates for both PAI and Taxonomy reporting (including how to apply the precautionary principle), and what constitutes a reasonable assumption.

- Detail which estimation methods can be used (e.g., regression, sector median, extrapolation) when data is not available.

- Specify whether estimation methodologies should be published when estimated data constitutes a significant portion of aggregated portfolio data.

- Clarify whether investors should gain assurance and verification for estimated data.
CHAPTER 3 CONSISTENCY ISSUES ON INVESTOR SEWARDSHIP AND DUE DILIGENCE

RECOMMENDATIONS TO IMPROVE COHERENCE

- Ensure Article 4.2(c) of the SFDR is updated to be in line with the stewardship policies required under the new omnibus legislation.
- Amend Article 8(2) of the SFDR RTS, which details the disclosure requirements for the engagement policy, to complement the new omnibus legislation.
- Ensure the report on additional sustainability due diligence requirements regarding the provision of financial services and investment activities is based on a thorough and detailed legal review. This should be accompanied by a legislative proposal to harmonise and clarify the understanding of good due diligence and provide investors with a level playing field across Member States.

STEWARDSHIP

SRD II / future omnibus legislation, SFDR

Consistency issues

In the main report, PRI recommends a new omnibus stewardship legislation to set out expectations for investors’ stewardship practices in a much broader sense than the SRD II. As part of this, we recommend the next Commission to enforce mandatory disclosure requirements around stewardship and engagement. These requirements must be coherent with and / or amend as necessary existing disclosure requirements relating to stewardship.

Article 4.2(c) of the SFDR requires FMPs who consider PAIs of investment decisions on sustainability factors to disclose ‘brief summaries of engagement policies in accordance with Article 3g of [SRD II], where applicable’, as part of their entity-level website disclosures. Paragraph 18 of the recital of the SFDR states procedures for considering PAIs might include FMPs discharging their sustainability related stewardship responsibilities. Evidently, there must be greater detail and clarity of obligations regarding stewardship activities under SFDR.

Possible fixes

We recommend the next Commission to:

- Ensure Article 4.2(c) of the SFDR is updated to be in line with the stewardship policies required under a new omnibus legislation, rather than SRD II, once published.
- Amend Article 8(2) of the SFDR RTS, which details the disclosure requirements for the “engagement policy”, to complement a new omnibus legislation and require FMPs to disclose:
  - whether reduction of PAIs is their primary stewardship objective; and
  - how they anticipate their stewardship activities will lead to a reduction in PAIs.
INVESTOR DUE DILIGENCE
CSDDD, SFDR, CSRD, Taxonomy, AIFMD, UCITS, and SRD II (and international guidelines)

Consistency issues
Investors are subject to due diligence requirements, and related reporting requirements, under many pieces of legislation. The extent of due diligence requirements placed on investors under the new Corporate Sustainability Due Diligence Directive (CSDDD) is limited and subject to review once a further impact assessment has taken place.

Regarding sustainability due diligence requirements, under the AIFMD and UCITS delegated acts respectively:

- AIFMs must consider sustainability risks and PAIs (if they are considered under SFDR), while applying a “high standard of diligence in the selection and ongoing monitoring of investments” and when they “establish, implement and apply written policies and procedures on due diligence”.

- A management company under UCITS must consider sustainability risks and PAIs (if they are considered under SFDR) when ensuring a “high level of diligence in the selection and ongoing monitoring of investments” and when “exercising due skill, care and diligence when entering into, managing or terminating any arrangements with third parties”.

Regarding sustainability due diligence disclosure, investors face requirements under:

- Article 4 of the SFDR. Investors are required to consider the PAIs of their investment decisions and to publish and maintain a due diligence statement. This statement must include a description of the actions taken to address adverse impacts, including a description of engagement policies with investees where applicable. Investors must also provide a reference to their adherence to internationally recognised standards for due diligence.

- Under Article 1(3) of CSRD and throughout the ESRS (see paragraph 61, page 10). Investors must disclose information about their due diligence process, including the identification of material impacts, sustainability risks and opportunities.

- Article 3g of SRD II. Investors, on a comply or explain basis, must develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy. The policy shall describe how they monitor investee companies on relevant matters, including (inter alia) social and environmental impact and corporate governance; conduct dialogues with investee companies; exercise voting rights and other rights attached to shares; and cooperate with other shareholders etc.

- Article 18 of the Taxonomy regulation. Investors disclosing Taxonomy alignment must assess whether an economic activity is ‘environmentally sustainable’. As well as meeting environmental thresholds this also requires the undertaking that is carrying out the economic activity to ensure ‘alignment with’ the OECD Guidelines and the UNGPs.

Finally, it's also important to note that ‘due diligence’ is a concept that has been in financial regulation for decades but starting from the risk to the investor, not the risk the investor places on people and the planet. This can add confusion and potential inconsistency.

Possible fixes
Under the provisionally agreed CSDDD the Commission will be required to publish a report on the necessity to lay down additional sustainability due diligence requirements regarding the provision of financial services and investment activities. This is mandated to take into account other EU legislative acts that apply to regulated financial undertakings and to be published as soon as possible and no later than two years after entry into force. It shall be accompanied, ‘if appropriate’, by a legislative proposal.

We support this requirement and recommend the Commission ensures the report is based on a thorough and detailed legal review of all due diligence-related legislative requirements and guidance. To address the consistency issues raised above we expect a legislative proposal to be published alongside the report to harmonise and clarify the understanding of good due diligence and provide investors with a level playing field across Member States.

The due diligence obligations for investors should be proportionate and practicable - grounded in international standards including the UNGPs and the OECD Guidelines. They must also complement and reinforce existing obligations.
CREDITS

AUTHORS:
- Hazell Ransome
- Alina Neculae
- Ben Leblique
- Jan Vandermosten
- Martin Stavenhagen
- Elise Attal

CONTRIBUTORS:
- Alexandra Danielsson
- Benjamin Taylor
- Ben Allen
- Clara Melot
- Daniel Gallagher
- Davide Cerrato
- Conor Ritchie
- Junru Liu
- Margarita Pirovska
- René Van Merrienboer
- Sebastien Akbik
- Sylvaine Rols

EDITOR:
- Rachael Revesz

DESIGN:
- Will Stewart
The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org