

To: Corporate Reporting - Investments & Sustainable Finance WG, Distribution PG, PRIIPs PG, Sustainability WG
From: Luca Motta
Date: 07-08-2024
Reference: ECO-CRISF-24-134

Subject: ESMA publishes Opinion on the functioning of the Sustainable Finance Framework

Summary

On 24 July, the European Securities and Markets Authority (ESMA) published its [Opinion](#) on the Sustainable Finance Regulatory Framework of the EU, setting out possible long-term improvements to the Framework.

ESMA acknowledges how, at this stage, the Framework is already well developed and includes safeguards against greenwashing. Nevertheless, it suggests that in the long-term the Framework could further evolve to facilitate investors' access to sustainable investments.

Accordingly, ESMA presents these recommendations for the European Commission's consideration:

- The [EU Taxonomy](#) should become the sole, common reference point for the assessment of sustainability and should be embedded in all components of the EU sustainable finance regulatory framework.
- The EU Taxonomy should be completed for all those activities which can substantially contribute to environmental sustainability. A [social taxonomy](#) should be developed, as well.
- The Sustainable Finance Disclosure Regulation ([SFDR](#)) definition of 'sustainable investments' should be phased out.
- A definition of 'transition investments' should be incorporated into the Framework to provide legal clarity and support the creation of transition-related financial products.
- Complement current disclosures to [provide information on the share of revenue and Capital Expenditure \(CapEx\) associated with harmful activities](#) that are in a transitioning trajectory.
- [Develop minimum sustainability disclosures for all financial products](#), consisting of a small number of simple sustainability KPIs, regardless of the stated sustainability ambition of the product. These simple KPIs should cover basic environmental (e.g. GHG emissions, Taxonomy-alignment) and social (e.g. human rights, labour rights) sustainability characteristics.
- A [sub-set of sustainability disclosures \('vital' information\)](#) should be provided to retail investors, while the entire set of sustainability information would be available to all investors. This 'vital' information should be placed in short consumer facing documents, like the PRIIPS KID.
- A [product categorisation system](#) should be introduced covering sustainability and transition, and it should be based on a set of clear eligibility criteria and binding transparency obligations.
- [ESG data products](#) should be brought within the regulatory perimeter to ensure that ESG data is reliable and comparable. ESG estimates should be reliable and based on transparent methodologies, too.
- [Consumer and industry testing](#) should be carried out before implementing policy solutions to ensure their feasibility and appropriateness for retail investors.
- Ensure and promote [international interoperability of the Framework is crucial](#), as this would support the competitiveness of EU capital markets.

Next steps

The Opinion on the Sustainable Finance Regulatory Framework represents the last component of ESMA's reply to the European Commission's request for input on greenwashing ([here](#)).