Scaling-up investments for sustainable growth

Eurosif's regulatory roadmap for EU policymakers

November 2024

Eurosif

The European Sustainable Investment Forum

5 Steps for scaling-up sustainable investments

Eurosif policy recommendations

1. **Clearly define investments contributing to a just transition to a sustainable economy.**

2. **Strengthen and complete investor tools to scale-up sustainable finance.**

3. **Unleash the power of investor engagement to incentivise real-economy companies in their transformation to sustainability.**

4. **Ensure the quality, comparability and reliability of sustainability-related disclosures.**

5. **Mobilise the contribution of retail investors and savers to a just transition.**

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List of abbreviations

AGM	Annual General Meeting
CRR/CRD	Capital Requirements Regulation/Capital Requirements Directive
ESG	Environmental, Social and Governance
EU ETS	EU Emission Trading System
SFDR	Sustainable Finance Disclosure Regulation
CSRD	Corporate Sustainability Reporting Directive
GDP	Gross Domestic Product
MiFID	Markets in Financial Instruments Directive
IDD	Insurance Distribution Directive
ESRS	European Sustainability Reporting Standards
PRIIPs (KID)	Packaged Retail and Insurance-based Investment Products Regulation - Key Information Document
CSDDD	Corporate Sustainability Due Diligence Directive
SRD	Shareholder Rights Directive
PAB	Paris-aligned Benchmark
CTB	Climate Transition Benchmark
SMEs	Small and Medium-sized Enterprises
UCITS	Undertakings for Collective Investment in Transferable Securities

Executive Summary

The current economic and geopolitical context is that of intensifying global challenges, including a resurgence of national protectionism, polarisation, conflicts and exacerbating climate crises. A just transition towards a sustainable and resilient economy is key to addressing these challenges, as well as to maintaining financial stability, reinvigorating economic growth and competitiveness, and to guaranteeing the strategic autonomy of the European Union (EU)[1].

To meet the EU's strategic objectives and decarbonisation targets, public investments alone will not be enough. A significant amount of money needs to be raised from the private financial sector. As the leading association representing sustainable investors across Europe, Eurosif – the European Sustainable Investment Forum – recognises the critical role that the financial sector must play in scaling-up investments to accelerate a just transition to a sustainable economy.

To play their role in this transition, investors and other financial institutions need an **EU sustainable finance regulatory framework which is complete, coherent, sufficiently ambitious, usable and well-implemented. This document presents a roadmap for EU policymakers to achieve this.**

The current EU sustainable finance rules have been developed quickly and often in parallel, creating some flaws and misalignment issues, as well as implementation challenges. Despite its imperfections, the EU sustainable finance regulatory framework has significantly increased transparency on sustainability-related considerations in financial markets and contributed to the growth and integrity of meaningful sustainable investment flows.

Eurosif calls on EU policymakers to build upon this framework, to complete it and to ensure it is well-implemented. It is now time to adjust some of these rules so that they fit and work well together and to address remaining gaps so that the EU sustainable finance framework can effectively support investors and other financial institutions in mobilising finance for sustainable growth.

The first chapter of this paper explains why a just transition to a sustainable economy matters for the EU's financial stability, economic growth, competitiveness and strategic autonomy. Subsequently, **the second chapter** elaborates on the role of investors in contributing to the just transition and the levers at their disposal to drive change in the real economy. **The third chapter** describes the need to build on and complement the EU sustainable finance regulatory framework to facilitate investor contribution to sustainable growth. Finally, **the fourth chapter** presents our recommendations for the next EU legislative mandate (2024–2029) underpinned by specific policy actions that aim to accelerate a just transition to a sustainable economy. These recommendations are summarised in the following section entitled "Overview of Key Recommendations".

1 see page 10 for further information.

Overview of Key Recommendations

1. Clearly define investments contributing to a just transition to a sustainable economy.

The current EU sustainable finance regulatory framework does not provide sufficient clarity on what constitutes sustainable, transition or impact investments. EU rules should provide clear definitions, underpinned by objective criteria, of "sustainable", "transition", "impact" and other key sustainability-related terms used in the public policy sphere and by the financial industry. Furthermore, what constitutes "social sustainable investments" should be delineated by a simple, easy-to-use EU Social Investment Standard. This is necessary to increase capital flows to finance the just transition, prevent greenwashing, and improve clarity for retail investors.

Eurosif recommends that EU policymakers:

1.1. Support investments with positive real-world outcomes by clearly defining sustainable, transition, and impact investments as part of the Sustainable Finance Disclosure Regulation (SFDR) review.

1.2. Develop an EU Social Investment Standard as a set of criteria to be used whenever sustainable investments pursue a social objective as part of the SFDR review.

2. Strengthen and complete investor tools to scale-up sustainable finance.

Investors use tools and services to make sustainable investment decisions and to track and assess their performance. This includes the use of sustainability-related benchmarks, or specific standards to identify sustainable activities – such as the EU Taxonomy[2]. These tools and services should be completed, streamlined and made more transparent to facilitate and amplify the contribution of investors to the transition.

Eurosif recommends that EU policymakers:

2.1. Develop an EU standard for sustainability-related/ESG (Environmental, Social and Governance) benchmarks, underpinned by a set of criteria and minimum disclosures, to serve as credible tools to assist investment decisions.

2.2. Review criteria for EU climate benchmark methodologies to ensure they are fit for purpose and integrate forward-looking information, e.g. transition plans and climate targets.

2.3 Complete the EU Taxonomy of environmentally sustainable economic activities by 1) extending the scope of activities covered by its environmental objectives; 2) setting out significantly harmful activities and differentiating those that can and cannot be transformed; and 3) identifying transition/intermediate activities.

3. Unleash the power of investor engagement to incentivise the transition of real-economy companies towards sustainability.

Stewardship and engagement are among the most powerful levers for investors to support the transformation of investee companies. To unleash the power of investor engagement, the remaining barriers must be abolished and incentives set. Policymakers should create

2 Regulation (EU) 2020/852 of 18 June 2020.

a voluntary EU-wide stewardship code for investors, but also for other financial actors exerting influence on corporate behaviours such as benchmark and investment services providers. A "transition" investments product category under a revised SFDR should comprise engagement-focused criteria accompanied by minimum disclosures on sustainability-related engagement.

The Shareholder Rights Directive (SRD II) and rules on "acting in concert" should be reviewed to ensure shareholders can effectively exercise their rights and coordinate on key sustainability issues, including in cross-border situations.

A proportionate inclusion of financial institution services to clients and their relations with investee companies in EU due diligence rules would help navigate engagement with investee companies to reduce their negative social or environmental impacts and related risks.

Eurosif recommends that EU policymakers:

3.1. Remove the existing barriers to individual and collective investor engagement by reforming the SRD II and by revisiting rules on "acting in concert".

3.2. Encourage meaningful sustainability-related engagement strategies by establishing minimum disclosures in the SRD II or the SFDR and related criteria for transition investments.

3.3. Establish appropriate due diligence processes for financial institutions as part of the Corporate Sustainability Due Diligence Directive (CSDDD) and within the SFDR disclosure requirements.

4. Ensure the quality, comparability and reliability of sustainability-related disclosures.

Quality and reliable sustainability-related disclosures are a necessity to make informed investment decisions and prevent greenwashing. Disclosures on transition plans and climate targets are essential for scaling-up investments for the transition. The EU must ensure corporate transition plans and climate targets are robust, reliable, and comparable to be investment-decision useful. EU rules covering transition plans and climate targets must be consistent. Sustainability-related investments are cross-border and cross-jurisdiction, so interoperability and alignment at the international level is key.

Eurosif recommends that EU policymakers:

4.1. Enable informed investment decisions by enhancing the availability, quality, comparability and reliability of corporate sustainability disclosures by ensuring the proper implementation and further development of the European Sustainability Reporting Standards (ESRS).

4.1.1. Ensure standards for listed SMEs are based on, and are consistent with, the standards for large, listed companies, to enable comparability for investors.

4.1.2. Standards for financial institutions must be consist with other reporting requirements applying to financial institutions, including the SFDR, Pillar 3 disclosures for banks and for insurance companies.

4.2. Facilitate the use of forward-looking transition plans and climate targets for investment decisions by ensuring consistency of related requirements and disclosures across EU rules.

4.3. Establish sectoral transition pathways to help companies design credible transition plans.

4.4. Strive for international consistency and interoperability by conducting mapping and reconciliation exercises between EU and non-EU sustainability standards.

5. Mobilise the contribution of retail investors and savers to a just transition.

There are €33 trillion worth of savings in the bank accounts of EU citizens, part of which could be leveraged to finance the economic transition to a sustainable economy[3]. Obstacles include inefficient financial advice whereby clients are often not offered sustainable investments and overly complex disclosures which are difficult to understand for retail investors. Consumer-facing information on the characteristics of these products should be simplified and clarified.

To mobilise the savings of EU citizens to contribute to sustainable economic growth, EU savers should be able to easily understand sustainability-related financial products and always be offered at least one sustainable financial product during the advisory process. The rules governing financial advice, including suitability tests and sustainability preferences, must be reformed with this goal in mind. Financial advisors must be educated on sustainable finance and able to explain different concepts and choices available to investors and offer products best meeting the sustainability-related preferences of their clients.

Eurosif recommends that EU policymakers:

5.1. Make sustainability-related information easier to understand for a retail audience by simplifying related disclosures under EU rules for financial products offered to retail investors (SFDR, PRIIPs Regulation). They should also always be offered at least one product that qualifies a a sustainable investment.

5.2. Require training and possibly certifications for financial advisors to ensure they are well-qualified to advise retail investors on sustainability-related financial products.

5.3. Ensure retail investors are offered financial products in line with their sustainability preferences by adjusting the rules on financial advice (MiFID2/IDD) to reflect the categories of products under a revised SFDR.

3 Enrico Letta et al., Much more than a market. Speed, security, solidarity - Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens, February 2024.

I. What is a just transition, and why is it key for the growth, competitiveness, resilience and autonomy of the European Union?

Climate change is a scientific reality[4]. We are already witnessing its detrimental and damaging physical effects, placing financial strain on national and global economies and societies. These include an increase in the frequency and intensity of extreme weather events such as droughts and flooding, as well as negative impacts on housing, agriculture, food production, migration flows and inflation.

In the absence of policies and concrete actions to mitigate climate change, **these events are expected to cause significant financial losses,** which the International Monetary Fund (IMF) estimates at above of 7% of global Gross Domestic Product (GDP) by 2100[5]. The International Panel on Climate Change (IPCC) points out that the **impacts of climate change are already detrimental to economic growth and may become irreversible**[6]. These impacts are likely to have wide-reaching consequences for the financial system[7], and could lead to recurring, large-scale financial and economic crises.

European economies are among the most exposed to climate-related risks, both through direct physical risks affecting business value chains and also due to the increased likelihood of default and loss of asset value for financial institutions[8]. The EU economy has already suffered losses estimated at €170 billion in the last five years, which could ramp up to €2.4 trillion – more than the current GDP of Italy – over the next thirty years[9]. **Mitigating climate change and wider environmental degradation is key for the economic and financial resilience and stability of the EU and its member states.**

The EU must also rise to mounting global challenges and ensure its strategic autonomy. The impacts of recent volatility in the energy sector due to the war in Ukraine have highlighted that the EU needs to guarantee its own sustainable and renewable energy supply and transition away from depending on the provision of fossil fuels from third countries. EU countries like Denmark, that invested in renewable energy a long time ago, are now reaping the rewards of being frontrunners in the journey to reach climate neutrality, which is also reflected in increased autonomy and resilience.

To address these challenges and increase the long-term competitiveness of the European economy and contribute to sustainable prosperity, the EU must accelerate its transition to a net-zero economy, as emphasised by the President of the European Commission Ursula von der Leyen in her political guidelines for the next five years[10].

This **transition must**, however, **happen in a way that considers its implications for society,** and especially the most vulnerable communities and workers. We need measures that will support affected people by either offering alternative employment, trainings, or resources to deal with the financial implications of the transition. This is essential to avoid social unrest and gather the support of citizens, ensuring everyone benefits from the economic transformation to carbon neutrality. That is why we need a just transition, that does not leave anyone behind.

The just transition to a sustainable economy presents an important opportunity to boost the EU's competitiveness. Evidence shows that EU countries with the most developed sustain-

4 IPCC, Summary for Policymakers: Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2021.
5 Matthew E. Kahn, et al., Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis, 11 October 2019.
6 IPCC, Summary for Policymakers: Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2023
7 NGFS, Scenarios for central banks and supervisors, November 2023.
8 EEA, European Climate Risk Assessment - Executive summary, 2024.
9 Enrico Letta et al., Much more than a market. Speed, security, solidarity - Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens, February 2024.
10 Ursula von der Leyen, Political guidelines for the next European Commission, 18 July 2024.

ability policies are also the most competitive[11], leading to continued growth in key economic sectors. Investments in a just transition to sustainable growth will support the wide-ranging transformations of EU businesses and economies to better mitigate shocks linked to environmental factors and increase their global competitiveness[12]. This also means the transformation of companies whose business model is no longer sustainable considering the EU's climate and other sustainability targets.

The strategic priorities of EU member states[13] and of Ursula von der Leyen[14] acknowledge that investing in a clean transition is essential for EU industry amid renewed international competition, including in the decarbonisation space. As an example, the U.S. Inflation Reduction Act (IRA) is expected to direct about $370 billion to boost renewable energy production in the U.S. The European Commission-mandated report by Mario Draghi also underlines that decarbonisation will be a central opportunity to spur EU competitiveness and growth[15].

Companies implementing sustainability policies are better prepared for and better manage the risks stemming from sustainability-related events. These include climate change, socio-economic developments like COVID, the war in Ukraine and other societal and environmental risks. Adopting sustainable business conduct means companies are more aware of the risk of human rights breaches or significant environmental harm in their own operations or value chain. Performing due diligence to identify such risks, manage, and mitigate them if needed, means they can avoid reputational and legal damages and potential loss of market share.

The sustainable competitiveness of real-economy companies and the financial sector is also driven by consumer demand. Surveys show consumers are increasingly interested in sustainable products and services and are particularly attentive to environmental labels and standards[16].

Similarly, there is an increasing demand from institutional and retail investors for sustainable investments. A market study[17] from the Global Sustainable Investment Alliance (GSIA) demonstrates the continued growth of sustainability-related investments. In 2022, they were estimated to reach $30.3 trillion globally, which constitutes 30% of the global GDP that year. While their growth slowed down in the EU during 2023[18], European individual investors show a strong and continued appetite for sustainable investments. In 2024, 85% of individual investors expressed an interest in investing sustainably in the coming years[19].

Sustainability is not only about generating positive impacts or avoiding negative impacts. The double materiality principle, underpinning most European sustainable finance rules, is about identifying and managing sustainability risks and opportunities (financial materiality) and about identifying and addressing the impacts of company activities on the environment and society (impact materiality).

Integrating sustainability considerations in investments, business strategies and models is about **prudent risk management and generating returns** for investors over the mid to long-term. Moreover, sustainability is a **business value proposition** driven by consumer and end-investor demand.

11 CISL, Competitive Sustainability Index: New metrics for EU competitiveness for an economy in transition, December 2024.
12 EIB, Investment Report 2023/2024 - Transforming for competitiveness, 2024.
13 European Council, Strategic Agenda 2024-2029.
14 Statement at the European Parliament by President Ursula von der Leyen, candidate for a second mandate, 18 July 2024.
15 Mario Draghi et al., The future of European competitiveness – Part A , September 2024.
16 BEUC, The Great Green Maze: How environmental advertising confuses consumers, November 2023.
17 GSIA, Global Sustainable Investment review 2022, November 2023.
18 ESMA, TRV Risk Monitor, 31 January 2024.
19 Morgan Stanley Institute for Sustainable Investing, Understanding Individual Investor's Interests and Priorities, 2024.

ESG is also about good corporate governance and responsible business conduct which are intrinsically linked with long-term value creation. **Companies integrating sustainability-considerations in their strategies, business model and risk management tend to be more attractive to investors, especially those seeking mid to long-term investments. Sustainability can thus be seen as a means to facilitate access to capital.**

II. The role of investors in contributing to a just transition to a sustainable economy

The European Commission estimates that an additional €700 billion in annual investments is necessary by 2030 to meet the EU's strategic objectives and climate targets[20]. EU public funding can be mobilised to cover part of these investment needs, for example via dedicated programmes supporting innovation, direct public investments in research and development (R&D), renewable energy, increasing energy efficiency and transport infrastructure.

The public sector also plays a crucial role by providing clear political signals and providing incentives to facilitate and scale-up private investments. These include tax incentives, investment guarantees, risk-sharing instruments, public-private partnerships and blended finance.

Public finances alone will not be enough to bridge the investment gap needed for the transition. **A significant amount of capital must be raised from private investment** – which accounts for 80% of total investment in the EU[21].

As providers of capital, investors, meaning asset owners (e.g. pension funds, insurance companies and retail investors) and asset managers, **contribute to sustainable growth by scaling-up investments for the transition.** As appetite for sustainable investing grows (see Chapter II), investors use a range of sustainability-related investment strategies, which entail analysing potential investee companies using various market-based criteria. Such strategies may include "impact investments", "best-in-class", "thematic investments", "exclusionary/ screening strategies", and "ESG integration"[22]. Through these, investors identify the companies which have profiles and sustainability credentials most in line with their investment strategy and the eventual preferences of their clients, guiding their capital allocation decisions. Concretely, this can lead to funding innovative sustainable companies in their early stages of development, supporting large, listed companies shifting to more climate-friendly business practices, or financing concrete projects that have direct environmental or social benefits.

Investors also use sustainability-related strategies to avoid investing in activities that are unsustainable and/or not in line with their client's preferences. The negative impacts of investments on the environment and people are likely to turn into financial risks in the medium to long-term and financial institutions increasingly incorporate this fact into their strategic planning and business processes. Evidence shows that investment funds following sustainable approaches can benefit from strong overall performance while also being resilient to financial instability[23].

20 Commission Recommendation (EU) 2023/1425 of 27 June 2023.
21 Mario Draghi et al., The future of European competitiveness – Part B, September 2024.
22 CFA Institute, GSIA & PRI, Definitions for Responsible Investment Approaches, November 2023.
23 ESMA, Costs and Performance of EU Retail Investment Products 2023, 18 December 2023.

As active owners of shares and other financial instruments, investors can support the just transition by engaging with their investee companies, persuading them to transform their operations in line with EU climate and other sustainability-oriented targets. This includes using their rights as shareholders to influence the strategic decisions of investee companies.

Engagement has different forms ranging through bilateral dialogue with company management or the board, voting on resolutions at the company's Annual General Meeting (AGM) and filing shareholder resolutions for the company's AGM. Topics are wide-ranging and often include company strategy, the appointment of company directors, executive and director pay, and increasingly, company climate transition plans. Engagement strategies have different steps, and in case progress is limited, escalation can take place. If all other options are exhausted without giving the desired result, disinvestment may be considered.

It is noteworthy that in recent years, investors have enhanced their level of scrutiny on sustainability related claims[24] and engaged more regularly with intermediaries and investee companies to ensure investments are in line with their client preferences, risk management criteria and long-term investment objectives.

To sum up, **investors can contribute to a just transition by scaling-up investments** in the companies and activities accelerating the transition and by **meaningfully engaging with investee companies.** These **activities can be facilitated by public sector incentives** (e.g. tax breaks, investment guarantees and risk-sharing instruments and blended finance) **and a well-calibrated regulatory environment** that ensures the availability of decision-useful data and tools, and facilitates and strengthens their sustainability-related investment practices. In this roadmap we focus on the latter.

III. Build upon and complete the EU sustainable finance framework to facilitate investor contribution

Since the 2018 EU Sustainable Finance Action Plan[25], many rules have been developed and rolled out, setting out a regulatory framework aiming to channel finance in the transition to a sustainable economy and better manage sustainability risks.

Most of these rules have focused on increasing transparency for the different actors in the investment chain. Examples include the Sustainable Finance Disclosure Regulation (SFDR), requiring disclosures on sustainability-related risks and impacts for investors, banks, insurance providers and financial advisers and for the financial products they offer. The Corporate Sustainability Reporting Directive (CSRD) requires all large EU companies to disclose information on how they identify and manage sustainability risks and impacts covering ESG matters. Investment service providers, such as ESG ratings providers, must also apply specific transparency requirements to their methodologies and activities.

Standards and labels like the EU Taxonomy define what constitutes environmentally sustainable economic activities, while the EU Green Bond Standard and EU Climate Benchmarks aim to offer trustworthy and reliable tools for investors to allocate capital towards sustainable activities and prevent greenwashing.

The Corporate Sustainability Due Diligence Directive (CSDDD) goes beyond the transparency regime, by setting out obligations for the largest companies to set and implement transition

24 ESMA, TRV Risk Monitor, 9 February 2023.
25 European Commission, Sustainable finance: Commission's Action Plan for a greener and cleaner economy, 8 March 2018.

plans including science-based climate targets, and to perform environmental and human rights due diligence through value chain. This directive is an important milestone to mitigate climate change and to prevent and end severe human rights violations and serious environmental harm.

The EU sustainable finance framework is rather comprehensive, but to deliver on its objectives it needs to be thoroughly implemented, adjusted so that the different rules fit and work well together, and completed.

Proper implementation of the rules is essential for their success. This requires appropriate transposition and implementation of these rules in all EU member states, appropriate guidance and support for the industry and appropriate efforts from market participants. Even the best rules, if not enforced, will fail to deliver results.

Many of these EU sustainable finance rules have been developed at a fast pace and often in parallel. Therefore, it is now time to look at all pieces of the puzzle and adjust them to **ensure that the current sustainable finance rules are consistent with one another.** This is important to ensure the clarity and coherence of the framework for companies and investors applying the rules, as well as the consistency and reliability of disclosures for information users, meaning investors, other financial industry participants and supervisors. This includes, for example, requirements on transition plans and climate targets which have been included in different ways across several EU laws. This also applies to rules on financial advice which were revised early on and neither fit the framework properly nor give retail investors the choice they deserve.

Certain rules, like the EU Taxonomy, are incomplete, and require further development. Regulations like the SFDR have been "road-tested" following initial years of implementation, with practical challenges appearing that must be addressed.

Finally, the framework contains some gaps. In its revised Sustainable Finance Strategy of 2021, the European Commission announced an action on ESG benchmarks. However, this proposal has not been put forward. Investors rely a lot on benchmarks in their investments. Currently this space is largely unregulated, allowing for greenwashing[26]. Given the growing amount of passive investments, which always track the composition of these benchmarks, setting a standard with minimum criteria and disclosures to apply for sustainability-denominated benchmarks is crucial to further scale-up investment for the just transition.

Eurosif calls on EU policymakers to maintain the positive momentum on sustainable finance by building on and completing the EU sustainable finance framework.

Firstly, the EU sustainable finance regulatory framework already delivers tangible positive results. Despite some imperfections, the framework has led to **significantly increased transparency on sustainability-related considerations** in financial markets and **contributed to the growth and integrity of meaningful sustainable investment flows.**

Recent studies show improved transparency which is starting to change the behaviour of companies and financial market participants, as well as affecting the choices of end investors. This results in encouraging signals for the redirection of capital flows towards companies, activities and projects accelerating the transition[27].

It is noteworthy that some companies, including Small and Medium-sized Enterprises (SMEs),

26 Reclaim Finance, Unmasking Greenwashing: A call to clean up passive funds, March 2024.
27 PSF, A compendium of market practices, January 2024.

are pre-empting the application of EU sustainability reporting standards by proactively shifting their practices on sustainability disclosures in line with the ESRS[28].

Secondly, many EU sustainable finance rules are **still in the early stages of implementation,** making it difficult or even impossible to properly assess the associated costs as well as benefits. Their proper application is essential to ensure they deliver on their intended objectives. This requires the appropriate transposition and implementation of rules in all EU member states, guidance and support for the industry and efforts on the part of market participants. This is necessary for the CSRD sustainability reporting requirements and the CSDDD due diligence rules for example. If they are not enforced, even the best rules will simply not deliver.

Thirdly, EU companies, including financial institutions, have already **dedicated significant resources to implementing these rules,** which are now increasingly embedded in their reporting and used as decision-useful metrics in business. Companies need regulatory stability and changing rules too drastically and too frequently is not helpful.

Finally, the current challenges in the implementation of some of the EU rules have highlighted the **necessity to move beyond transparency and to fill in the remaining gaps.** These practical issues must be addressed by clarifying the framework and its underlying definitions, by establishing minimum criteria and standards across the investment chain, encompassing investors, financial services providers and companies.

To sum up, while the EU sustainable finance framework is a major step forward. It must now be adjusted so that its different rules work well together and so that the gaps are addressed. This is crucial to scale-up investments for a just transition to sustainable growth.

In the next Chapter, Eurosif sets out its recommendations for how to achieve this and create an enabling environment for investments contributing to competitive and sustainable prosperity.

28 PwC, Corporate Sustainability Reporting Directive – an analysis: How far companies from Germany, Austria, Switzerland and the Netherlands have progressed with the implementation, November 2023.

IV.
Recommendations for EU policymakers

1 Clearly define investments contributing to a just transition to a sustainable economy.

1.1 Facilitate scaling-up investments for sustainable growth by clearly defining sustainable, transition, and impact investments as part of the Sustainable Finance Disclosure Regulation (SFDR) review.

A diverse range of economic activities can contribute to a just transition. These can take the form of projects with a positive contribution to mitigating climate change, climate adaptation and preventing biodiversity loss, or bringing social benefits such as investments in education, healthcare or social housing.

Investments can support a transition towards a sustainable economy in different ways. This can be done by financing 1) "green" economic activities and projects (e.g. investments in solar panels and their installation) and 2) activities that enable environmental sustainability (e.g. the maintenance of these solar panels). These investments can be categorised as "sustainable investments", meaning investments into what is already "green".

Supporting the transition can also be done by investing in companies phasing-out/transforming their harmful activities and meaningfully engaging with such companies to support them in their transition. Investors are expecting such investee companies to adopt and implement credible transition plans in a timely manner, and to consequently adapt their business model. Such investments are usually referred to as "transition investments" or transition finance.

Transition and sustainable investments both play an important role in supporting the transformation to a sustainable economy. However, EU law does not clearly define transition investments and the precise criteria and/or thresholds for sustainable investments are missing.

The SFDR provides a definition of "sustainable investments", however, as it is intended as a disclosure-based regulation, the definition is relatively broad and leaves significant room for interpretation, as well as lacking clear criteria.

The EU Taxonomy's definition of "environmentally sustainable economic activities" has been conceived as a tool for investors to understand what proportion of their investments can be considered environmentally sustainable. However, the current scope of the EU Taxonomy remains limited to economic activities with the biggest impact on the environment, completely leaving out social aspects. Moreover, even on the environmental side, it is not yet complete; the agriculture sector is missing for instance.

While transition-denominated investments have grown over the last few years[29] and the European Commission has attempted to provide some guidance in its high-level recommendations[30], currently there is no legal definition of transition investments.

As a result, market participants come up with their own criteria while designing financial products that make sustainable or transition investment claims. This leads to a wide divergence in products presenting similar claims, which may result in greenwashing and mislead

29 ESMA, TRV Risk Monitor, 29 August 2024.
30 Commission Recommendation (EU) 2023/1425 of 27 June 2023.

retail investors[31]. The slower growth of investment products with sustainability-related objectives witnessed since 2023 can be explained in part by investor willingness to avoid exposure to greenwashing risks[32].

While the number of investment funds making impact claims is growing[33], the understanding of what constitutes impact investment strategies still widely diverges between financial market participants and asset classes, making these claims a potential driver of greenwashing[34]. Furthermore, while some international regulatory frameworks have proposed to define impact investing by establishing dedicated labels, concerns are mounting that the approaches taken may result in impact investments remaining niche. Meanwhile, impact investing can cover various investment strategies and reflect sustainable or transition approaches, as well as follow environmental or social objectives.

To scale-up investments for economic transformation and sustainable prosperity, **the EU sustainable finance framework needs clear, credible and consistent definitions of "sustainable investments" "transition investments", and "impact investments", underpinned by robust minimum criteria and/or thresholds.**

To that end, Eurosif proposes to create three mandatory categories of sustainability-related financial products, underpinned by robust criteria, as part of the SFDR review:

- Products which have **"sustainable investments"** as their objective. Such products should demonstrate investments in companies and/or projects which are already sustainable. This can be done, for example, via a minimum threshold of alignment with the EU Taxonomy. These investments, in addition to having a positive contribution or impact, should also not do any significant harm to the environment or society – excluding investments in e.g. the fossil fuel industry.

- Products which have **"transition investments"** as their objective. This category is intended for investments in companies and projects which are not sustainable yet but are on a credible transition path. Criteria would include investee companies having and implementing robust transition plans and climate targets, as well as meaningful engagement by investors. Investments in harmful activities that cannot transition should be excluded from this category, when companies do not implement credible commitments (e.g. transition plans) to phase out these activities. Similarly, investments in new fossil fuel projects should be excluded.

- Products with **binding environmental or social factors**. We see merits in recognising sustainability-related investment strategies which do not meet the criteria of sustainable or transition investment categories but do apply credible environmental or social approaches. Such funds should demonstrate performance against sustainability-related indicators, such as relevant benchmarks, and ensure their investments do not result in any serious harm to the environment or society – e.g. funding new fossil fuel projects.

To ensure that the SFDR caters for impact investments, a **horizontal impact-lens** should be applied across the sustainable and transition investment product categories. The criteria should be tailored to the asset class (public equity, private equity, etc.) and could require demonstration of a credible theory of change, intentionality and measurement of the real-world impact, as well as of the contribution of the investment approach and/or engagement strategy.

31 ESMA, Progress Report on Greenwashing, 31 May 2023.
32 ESMA, TRV Risk Monitor, 31 January 2024.
33 ESMA, TRV Risk Analysis Sustainable Finance: Impact investing – Do SDG funds fulfil their promises?, 1 February 2024.
34 ESMA, Progress Report on Greenwashing, 31 May 2023.

1.2 Develop an EU Social Investment Standard as a set of criteria to be used whenever sustainable investments pursue a social objective as part of the Sustainable Finance Disclosure Regulation (SFDR) review.

Sustainability is not only about the environment. It is also about addressing societal challenges like poverty, social inequality and division, as well as unequal access to education, healthcare and availability of social housing, all of which have been long-standing priorities for the EU to tackle.

The transition to a low-carbon economy impacts people and society. Wide-ranging economic transformation means some jobs will inevitably be lost and some people will need to get different qualifications.

Addressing all these issues is a prerequisite for a transition to a truly sustainable economy that guarantees social fairness and mitigates the risk of social unrest. **Scaling-up social investments may be part of the answer to these problems and can provide finance needed to help the most affected people and communities to cope with the economic transition.**

Investors are increasingly interested in contributing to positive social outcomes. They are also increasingly aware of the need to respect human rights and to invest in companies that treat their workforce well. However, while sustainable investments, as defined under the SFDR, can pursue either an environmental or social objective, currently there is no common EU framework or standard defining "social" investments or "socially sustainable economic activities". This results in an imbalance between the treatment of environmental and social matters in sustainable finance and poses a challenge for asset managers manufacturing products which are marketed as sustainable investments, but which pursue social objectives. This is also a missed opportunity for scaling-up investments with positive societal outcomes.

The EU should establish an EU social investment standard to identify socially sustainable investments based on a set of common criteria. This standard could be created via a dedicated initiative or by directly setting criteria as part of the SFDR review. Developing an EU social investment standard would further complete the EU Taxonomy (see our related recommendations for environmental objectives in section 2.2. below) by establishing a list of criteria to measure social investments.

The SFDR review should clearly define that investments made according to the criteria set in the standard can be considered as socially sustainable. This would help investors identify what activities, projects and companies they can target when making investments promoting social objectives, for the purpose of the SFDR categorisation of sustainability-related investments proposed in section 1.1. This would also be helpful to end-investors and supervisors as it would enhance the comparability of social investments and prevent greenwashing.

The framework and detailed criteria for an EU social investment standard should be developed in close collaboration with financial market practitioners and a range of stakeholders. The standard should be developed building on the social disclosures included in the ESRS[35] and considering the recommendations of the Platform on Sustainable Finance to extend the EU Taxonomy to social objectives[36]. However, the standard should be relatively simple and practical and should not attempt to mirror the structure or the complexity of the EU Taxonomy of environmentally sustainable economic activities.

35 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023.
36 PSF, Final Report on Social Taxonomy, February 2022.

To clearly define investments contributing to a just transition to a sustainable economy, Eurosif recommends that EU policymakers:

1.1. Support investments with positive real-world outcomes by clearly defining sustainable, transition and impact investments as part of the Sustainable Finance Disclosure Regulation (SFDR) review.

1.2. Develop an EU Social Investment Standard as a set of criteria to be used whenever sustainable investments pursue a social objective as part of the SFDR review.

2 Strengthen and complete investor tools to scale-up sustainable finance.

2.1 Develop an EU standard for sustainability-related/ESG benchmarks, underpinned by a set of criteria and minimum disclosures, to serve as credible tools to assist investment decisions.

Benchmarks, also referred to as indexes, are frequently used by investors for a wide range of financial products, including passive and active investments. Passive products, e.g. ETFs (Exchange Traded Funds), are designed in a way that they must closely track (mirror) an index. In case of actively managed funds, selecting an index to follow may be a part of the fund's strategy, even if the fund may diverge from the index and exclude some investments for example. They are also used as a reference to assess the performance of investments.

The "Climate transition benchmarks (CTBs)" and "Paris-Aligned Benchmarks" (PABs) are designed as labels that indexes can obtain if they meet the criteria. They have been an important step forward in promoting the creation of indexes that are on a credible decarbonisation trajectory. Tracking PABs, in particular, facilitates the alignment of investment portfolios with the 1.5°C goal of the Paris Agreement. Overall, **these benchmarks are considered a success,** with around €180 billion of assets under management meeting their criteria[37].

However, **some issues remain, which can limit their usefulness.** In particular, the criteria for these benchmarks do not require the integration of forward-looking information, e.g. regarding the decarbonisation pathway of the underlying companies. This is problematic as transition plans, which are a crucial metric to assess whether companies are on a decarbonisation pathway, are missing from the CTB criteria.

The minimum standards for EU Climate Benchmarks should reference companies setting and implementing a credible transition plan. They should allow for the increased weight of these companies when they demonstrate they follow through on their transition plan commitments in line with the decarbonisation trajectory targets set by the EU Climate Benchmarks. This would both incentivise companies to commit to a credible GHG emission reduction trajectory and further ensure investments meeting the EU Climate Benchmarks criteria drive the decarbonisation of the real economy.

Concerns also remain about the lack of a regulatory framework for ESG benchmarks, going beyond climate and beyond labels. In its revised Sustainable Finance Strategy of 2021[38], the European Commission announced its willingness to focus on ESG benchmarks, however, it has not acted upon it to date. Currently, apart from the benchmarks opting in for PAB or CTB labels, benchmarks making ESG claims are not subject to any sustainability-related transparency requirements on their methodologies. As highlighted by the European Securities and Markets Authority (ESMA)[39], this creates a risk of greenwashing across the investment chain.

Specific disclosure requirements and minimum criteria should be developed for an EU "ESG

37 European Commission, Workshop on Paris-aligned and Climate Transition Benchmarks 17 October 2024.
38 European Commission, Strategy for Financing the Transition to a Sustainable Economy, 6 July 2021.
39 ESMA, Progress Report on Greenwashing, 31 May 2023.

benchmark" standard to scale-up investments for sustainable growth and prevent greenwashing. These criteria should be consistent with the criteria used to establish categories of products as part of the review of SFDR. This would help mobilise the growing number of passive investment funds (which track and replicate the performance of benchmarks) to finance a just transition. At the end of 2023, more that a quarter of long-term UCITS[40] investment funds in Europe were passive funds[41], representing about €2.8 trillion in investments, equivalent to the GDP of France.

An **EU ESG benchmark standard could also be used to introduce additional EU-labelled benchmarks** with specific environmental or social objectives, drawing, for example, on the proposals for EU Taxonomy-aligning benchmarks (EU TABs) from the Platform on Sustainable Finance[42].

A proposal for an EU ESG benchmarks standard should include rules for benchmarks that have ESG/sustainability-related terms in their names to more accurately reflect their characteristics and avoid any misleading claims to investors. These rules should be in line with ESMA guidelines for fund names[43].

The establishment of an EU ESG benchmark standard and improved criteria for EU PAB/CTB would facilitate the identification of credible sustainability-oriented benchmarks, helping channel investments for a just transition to a sustainable economy. These regulatory initiatives would also promote regulatory consistency by improving their alignment with the categories of sustainability-related products under a revised SFDR, including a category for transition investments (see section 1.1).

2.2 Complete the EU Taxonomy of environmentally sustainable economic activities by 1) extending the scope of activities covered by its environmental objectives; 2) setting out significantly harmful activities and differentiating those that can and cannot be transformed; and 3) identifying transition/intermediate activities.

The current **EU Taxonomy is a helpful tool defining environmentally sustainable economic activities,** following - to a large extent - a science-based approach. It provides investors with clarity on what projects and companies to finance for their investments to be qualified as environmentally sustainable. However, the **current coverage of the EU Taxonomy remains limited.** The incompleteness of the EU Taxonomy hampers its usefulness as a tool for investors to finance economic activities contributing to sustainable growth.

Firstly, some economic sectors and activities which are relevant to the decarbonisation of the EU economy are for the moment still not covered by the EU Taxonomy. This is the case of the agriculture sector for example, which has a significant impact on the environment and for which technical criteria have already been developed. This is also the case for other sectors and economic activities for which technical recommendations have been provided by the Platform on Sustainable Finance, including e.g. the manufacture of chemicals or the finishing of textiles.

As a first essential step to improving the EU Taxonomy and in line with cross-stakeholder recommendations to leverage finance for the transition of this sector[44], the agriculture-re-

40 UCITS (Undertakings for Collective Investment in Transferable Securities) are a type of investment fund regulated in the EU to ensure high levels of investor protection and transparency.
41 EFAMA, Fact Book 2024, 2024.
42 PSF, EU Taxonomy-Aligning Benchmarks (TABs) Report, 12 December 2023.
43 ESMA, Final Report: Guidelines on funds' names using ESG or sustainability-related terms, 14 May 2024.
44 Strategic Dialogue on the Future of EU Agriculture, A shared prospect for farming and food in Europe, September 2024.

lated and other aforementioned economic activities must be included in the EU Taxonomy. This would further incentivise private investments in those activities that are sustainable or contribute to the transition (see below).

Secondly, the EU Taxonomy is limited to defining environmentally sustainable economic activities. To make informed investment decisions and assess the relevance and credibility of corporate transition plans, financial market participants must go beyond this binary aspect and need to know whether investee companies have significantly harmful economic activities and if so, what proportion this amounts to. Within these activities, they also need to understand which ones can or cannot transition.

The EU Taxonomy should therefore be extended to cover economic activities which are significantly harmful, differentiating between those activities that can be transformed from those that cannot. **Consequently, the intermediate activities (amber) should also be fleshed out and differentiated from economic activities with no significant impact.** An extended EU Taxonomy would facilitate the establishment of more robust and dynamic criteria for the transition investment category of SFDR (see section 1.1.), while also identifying "always harmful" activities, or activities that cannot transition and which should be excluded from this category when companies do not implement credible commitments (e.g. transition plans) to phase them out.

Thirdly, a completed EU Taxonomy would constitute a useful tool for companies developing their transition plans and for investors assessing them. It would facilitate an easier assessment of companies based on the Taxonomy-designed pathways, providing more transparency on their sustainability plans and commitments. This would help investors judge the credibility of the transition plan and trajectories of their investee companies and assess whether the proportion of harmful activities shifted over time to become "intermediate" activities, as initially proposed by the Platform on Sustainable Finance[45].

These recommendations would both facilitate the sustainable and transition investment decision making of investors and be helpful to the reporting companies whose economic activities are supporting the transition but currently cannot claim the EU Taxonomy-alignment.

These recommendations would facilitate the sustainable and transition investment decisions and be helpful to the reporting companies whose economic activities are supporting the transition but currently cannot claim alignment with the EU Taxonomy.

To strengthen and complete investor tools to scale-up sustainable finance, Eurosif recommends that EU policymakers:

2.1. Develop an EU standard for sustainability-related/ESG (Environmental, Social and Governance) benchmarks, underpinned by a set of criteria and minimum disclosures, to serve as credible tools to assist investment decisions.

2.2. Review criteria for EU climate benchmarks methodologies to ensure they are fit for purpose and integrate forward-looking information, like transition plans and climate targets.

2.3. Complete the EU Taxonomy of environmentally sustainable economic activities by 1) extending the scope of activities covered by its environmental objectives; 2) setting out significantly harmful activities and differentiating those that can and cannot be transformed; and 3) identifying transition/intermediate activities.

45 PSF, Final Report on Taxonomy extension options supporting a sustainable transition, March 2022.

3 Unleash the power of investor engagement to incentivise the transition of real-economy companies towards sustainability.

3.1 Remove the existing barriers to individual and collective investor engagement by reforming the Shareholder Rights Directive (SRD II) and revisiting rules on acting in concert.

Shareholder engagement is a powerful tool for investors to exert positive influence over investee companies. Investors, as company owners, benefit from their legal rights, including a right to participate in the company's Annual General Meeting (AGM), to vote on AGM resolutions, and depending on the country and the proportion of the company ownership, the right to put forward AGM resolutions.

As shareowners, investors have the possibility to engage with company management and board members. Through meetings with the management and company board, investors attempt to influence strategic decisions. Topics of discussion can include company strategy, executive compensation and board elections.

Increasingly, investors discuss climate-related topics, e.g. whether a company has a credible transition plan including climate targets, how the company is managing sustainability risks and whether the company has significant negative impacts on the environment and society and if so, whether and what it is doing to address them.

Recently in the EU, there has been a significant increase in the support of shareholder proposals on sustainability-related issues at general meetings[46]. This can encourage companies to address adverse environmental and social impacts, mitigate related risks and improve their business models and sustainability performance overall.

In the case of large companies with dispersed ownership structures, investors will usually own a limited stake in a company. This also means its leverage will be limited while acting on their own. Consequently, collaboration with other shareholders is often necessary for successful engagement.

However, the effectiveness of shareholder engagement is often hampered by the remaining barriers in the EU regulatory framework and market infrastructure. First, the current application of the SRD II does not guarantee the effective use of shareholder rights. For instance, long and complex chains of intermediaries often impede the effective transmission of information between shareholders and investee companies – especially on a cross-border basis[47]. Shareholders often report that they do not receive the necessary information to actively participate in the general meeting and/or cast their votes in a timely manner. This is due to differing definitions of a "shareholder", unharmonised record dates across EU member states, overly complex chains of intermediaries and the use of antiquated technology, amongst other factors. This means that in many cross-border situations, shareholders are often not able to effectively exercise their legal rights as shareholders.

46 ShareAction, Voting Matters 2023 – Are asset managers using their proxy votes for action on environmental and social issues?, January 2024.
47 Better Finance, DSW, Barriers to Shareholder Engagement – SRD II Revisited, January 2023.

Examples of legal barriers include a certain provision of the SRD II. The directive provides EU member states with an option to set a threshold of minimum share ownership for tabling shareholder resolutions at AGMs. This threshold can be as high as 5% of the total amount of shares[48]. Especially in the case of companies with dispersed ownership, this can constitute a significant barrier to exercising shareholder rights and tabling, for instance, climate-oriented resolutions[49].

There are also barriers at the member state level. For instance, certain countries like France prevent split voting. Such a function is essential for asset owners to exercise their rights by voting at the company AGM. Asset owners usually employ the services of asset managers to manage their investments. They also usually delegate to asset managers the exercise of their shareholder rights. Nowadays, there are technological solutions to enable asset managers to cast votes according to the asset owner's wishes. However, if split voting is not permitted in a country, asset owners will be prevented from executing their rights.

Finally, EU rules on "acting in concert", while designed to prevent investors from acting in concert with the objective of taking control of the company, can impede effective shareholder collaboration with regard to climate-related, environmental or social resolutions. ESMA tried to address this issue by providing guidance[50] on the subject, including a whitelist of activities that do not constitute "acting in concert". This list includes votes on company policies on environmental matters. However, many investors are still weary of using the full extent of their shareholder rights due to the perceived risk of breaching the rules. One of the factors contributing to this situation is that the decision on whether an action constitutes an attempt to take control over the investee company is determined at national level.

We suggest addressing these challenges during the planned **review of the SRD II. The remaining barriers to exercising shareholders rights, including on sustainability matters, should be abolished.**

Firstly, the information flows between companies and its shareholders, whether at a national or cross-border level, should be improved by harmonising key rules (e.g. definition of a shareholder, agreeing a uniform record date, etc.), by simplifying the chain of financial intermediaries between companies and its shareholders and ensuring the use of up-to-date technological solutions.

Secondly, thresholds for tabling resolutions at AGMs should be significantly lowered and harmonised across all EU member states to avoid market fragmentation and to enable shareholders to have a say on a company's strategic decisions related to sustainability matters, such as adopting a transition plan to ensure climate resilience and achieve climate neutrality.

Thirdly, split voting should be enabled in all EU countries. This is to ensure that asset owners are empowered.

Moreover, EU rules[51] and ESMA guidance[52] on "acting in concert" should be revised aiming to clarify that any shareholder cooperation aiming to influence company policies on environmental (including climate), social or wider sustainability-related matters is permitted. Through its supervisory convergence actions, ESMA should ensure the rules are applied consistently across EU member states.

48 Directive 2007/36/EC of 11 July 2007.
49 ERIN, Practical information to support the exercise of shareholder rights in seven European countries, September 2024.
50 ESMA, Information on shareholder cooperation and acting in concert under the Takeover Bids Directive, 8 January 2019.
51 Directive 2004/25/EC of 21 April 2004.
52 ESMA, Information on shareholder cooperation and acting in concert under the Takeover Bids Directive, 8 January 2019.

3.2 Define and encourage meaningful sustainability-related engagement and establish related criteria for transition investments under the Sustainable Finance Disclosure Regulation (SFDR).

Asset managers and asset owners, or institutional investors, have a fiduciary responsibility to act in their client's best interests. This means investing in line with their client's profile and preferences, and growing the value of their investments over the long term. The responsible allocation, management and oversight of capital to achieve these objectives is referred to as investor stewardship and is an important part of this fiduciary duty.

Stewardship tools include leveraging investor rights and influence over the assets they manage, in line with their client's interests[53]. This notably means engaging with investee companies to ensure they enable long term value creation for their clients and act according to their client's preferences on e.g. environmental and social issues.

While investor engagement can be an effective tool to ensure companies are incentivised to act according to their client's preferences (see section 3.1.), the type and ambition of investor engagement can differ widely. Activities that are considered engagement range from sending simple emails to investee companies, holding meetings with company management and carrying out joint actions with other shareholders, to voting against management and divestment in extreme cases. Meaningful investor engagement entails developing a strategy with an action plan including specific objectives, targets and progress measurement, as well as escalation measures in case engagement does not bring the intended result.

What constitutes a credible engagement strategy is currently not outlined in the EU sustainable finance framework. The current SRD II disclosure requirements on engagement policies adopted by institutional investors and asset managers do not set expectations on their actual substance, progress, escalation process or divestment triggers. Importantly, while these disclosures must also be referred to as part of the SFDR transparency requirements, there are no specific provisions in EU law to ensure the consistency and transparency of sustainability-related engagement claims, which are increasingly made by investors. This situation is detrimental both to consumers, who can be misled by unsubstantiated engagement claims[54], but also to investors, who have no clear framework to assess and compare their sustainability-related engagement efforts.

To address these issues, the SRD II provisions should be amended to spell out what meaningful engagement strategies are (including on sustainability-related issues) in line with the investor's role as stewards. This could be addressed alternatively, or in parallel, **by establishing an EU stewardship code.**

We also need clarity on what a **dedicated and credible sustainability-oriented engagement/voting strategy is,** with measurable, time bound and specific sustainability objectives and targets and a sustainability-focused action plan to achieve those. These plans should also specify the measurement of progress, escalation measures and an eventual divestment strategy and triggers. This should be clarified, amongst other things, during the SFDR review in the context of the criteria for the transition category.

While stewardship is mostly relevant to investors, other financial market participants also exert significant influence on the corporate behaviour of companies. This is, for example, the case of benchmark providers, as evidence shows that they can influence companies to im-

53 UN PRI, Stewardship, last accessed in November 2024.
54 ESMA, Progress Report on Greenwashing, 31 May 2023.

prove their sustainability performance when a failure to do so would result in their exclusion from a high-profile benchmark[55].

Consequently, **EU policymakers should consider creating a 'comply or explain' EU stewardship code, on the model of similar codes established in other jurisdictions, such as the United Kingdom**[56]. An EU stewardship code should complement and be aligned with the above-mentioned recommendations on SRD II review. The code should cover a wider range of financial instruments and actors, including asset managers and asset owners, but also financial service providers such as benchmark, data and research providers or proxy advisors. This would ensure consistency and transparency in engagement approaches across financial market participants, further leveraging their influence to incentivise a corporate shift towards sustainability.

To improve consistency across EU law and enhance the comparability of engagement claims, the implementation of credible sustainability-related engagement strategies should be included as one of the criteria underpinning a transition investment category under a revised SFDR (see section 1.1.). This would be a way to demonstrate active and credible engagement from investors to support improving the sustainability profile of the companies included in a transition product's portfolio. This could be assessed based on concrete indicators depending on the approach selected by investors, such as increasing the proportion of companies in the portfolio that implement a credible transition plan (see section 4.2.).

3.3 Establish appropriate due diligence processes for financial institutions as part of the Corporate Sustainability Due Diligence Directive (CSDDD) and reflect these in the Sustainable Finance Disclosure Regulation (SFDR).

The CSDDD, which will start to apply as of July 2027, will require the largest EU companies and third country companies with significant activities in the EU to identify, mitigate, prevent, end, and report on the impact of their operations and their business relationships on human rights and the environment across their value chain. This framework is expected to complete existing sustainability disclosures by providing clear and consistent rules across the EU for companies to manage their environmental and human rights risks and impacts throughout their value chain.

Large financial institutions are also included in the scope of CSDDD. However, they are currently excluded from conducting due diligence on their financial services, meaning on their clients and investee companies. This is subject to a review clause and the European Commission is expected to draft a report on whether to remove this exclusion by June 2026.

In the EU, sectoral rules on sustainability due diligence for investors[57] entail high-level requirements on ensuring due diligence is applied when selecting and monitoring investments. Additionally, the SFDR requires large investors to publish a due diligence statement and a description of their due diligence policies regarding the adverse environmental or social impacts of their investments[58].

As already acknowledged in international guidelines on due diligence for financial institutions[59], investors are usually linked to adverse sustainability impacts through their owner-

55 Heeb, Florian & Julian F. Kölbel, The Impact of Climate Engagement: A Field Experiment, 8 August 2024.
56 Financial Reporting Council, UK Stewardship code 2020, 23 October 2019.
57 Directive 2009/65/EC of 13 July 2009 and Directive 2011/61/EU 8 June 2011.
58 Regulation (EU) 2019/2088 of 27 November 2019, Art. 4.
59 OECD, Managing Climate Risks and Impacts Through Due Diligence for Responsible Business Conduct: A Tool for Institutional Investors, 3 October 2023.

ship stake in, and/or financing of, investee companies, rather than directly causing or contributing to these impacts themselves. To address, mitigate and prevent the negative impacts, they can seek to influence investee company behaviour through engagement[60]. However, the current EU framework lacks clarity as to what actions constitute appropriate due diligence when breaches are identified and what can be expected from investors to contribute to their mitigation and resolution.

The European Commission should include the full value chain of financial institutions in the due diligence requirements of the CSDDD – including their clients and investee companies. The adequate inclusion of financial institution services in the scope of the CSDDD, and tailored guidance for the financial sector, would provide investors with more clarity on what constitutes appropriate due diligence with regard to their investments and the identification, prevention and mitigation of adverse environmental or human rights impacts in their investee companies. Consistently with the recommendations of section 3.1. and section 3.2. on investor's sustainability-related engagement, this would also clarify what constitutes appropriate action towards clients and investee companies to remediate these adverse impacts, reducing climate- and environment-related litigation risks[61].

For end clients, it is key to have access to the aggregated information on the adverse impacts of financial institution investments, their due diligence processes to identify and mitigate this eventuality, and their actions – including engagement with investee companies – to remediate these adverse impacts. This is the objective of SFDR entity-level reporting requirements and the Principal Adverse Impacts (PAI) statement, which should be maintained in the SFDR review. To ensure consistency across EU regulations and avoid duplication of disclosure requirements, this **information should either be maintained in dedicated SFDR entity-level disclosures or be covered and detailed in the sector specific European Sustainability Reporting Standards (ESRS) for financial institutions.**

To unleash the power of investor engagement to incentivise the transition of real-economy companies towards sustainability, Eurosif recommends that EU policymakers:

3.1. Remove the existing barriers to individual and collective investor engagement by reforming the Shareholder Rights Directive (SRD II) and by revisiting rules on "acting in concert".

3.2. Encourage meaningful sustainability-related engagement strategies by establishing minimum disclosures in the SRD II or the SFDR and related criteria for transition investments.

3.3. Establish appropriate due diligence processes for financial institutions as part of the Corporate Sustainability Due Diligence Directive (CSDDD) and within the Sustainable Finance Disclosure Regulation (SFDR) disclosure requirements.

60 Eurosif, IIGCC & PRI, The EU Corporate Sustainability Due Diligence Directive: Key Questions Answered, 11 December 2023.
61 Idem.

4 Ensure the quality, comparability and reliability of sustainability-related disclosures.

4.1 Enable informed investment decision-making by enhancing the quality of corporate sustainability disclosures under the European Sustainability Reporting Standards (ESRS).

Availability of quality, comparable and reliable corporate sustainability disclosures is essential for investors and other financial institutions to make informed financing decisions. Sustainability data is essential for different actors along the investment chain (investors, benchmark or sustainability data/rating service providers) to understand the actual and potential sustainability risks and impacts of an investment.

This includes the ESG risks to which companies are exposed and which can have material financial implications, as well as information on the impacts of their activities on the environment and society. This is to ensure investors can make a reliable assessment of the risks and the actual and potential impacts of an investment decision and to prepare their own sustainability-related disclosures, stemming for example from the SFDR.

The consideration of both risks and impacts is known as the "double materiality" perspective. This principle is enshrined in the EU Corporate Sustainability Reporting Directive (CSRD), which requires approximately 42,500 EU companies to disclose sustainability-related information in line with the ESRS, the first set of which was published in July 2023[62]. The CSRD/ESRS framework applies for the largest EU companies as of 2024, with first reports to be published in 2025 and a one-year delay for companies with more than 250 employees.

Sustainability reporting is needed to improve the availability, quality and reliability of corporate disclosures on sustainability risks and impacts to the benefit of investors, financial institutions and other information users, including supervisors and civil society. The standardisation of disclosures is expected to facilitate data comparability for investors and simplify companies' sustainability reporting with a single standard to report against.

The Non-Financial Reporting Directive, the predecessor of CSRD, left it up to the company to choose which standard to use. This resulted in a situation whereby companies were approached by investors asking them to fill in many different questionnaires, increasing the reporting burden. By **imposing one set of European standards, CSRD aims to alleviate the burden for reporting companies.**

CSRD and ESRS are at a very early stage of implementation. For now, it is difficult to reliably assess the costs and benefits of these rules. Costs of adapting to the new rules are always the highest at the very beginning given the need to access which information is material to the company by developing and adapting processes and IT infrastructure. The benefits will be clearer in the long-term.

EU policymakers should not roll back these rules without properly assessing their positive impact as well as the related costs over a period of several years. The European Commission and European and national supervisors should first ensure that sustainability disclosure

62 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023.

rules are effectively implemented across the EU before conducting a thorough cost-benefit analysis that also considers positive impacts for information users.

These sustainability disclosure rules are expected to improve the availability of corporate disclosures on sustainability risks and impacts to the benefit of investors, financial institutions and other information users, including supervisors and civil society. The standardisation of information will both facilitate investor comparison of the sustainability profiles of companies and simplify companies' sustainability reporting with a clear set of data points to disclose. However, these disclosure rules are currently at a very early stage of implementation. For now, this makes it difficult to reliably assess their long-term benefits against the short-term costs required for their implementation, which are however expected to decrease over time as sustainability reporting is streamlined. **EU policymakers should not roll back these rules without properly assessing their positive impacts over several years.** The European Commission and European and national supervisors should first ensure the EU sustainability disclosure rules are effectively applied in full by companies across the EU before conducting a thorough cost-benefit analysis that also considers positive impacts for information users.

Many simplifications and reductions in reporting requirements[63] as well as further phase-ins to the ESRS have already been introduced to facilitate their application by companies. Moreover, CSRD specifies that companies should only disclose "material" information, meaning relevant for the company and/or for its key stakeholders.

Consideration of all stakeholders, including investors and financial industry needs, in materiality assessment, is crucial to ensure all the information needed in the investment chain is available. Assessing and streamlining reporting requirements[64], including when it comes to corporate sustainability information, should not result in preventing financial market participants from making informed investment decisions and from supporting a sustainable transition. It also must not come at the cost of inhibiting or slowing down the transition to a sustainable economy.

The advisory group to the European Commission for financial and sustainability reporting (EFRAG) is currently developing sustainability standards for different sectors and for listed and non-listed SMEs. The standards for listed SMEs apply to SMEs with securities listed on the EU regulated markets – meaning the same regulated markets as larger listed companies.

In line with the above, and to enable comparability of information between companies listed on the same regulated markets, these standards for listed SMEs must be built based on, and be consistent with, the sector-agnostic ESRS Set 1 currently applicable for large listed companies. This is particularly the case regarding the list of data points that investors need to comply with SFDR disclosure requirements.

EFRAG is also currently developing sector-specific standards for financial institutions. **It is important to ensure their consistency with other reporting requirements applying to financial institutions, including the SFDR company-level disclosures, and Pillar 3 disclosures for banks and for insurance companies.** While there is room to improve these disclosures, it is essential to avoid unnecessary inconsistencies or overlaps across these rules.

63 European Commission, 2024 Commission Work Programme, 17 October 2023.
64 Idem.

4.2 Facilitate the use of forward-looking transition plans and climate targets for investment decisions by ensuring the consistency of related requirements and disclosures across EU rules.

Credible corporate transition plans, including climate targets, are an essential tool to drive sustainable growth. For companies, they are useful to assess exposures to environment-related risks, such as climate change and resource depletion across their value chain. These plans can be a source of competitive advantage to develop a futureproof and climate-resilient business model and to better align with the needs of customers, who increasingly care about sustainability matters[65].

For investors, disclosures on transition plans are key[66] to understanding whether a company's business model is on the path towards climate neutrality, to understanding its impacts on the environment and people, and to avoiding the risks of stranded assets resulting in significant loss of company value. This information supports the decision as to whether the company suits the fund's strategy and/or is meeting the client's sustainability preferences.

The CSRD and ESRS provide disclosure requirements on corporate transition plans and climate targets, whenever these are adopted by companies. These disclosures aim to improve their comparability and provide transparency on whether these transition plans are credible and are effectively implemented over time.

The CSRD and ESRS provide minimum disclosure requirements on corporate transition plans and climate targets, whenever these are adopted by companies. These disclosures aim to improve their comparability and provide transparency on whether these transition plans are credible and can demonstrate progress of their implementation over time.

While disclosures are an important step forward, an essential issue is to ensure companies develop, set and implement transition plans. This is why the CSDDD plays a crucial role. Applying as of July 2027, it sets an obligation for the largest companies based or active in the EU to adopt and implement (put into effect) a transition plan. Key components of these transition plans must be reported in line with the CSRD and ESRS.

Other EU rules also require either setting or disclosing similar plans, for instance prudential transition plans in EU rules for banks (Capital Requirements Regulation & Directive, CRR/CRD) and insurers (Solvency II Directive) or climate neutrality plans under the EU Emission Trading System (EU ETS).

Overall, the emergence of various mentions of corporate transition plans across EU law is welcome given their importance for the transition to a sustainable economy. **However, these rules must be consistent with one another, in terms of definitions, key elements and disclosures,** to the extent possible. Transition plans across EU laws should reflect the specificities of different sectors (e.g. real economy, financial companies) and objectives (e.g. prudential transition plans), but should to the extent possible follow a similar structure, with consistent definitions, and be comparable. This will ensure the compatibility and usability of rules and prevent regulatory burdens and costs resulting from inconsistent or duplicative disclosures.

Companies need clear sectoral pathways to help them design credible transition plans. These pathways would also allow investors to assess and compare the credibility and ambition of transition plans from different companies within a specific sector. Following up on the initial efforts as part of the European Industrial StrategyIndustrial Strategy[67], **the EU should estab-**

65 PwC, Voice of the Consumer Survey 2024: Shrinking the consumer trust deficit, 15 May 2024.
66 Eurosif, Report on Climate-related Data – The Investors' Perspective, 11 May 2023.
67 European Commission, European industrial strategy, 10 March 2020 & 5 May 2021.

lish robust sectoral transition pathways to facilitate this, as foreseen in the EU Climate Law[68].

Disclosures on transition plans are essential components of a transition investments category of sustainable financial products which should be created as part of the SFDR review, as proposed in section 1.1. Financial products that seek to qualify as transition investments and follow a relevant investment approach (e.g. public equity investing) should have a minimum proportion of investments in companies that have adopted and implemented a credible transition plan as defined in the ESRS. For companies that have not yet done so, relevant proxies – such as, for example, Taxonomy-aligned Capital Expenditure (CapEx)– could be used. For non-EU companies, a reference to credible international frameworks could be envisaged (see section 4.3.)[69]. Such investments should, however, exclude non-transformable significantly harmful activities which should be defined under an extended EU Taxonomy (see section 2.2).

4.3 Strive for international consistency and interoperability by conducting mapping and reconciliation exercises between EU and non-EU sustainability standards.

Elements of the EU sustainable finance framework have been emulated in many jurisdictions. Regarding sustainability reporting, several frameworks such as the International Sustainability Standards Board (ISSB)[70] standards and the Securities and Exchange Commission (SEC)[71] disclosure rules have been developed. Numerous taxonomies have or are in the process of being developed as well, including in the UK.

EU investor transparency rules have also led to policy developments in other jurisdictions, such as the UK Financial Conduct Authority (FCA) Sustainability Disclosure Requirements (SDR)[72].

Climate change and environmental degradation are systemic global issues, and EU requirements, standards or labels alone will not be enough to solve them. Similarly, investments tend to be global and require the cooperation of regulators and supervisors at the international level.

An EU regulatory environment facilitating investor contribution to sustainable growth must be as interoperable as possible with rules and standards at the global level. This is to ensure that sustainable investments are scaled-up globally and not discouraged or hampered by diverging and inconsistent rules. While it is important that the EU retains its global leadership role, **efforts must be made to promote international cooperation that strives for the maximum possible interoperability and alignment of sustainable finance rules.**

International comparability and reconciliation efforts, including through mapping exercises, should be continued and where relevant, undertaken to avoid global fragmentation. The reconciliation documents comparing the ISSB standards and the ESRS and the interoperability guidance published by EFRAG and the IFRS foundation[73] are a good example.

The international context should be considered when setting criteria referencing EU-specific tools and standards, such as the EU Taxonomy and CSRD/ESRS-aligned transition plans, to

68 Regulation (EU) 2021/1119 of 30 June 2021.
69 Eurosif, Response to the consultation on the implementation of the SFDR, 20 December 2023.
70 IFRS, Sustainability Standards Navigator, 2023.
71 U.S. Securities and Exchange Commission, SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors, 6 March 2024.
72 HM Government, Sustainability Disclosure Requirements: Implementation Update 2024, 16 May 2024.
73 EFRAG & IFRS, ESRS-ISSB Standards: Interoperability Guidance, 2 May 2024.

define categories of sustainability-related products in a revised SFDR (see section 1.1.). These criteria should consider that investor capital allocation decisions target investee companies all over the world, across a wide range of jurisdictions.

Therefore, these mapping and reconciliation exercises should identify credible and reliable alternatives to these EU-specific tools and standards when these are not available in non-EU jurisdictions, that could be used to satisfy the criteria of a revised SFDR categorisation system while maintaining its level of ambition.

To ensure the quality, comparability and reliability of sustainability-related disclosures, Eurosif recommends that EU policymakers:

4.1. Enable informed investment decisions by enhancing the availability, quality, comparability and reliability of corporate sustainability disclosures by ensuring the proper implementation and further development of the European Sustainability Reporting Standards (ESRS).

4.1.1. Ensure standards for listed SMEs are based on, and are consistent with, the standards for large, listed companies to enable comparability for investors.

4.1.2. Standards for financial institutions must be consistent with other reporting requirements applying to financial institutions, including the Sustainable Finance Disclosure Regulation (SFDR), and Pillar 3 disclosures for banks and for insurance companies.

4.2. Facilitate the use of forward-looking transition plans and climate targets for investment decisions by ensuring consistency of related requirements and disclosures across EU rules.

4.3. Establish sectoral transition pathways to help companies design credible transition plans.

4.4. Strive for international consistency and interoperability by conducting mapping and reconciliation exercises between EU and non-EU sustainability standards.

5 Mobilise the contribution of retail investors and savers to a just transition.

5.1 Make sustainability-related information understandable for a retail audience by simplifying related disclosures under EU rules for financial products offered to retail investors (PRIIPs Regulation).

There are €33 trillion in the private savings of EU citizens which could be leveraged to invest in sustainable growth[74]. However, currently only a small subset of this capital is effectively tapped into EU financial markets. There are two main reasons for this situation.

This is in part due to the fragmentation of EU financial markets. EU policymakers acknowledge this issue and aim to address this via the Capital Markets Union project[75]. Recently, many proposals were raised to develop an EU Savings and Pensions Union[76] and leverage this untapped financing potential.

The limited appetite from EU citizens for investing in financial products can also be explained by the challenges in financial advice and the insufficient quality of communications towards retail clients and financial services consumers. Under the current EU framework and the SFDR, financial products with a sustainability objective or with environmental or social characteristics must provide end investors with specific disclosures to justify these claims. This includes detailed disclosures in precontractual documents and on the websites of the financial institution. However, these disclosures are usually not user-friendly and are too lengthy and complex for retail investors and financial services consumers to understand[77].

To further leverage on the savings of EU citizens and scale-up sustainable investments, **financial product disclosures which are distributed to, and of interest to retail investors** (including on financial institution websites, and in precontractual, and periodic fund documentation) **should be simplified**. These disclosures should **present a simple and clear overview of the investment product's sustainability objective, sustainability risks and its potential and actual positive and negative impacts on the environment and society.** More detailed information should be easily accessible to end investors if they desire, for instance, using drop-down menus and hyperlinks in electronic documents. Disclosures should avoid legal and specialist jargon and explain product features in a simple manner and using language which is easy to understand.

In a similar vein, documents targeting retail investors, such as the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs Regulation) Key Information Document (KID), should present the sustainability profile and characteristics of products in a more user-friendly way. For example, using simple grading tools for sustainability-related products, as suggested by some EU authorities[78], could be considered alongside a categorisation of products during a review of SFDR (see section 1.1.). However, these comparisons should only be introduced for comparing products within the same category and using a similar invest-

74 Enrico Letta et al., Much more than a market. Speed, security, solidarity - Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens, February 2024.
75 European Council, Special meeting of the European Council (17 and 18 April 2024) – Conclusions.
76 Ursula von der Leyen, Press statement on the next College of Commissioners, 17 September 2024.
77 BEUC, A consumer Agenda for Sustainable Retail Finance & Banking, 6 Juni 2024.
78 Joint Committee of the ESAs, Opinion on the assessment of the Sustainable Finance Disclosure Regulation, 18 June 2024.

ment strategy (e.g. differentiating sustainable or transition objectives) to avoid misleading retail investors.

Currently, detailed sustainability-related disclosures are limited to sustainability-related financial products. This situation places all the reporting burden on providers of these products, creating an uneven playing field with products that do not make such claims and disincentivising the offer of sustainable products. This also results in insufficient comparability with the products which are not marketed as sustainable. For retail investors, it makes it even more difficult to identify the benefits of sustainability-oriented financial products compared to a financial product that does not incorporate sustainability considerations.

The review of the SFDR should result in minimum sustainability-related disclosures applying to all financial products. This should include disclosures on sustainability risks, meaning how environmental and social events can impact the performance of investment products, and descriptions of the actual and potential adverse impacts of investments on the environment and society (known as the Principal Adverse Impact indicators, PAIs).

Additionally, **financial products that do not comply with the set of criteria of a revised SFDR framework (see section 1.1.) should clearly state so in their documentation to clients.** Such products should be prohibited from making sustainability, transition, or other ESG-related claims in their name and marketing communications, in line with ESMA's guidelines on fund names[79].

5.2 Ensure retail investors are offered financial products in line with their sustainability preferences by adjusting the rules on financial advice (MiFID2/IDD) to reflect the categories of products under a revised Sustainable Finance Disclosure Regulation (SFDR).

To unlock the potential of EU citizen's savings in contributing to sustainable growth, clear and effective financial advice avoiding conflicts of interest and providing retail clients with financial products meeting their sustainability preferences is key. To that end, EU policymakers must adjust the current EU regulatory framework for sustainability-related investment advice.

The requirements related to the advisory process and distribution of financial products to retail investors is defined under EU regulations such as the Markets in Financial Instruments Directive (MIFID II) and the Insurance Distribution Directive (IDD). However, the rules related to the advisory process to clients on sustainability-related financial products ("suitability process" and "sustainability preferences" rules) are not properly aligned with the SFDR and are limiting client choices and providing them with information too complex to understand.

According to these rules[80], clients expressing "sustainability preferences" must be offered products that either: 1) propose a minimum proportion of alignment with the EU Taxonomy; 2) propose a minimum proportion of sustainable investments as defined under SFDR; or 3) that consider the adverse impacts of its investments. However, this categorisation seems to limit client choice compared to the current offer of sustainability-related products available in the market (see Chapter III) and is difficult to understand for retail investors. This results in financial advice that may not reflect the actual sustainability profile of products offered to retail clients[81].

To address this, we recommend that **a categorisation of sustainability-related products con-**

79 ESMA, Final Report: Guidelines on funds' names using ESG or sustainability-related terms, 14 May 2024.
80 Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021.
81 ESMA, Progress Report on Greenwashing, 31 May 2023.

sidered in the context of the forthcoming SFDR review (see section 1.1.) should be accurately reflected in the advisory process for client sustainability preferences within the MiFID2/IDD rules. This means advisors should provide clients expressing sustainability preferences with choices based on the future SFDR categories and their underpinning criteria.

For example, advisors could ask clients whether they want to avoid investing in fossil fuels, or whether they want to support companies phasing-out their harmful activities, to direct them towards the most suitable product. To further support intuitive understanding by retail investors, **the names of the categories under a revised SFDR should be meaningful for them and should be tested in an EU-wide consumer survey.**

Additionally, more structural changes are needed to fix the advisory process. Mystery shopping exercises have shown that advisors sometimes lack qualification and expertise on sustainability matters[82]. **Financial advisors should therefore be trained on EU sustainable finance rules and sustainability-related financial products** to ensure a proper level of knowledge and expertise to effectively explain their particularities to their clients. **Some EU member states have established a staff certification process to solve this issue[83] and this requirement could be extended to all EU member states.**

Furthermore, retail investors are often unaware of the possibility to invest in sustainability-related products and are often not asked about this by advisors[84]. To scale up the investments for sustainable growth, **financial advisors should provide end investors with a wide range of sustainability-related investments with the potential to meet their sustainability preferences**. These options should only include products qualifying for the revised SFDR categories (see section 1.1.). Importantly, **retail investors should always be offered at least one product from the sustainable investment category.**

To mobilise the contribution of retail investors and savers to a just transition, Eurosif recommends that EU policymakers:

5.1. Make sustainability-related information easier to understand for a retail audience by simplifying related disclosures under EU rules for financial products offered to retail investors (SFDR, PRIIPs Regulation).

5.2. Require training and possibly certifications for financial advisors to ensure they are well-qualified to advise retain investors on sustainability-related financial products.

5.3. Ensure retail investors are offered financial products in line with their sustainability preferences by adjusting the rules on financial advice (MiFID2/IDD) to reflect the categories of products under a revised SFDR. They should also always be offered at least one product qualifying as sustainable investments.

82 ASUFIN & WWF, Mystery shopping: MiFID II Reform, November 2022.
83 ESMA, Progress Report on Greenwashing, 31 May 2023.
84 The 2° Investing Initiative, Moving the blockers of retail sustainable finance, August 2023.

Annex:
Detailed recommendations by policy file

Review of the Sustainable Finance Disclosure Regulation (SFDR)

- **Establish formal categories of sustainable products in SFDR** based on the product's demonstration of sustainability objectives; built on clear, credible and consistent definitions and underpinned by robust minimum criteria and/or thresholds:

    - Products which have **"sustainable investments"** as their objective. Such products should demonstrate investments in companies and/or projects which are already sustainable. These investments, in addition to having a positive contribution or impact, should also not do any significant harm to the environment or society – excluding investments in e.g. the fossil fuel industry.

      Relevant investment approaches (e.g. public equity) in this category should have a minimum threshold of alignment with the EU Taxonomy.

    - Products which have **"transition investments"** as their objective. This category is intended for investments in companies and projects which are not sustainable yet but are on a credible transition path. Investments in harmful activities that cannot transition should be excluded from this category when companies do not implement credible commitments (e.g. transition plans) to phase out these activities. Investments in new fossil fuel projects should be excluded.

      The implementation of credible sustainability-related engagement strategies should be established as one of the criteria underpinning this category.

      Relevant investment approaches (e.g. public equity) in this category should have a minimum proportion of investments in companies with credible transition plans as defined in the ESRS, or relevant proxies (e.g. Taxonomy-aligned CapEx).

    - Products with **binding environmental or social factors**. Such products could follow sustainability-related investment strategies which do not meet the criteria of the sustainable or transition investment categories but do apply credible environmental or social approaches. These funds should ensure their investments do not result in any serious harm to the environment or society – e.g. funding new fossil fuel projects.

      Products in this category should demonstrate performance against credible sustainability-related indicators, such as relevant benchmarks.

- **Establish intuitive names for the categories, following an EU-wide consumer survey.**

- **Clarify what constitutes impact investments within SFDR,** by establishing clear horizontal criteria across the sustainable and transition product categories. The criteria should be tailored to the asset class (public equity, private equity, etc.) and could require demonstration of a credible theory of change, intentionality and measurement of the real-world impact, as well as of the contribution of the investment approach and/or engagement strategy.

- **Establish minimum sustainability transparency requirements** for all financial products, including on the integration of sustainability risks in the investment process and on a set of Principal Adverse Impacts (PAIs).

- **Maintain entity-level disclosures and PAI statements** or include these in the sector-specific ESRS for financial institutions. End clients should be able to access the aggregated information on the adverse impacts of financial institutions investments, their due diligence processes to identify and mitigate this eventuality, and their actions. This should include information on engagement with investee companies to remediate these adverse impacts.

- **Develop an EU Social Investment Standard,** either in SFDR or via a dedicated initiative. Investments that meet these requirements should qualify as socially sustainable under SFDR. This standard would be based on a set of common criteria developed together with financial market practitioners and other stakeholders.

- **Ensure products that do not qualify for any SFDR category clearly state so** in their documentation to clients and prohibit these products from making ESG-related claims in their name and marketing communications to prevent greenwashing.

Benchmarks Regulation

- **Integrate forward-looking information**, e.g. company transition plans, into the requirements for EU Climate Benchmarks (Paris-Aligned/Climate Transition benchmarks).

- **Create an EU standard for sustainability-related/ESG benchmarks,** underpinned by a set of criteria and minimum disclosures, to ensure their claims are substantiated. The disclosure requirements and minimum criteria that underpin this standard should also be in line with the SFDR review and the ESMA guidelines for fund names.

- Use this EU ESG benchmark standard to introduce **additional EU-labelled benchmarks with specific environmental or social objectives**, drawing, for example, on the proposals for EU Taxonomy-aligning benchmarks (EU TABs) from the Platform on Sustainable Finance.

Taxonomy Regulation

- **Cover additional sectors and economic activities**, including the agriculture sector and other sectors for which technical recommendations have already been provided by the Platform on Sustainable Finance.

- **Define intermediate activities and significantly harmful activities** with a distinction between those that can and cannot transition to facilitate the assessment of companies based on the Taxonomy-designed pathways, providing more transparency on their sustainability plans and commitments.

Review of the Shareholder Rights Directive (SRD)

- **Improve the information flows between companies and shareholders** (national and cross-border) through harmonisation, simplification of chains of intermediaries and technological solutions.

- **Significantly lower the threshold** of 5% of the total amount of shares **for tabling shareholder resolutions** and harmonise this throughout EU member states.

- **Ensure all EU member states allow for the use of split voting.**
- Provide clarifications to investors to ensure shareholder cooperation for sustainability is allowed under **"acting in concert"** rules – if needed by also revising the ESMA guidance on this topic.

Corporate Sustainability Due Diligence Directive (CSDDD)

- **Extend due diligence requirements to cover the clients and investee companies** of financial institutions.
- **Provide tailored guidance to financial institutions** for applying these due diligence requirements.

Corporate Sustainability Reporting Directive (CSRD)/European Sustainability Reporting Standards (ESRS)

- **Ensure adequate implementation** of the ESRS and their further development.
- Align the **ESRS for listed SMEs** as closely as possible with the standards for large, listed companies in ESRS Set 1.
- Ensure the **sector-specific standards** for financial institutions is consistent with other pieces of EU regulation that apply to financial institutions including SFDR company-level disclosures and Pillar 3 disclosures for banks and insurance companies.

Transition plans and climate targets

- **Harmonise the requirements for transition plans and climate targets** across EU regulations to the extent possible, including CSRD/ESRS, CSDDD, and prudential regulations (CRR/CRD for the banking sector and Solvency II for the insurance sector).
- **Establish robust sectoral transition pathways** as foreseen in the EU Climate Law.

International consistency

- **Improve the interoperability between EU sustainable finance rules and frameworks used in non-EU jurisdictions** through mapping and reconciliation exercises to ensure e.g. that the criteria under the SFDR review can be applied to investments outside of the EU.

Packaged Retail and Insurance-based Investment Products Regulation Key Information Document (PRIIPs KID)

- **Provider clearer information to retail investors** on the sustainability profile of products. The SFDR review could establish grading tools for this purpose, as long as they compare products with similar sustainability-related objectives i.e. only within one (and not across) the SFDR categories.

Markets in Financial Instruments Directive (MiFID) /Insurance Distribution Directive (IDD) sustainability preferences

- **Align the advisory process for retail investors with the SFDR review,** notably regarding the categorisation of products and their underlying objectives and criteria. Always provide the option to invest in at least one product from the sustainable investment category to retail investors.
- **Require training and possibly certifications for financial advisors** to ensure they are well-qualified to advise retail investors on sustainability-related financial products.

Contact:
contact@eurosif.org
www.eurosif.org
Avenue des Arts 44
1040 Brussels

Eurosif