

## **Financing the transition to a climate-neutral economy**

Welcome speech by Helena Viñes Fiestas, delivered at a Technical Workshop organised by the European Commission and the Platform on Sustainable Finance on 22 April 2024

Allow me to start by introducing you to [John Wilkins](#). Wilkins, a 17th-century natural philosopher, clergyman, and scientist, made significant contributions to humanity. One of his pioneering ideas was advocating for the establishment of a "universal measure" or "universal metre."

During his time, Europe was rife with hundreds of different measures and measurement tools: pure chaos. And, of course, size was in the eye of the beholder, leading to subjective assessments of size and leaving ample room for fraudulent practices, basically what we would call today "size-washing."

In an effort to protect consumers from being ripped-off and to streamline industry, science and commerce, Wilkins proposed the adoption of a single, scientifically grounded measurement system based on the decimal system. As great as it was, his proposal faced widespread scepticism and rejection, as traders, storekeepers, bookkeepers, and others deemed it cumbersome, impractical, and costly to implement. What - Am I to change my inventories, records, tools, accounts, etc? No way...

His idea was buried alongside his body; an idea whose time came a century and a half later. Today, it's clear just how many advantages the metric system has brought to industry, science and society.

### Enter the EU Taxonomy.

The EU Taxonomy, in a different context and addressing different needs, is the modern equivalent of the XXI century metric system.

The Taxonomy is much more than just a science-based classification system that tells me which economic activities can be deemed environmentally sustainable under which circumstances. It is the first common tool that measures the degree of sustainability of a company's activities, investments and of an investment portfolio.

For the very first-time, it helps capture environmental performance through financial metrics.

The Taxonomy is such a breakthrough tool that 40 other jurisdictions have or are developing their own taxonomies, based on or taking the EU Taxonomy as a reference.

It is only now that we have the first-year reporting figures of taxonomy-alignment. We have roughly 1700 of the largest listed European companies and only on climate; not of the complete Taxonomy.

The figures have been much more encouraging than many expected. Revenues and capex are higher than most stakeholders predicted, particularly CAPEX.

Capex is investors' most valued metric. It is the metric that really tells us a company's direction of travel, and whether it puts its money where its mouth is. Over 600 European companies with a combined market value of €6.5tn have invested €166bn in sectors which are vital to mitigate climate change, like transport, manufacturing, and power generation.

Now, investors not only have the percentage of capex that is aligned with a trajectory of 1.5-degree global warming and with the EU goals, but also the description of companies capex plans.

As the Compendium of market practices shows, many companies, use capex for their longer-term financial planning and transition planning. Some companies which cannot align with the Taxonomy today are instead using it to establish medium and long-term objectives.

Today, we have only the information about 1700 companies, but soon we will have detailed information of the taxonomy, capex and transition plans and a wide range of sustainability information thanks to the European Sustainability Reporting Standards (ESRS) that apply to approximately 50,000 companies. Going forward, investors will be able to use estimates when calculating Taxonomy-alignment of their portfolios in order to fill the information gap for companies that are not obliged to report against the Taxonomy such as non-EU companies. The Platform is working on a set of principles and a framework to ensure that estimates are robust and trustworthy.

All this information will enhance the sustainability, resilience, and impact of ESG funds, while also opening up new opportunities to create new and more targeted funds. It's no coincidence that Europe has become THE Sustainable Finance Hub, with 56% of its market dedicated to ESG.

Now, where are we?

The building blocks of the European Sustainable Finance Framework (SFF) are finished, so we have entered full implementation phase.

And so has the work of the Platform.

We continue to work on expanding the development of technical criteria to complete the Taxonomy and we will, under our current mandate, review the Climate Delegated Act (CDA). In concrete, thresholds of the transitional activities ought to be reviewed every three years, which it does not necessarily mean revision.

This is an opportunity for us to address usability issues, for example, more consistency in the description of the activities across the six environmental objectives and clarifying some language that has led to different interpretations in the market, or that is simply hard to interpret.

Since the times of the Technical Expert Group (TEG), we have learnt a lot about the Taxonomy and the different pieces of the framework, but it is now, when it is being implemented, that the real test begins.

So, it seemed to us it was the right time to:

- a) Carry out a first assessment of what is happening on the ground.
- b) Complete another assessment of the extent to which capital is flowing

towards sustainable investments, the facilitation of which is the ultimate goal of the framework.

Both the compendium and the monitoring reports are exercises mandated by the Commission that aimed to identify what works, as well as what is not working, and which areas deserve fixing or further work within and beyond the SFF. Both exercises are there to inform policy making and to polish and perfect the SFF. The details about this work are shared via Platform's website, LinkedIn account and during its events.

While the overall message of the Compendium is that the EU Taxonomy and the wider SFF is working on the ground at this early stage, it also brought to our attention the challenges that companies, financial institutions and other stakeholders are facing when it comes to implementation. We took this on board and re-adjusted our priorities accordingly. I want to emphasise that we're committed to addressing each of the challenges. To start, let me share just two.

1. First, Do No Significant Harm, or DNSH.

It is not the same to ensure that DNSH related to biodiversity is respected when constructing a building than to assess whether it is going to be respected when providing a mortgage. There are differences between the application of many DNSH criteria to stock as opposed to new investments, revenues and capex depending on the activity, and differences if you are the

company conducting the activity as opposed to an FMP or a credit institution assessing whether it has been respected.

We are working closely with the Commission to simplify compliance and make it fit for purpose.

## 2. Small and medium-sized Enterprises (SMEs)

While SMEs, excluding those that are listed, aren't directly covered by the SFF, they're indirectly impacted through a double trickle-down effect: via corporate value chains and financial institutions, especially credit institutions. More importantly, even though individual SMEs may have minimal carbon and environmental footprints, collectively they play a significant role in achieving the EU's objectives. Achieving Net Zero is impossible without the active involvement of SMEs.

The Platform is working together with the European Commission to develop simplified approaches tailored for SMEs. Our work-in-progress approaches cater to both listed and unlisted SMEs.

These approaches should properly support listed companies in their reporting and implementation of the taxonomy and to enable non-listed SMEs to get better access to capital, supporting their transition efforts through simple and easy to use tools. Such tools should benefit from the overall guidance and direction of travel that the EU Taxonomy provides, but they will be outside of the taxonomy regulatory framework.

It is still early days, but the approach for non-listed could be centred on identifying only very few key metrics or data points, linked to their main activity. The selection of metrics and the performance levels could be inspired in the core of substantial contribution if the activity is eligible.

Why focus on these only few key metrics? Firstly, because they highlight where SMEs can make the most significant environmental impact, aligning with the expectations placed on large corporations within their value chains. Secondly, because these approaches could contribute to defining sustainable (green or transition) loans in the future.

We are still working on finalising the details. But one key principle is driving all this work - it must be easy, simple, and practical. No complexity, no admin burdens, no obligation to do anything. The goal is for SMEs to consider these new tools as an opportunity to benefit from and engage in developing them, and to feel encouraged to use them in practice.

## The role of the Platform

Over the past 14 months, the Platform has produced two major reports, conducted four comprehensive briefings, with two more scheduled before the summer break.

All of them with plenty of recommendations, from small tweaks to more substantial analysis, but all of them with the goal to make the EU Taxonomy and SFF more workable, simpler, more user-friendly.

This work has been possible thanks to the relentless voluntary commitment of the 35 Platform members, their sherpas and 14 observers that are working as part of the Platform on top of their daily jobs.

It would not have been possible either without the invaluable support of the Platform's Secretariat and our Commission colleagues.

That said, today's event is dedicated to the thousands of Europeans that are working everyday within their companies, within their organisations, in implementing and advancing the EU Taxonomy and the rest of the regulatory pieces of the SFF. Thanks to you, the results of the very beginning of the implementation have been so positive, and thanks to you we have learned so much about what needs fixing and how to fix it.

We remain committed to tackling these challenges head-on, and we'll continue to engage with you as we progress on our learning journey.

We sincerely hope you find this workshop enjoyable and beneficial.

Thank you.