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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Council conclusions on ECA's Special Report 22/2021
"Sustainable finance: More consistent EU action needed to redirect finance
towards sustainable investment"

Delegations will find attached the Council Conclusions on the European Court of Auditors' Special Report 22/2021, as prepared by the Financial Services Committee and agreed by the Economic and Financial Committee on 10 January 2022.

Council conclusions on ECA's Special Report 22/2021

"Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment"

THE COUNCIL OF THE EUROPEAN UNION:

1. NOTES the Special Report of the European Court of Auditors (ECA) 22/2021 "Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment"¹;
2. RECALLS the Conclusions of the European Council meeting on 21 October 2021², whereby the European Council "calls for an ambitious global response to climate change", "recalls the commitment by the EU and its Member States to continue scaling up their climate financing" and "calls for an ambitious post-2020 global biodiversity framework in order to halt and reverse biodiversity loss";
3. RECALLS its latest conclusions on climate finance³ and, in particular, its emphasis on the urgent and ambitious implementation of the Paris Agreement and the importance of making swift and ambitious progress towards achieving the long-term goals of that Agreement;

¹ Doc. 12110/21

² Doc. EUCO 17/21

³ Doc. 12203/21

4. REITERATES that this includes making finance flows – public and private, domestic and international - consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, supporting both mitigation and adaptation objectives and with a view to pursuing Paris Agreement and European Green Deal goals, not least through measures aimed at deepening the Capital Markets Union (CMU);
5. EMPHASISES that sustainable finance and CMU are mutually supportive initiatives; RECOGNISES that progress on deepening the CMU is essential to contribute actively to the development of sustainable finance , so that it can reach its maximum potential and impact, and benefit overall European capital market activity;
6. Also REAFFIRMS both the need to significantly enhance the mobilisation of private finance to help fulfill the United Nation’s 2030 Agenda for Sustainable Development and reach its 17 Sustainable Development Goals, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, as an integral part of the 2030 Agenda for Sustainable Development, and implement the Paris Agreement and the important leveraging role that public policy, including public finance, as well as sectoral roadmaps can play in that regard;
7. STRESSES moreover, in the same spirit and with the broader ambition of fostering sustainable growth, the importance of fully implementing the 2018 Sustainable Finance Action Plan and of delivering further on such ambition, in particular reflecting the Strategy for Financing the Transition to a Sustainable Economy, presented by the Commission in July 2021⁴, including as regards fulfilling its objectives, not least those of just transition and inclusiveness; RECALLS, in this regard, the importance of enhancing access to sustainable and green financing for SMEs and entrepreneurs;

⁴ As adopted by the European Commission on 6 July 2021 (Strategy for financing the transition to a sustainable economy | European Commission (europa.eu))

8. STRESSES the importance of improving the consistency, simplicity and transparency of the EU sustainable finance legislative framework; CALLS on the Commission to promote international consistency and competitiveness and to carry out a comprehensive review of the effectiveness and consistency of that legislative framework in line with established reporting requirements;
9. CONSIDERS that the Strategy is one of various public policy tools embedded in the broader EU Green Deal framework, along with national and EU-level budgetary instruments and fiscal measures, national recovery and resilience plans and adequate carbon pricing both within the EU and globally;
10. STRESSES that the sustainable finance policy framework is designed to work in combination with other policy frameworks such as the Fit for 55 package and public financing, and that sustainable finance is an inherent part of the financial services policy; REITERATES that as the scale of investment required for sustainable transition is well beyond the capacity of the public sector, a key objective of the sustainable finance framework is to channel private financial flows into relevant economic activities;
11. Against the above considerations, NOTES that the ECA's Special Report aims to assess whether the Commission has been taking the right action to redirect private and public finance towards sustainable investment. Whilst recognising that the Commission has focused its actions on increasing transparency in the market, the Special Report concludes that more consistent EU action is needed to achieve the aforementioned goal, and sets out six recommendations considered below;

12. As regards completing the measures of the 2018 Action Plan and clarifying compliance and audit arrangements, NOTES the findings and recommendations laid down in the Special Report, namely for the Commission to:
- Complete outstanding elements, in particular for the EU Taxonomy, and undertake follow-up action on corporate governance;
 - Clarify arrangements for verifying alignment of underlying investments of financial products with the Taxonomy;
 - Clarify the role of auditors and supervisors in related verifications;
13. RECOGNISES that the EU Taxonomy is intended to fulfil a central and crucial function in the EU’s sustainable finance architecture and to underpin the EU’s global leadership role in promoting climate and sustainable finance;
14. Further NOTES that the current stage of deployment of the EU Taxonomy, as implemented through the EU Taxonomy Climate Delegated Act adopted by the Commission on 4 June 2021⁵, aims to support identification of environmentally sustainable activities and facilitate investments in such activities, including transition and enabling activities, that substantially contribute to the quantitative goals in the Paris Agreement and verification of such alignment; INVITES the Commission to consider options to recognise transition efforts in a just and inclusive way, as well as continue its considerations to include other sustainability objectives, as provided for in the review clause of the Taxonomy Regulation;

⁵ Commission Delegated Regulation (EU) .../... supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (C/2021/2800 final - not in force until if and when it is published in the Official Journal)

15. NOTES a possible initiative by the Commission on human rights and environmental due diligence and HIGHLIGHTS that the need and appropriateness of further regulating corporate governance should be demonstrated with evidence-based foundations and impact assessments, paying due attention to the different legal and economic settings across the Member States;
16. Also INVITES the Commission to further clarify with Member States arrangements for their competent authorities to supervise financial market participants' sustainability related disclosures, as necessary, to strive for supervisory convergence by ensuring consistent application of EU legislation; and ENCOURAGES progress towards legislative approval of the proposed arrangements for auditing corporate sustainability reporting;
17. As regards better contributing to sustainable finance by pricing greenhouse gas emissions, NOTES the related findings and recommendation laid down in the Special Report, namely for the Commission to identify additional measures that aim to ensure that the pricing of greenhouse gas emissions better reflects their environmental cost;
18. ACKNOWLEDGES that the Special Report concludes that the Commission actions for redirecting private finance towards sustainable investments will not be effective if negative environmental and social side-effects are not internalised within economic activities;
19. CONSIDERS that financial market policy needs to complement the broad range of climate and green transition policy instruments, including in terms of i.a. pricing risks, costs of non-sustainable activities and risk-return profile of sustainable investments, and that further progress is thus needed on both financial and non-financial policy measures;

20. Accordingly NOTES the Commission’s work to revise the EU Emissions Trading System and Effort Sharing Regulation, while stressing the importance of keeping a holistic view of all proposed and existing instruments that could be employed to attain these goals, including the proposed Carbon Border Adjustment Mechanism, the link with additional instruments as outlined in the Fit for 55 Package and the need to monitor their combined impact, including at individual Member States’ level;
21. As regards reporting on climate and environment related results of InvestEU, NOTES the related findings and recommendations laid down in the Special Report, namely for the Commission to:
- Disclose how much InvestEU financing is tracked, using the EU Taxonomy;
 - Report on the climate related results of relevant completed financing operations;
22. NOTES that the Taxonomy might not be the only tool to monitor transition efforts and INVITES the Commission to work towards an InvestEU reporting system on climate and sustainability reporting in line with relevant ECA Recommendations and in cooperation with all relevant stakeholders in InvestEU fund deployment, particularly the European Investment Bank (EIB) Group and national development/ promotional banks;
23. As regards generating a pipeline of sustainable projects, NOTES the related findings and recommendations laid down in the Special Report, namely for the Commission to:
- Prioritise the advisory support to the areas and sectors with high sustainable investment needs but low capacity to generate the necessary projects;
 - In relation to updating National Energy and Climate Plans, help Member States improve the completeness and consistency of information on investment needs;

24. CONSIDERS it crucial, including in light of the aforementioned European Council conclusions, that all efforts be made to better identify and meet the necessary investment needs across the EU; accordingly, INVITES the Commission to further work with the Member States, also in the context of implementation of their Recovery and Resilience Plans, as well as all relevant stakeholders including as regards InvestEU fund deployment; in this regard, CALLS for a swift conclusion of the agreement between the Commission and the EIB Group, as its main implementing partner, on the specific terms and conditions for InvestEU fund implementation;
25. As regards applying the “do no significant harm principle” and the EU Taxonomy criteria consistently across the EU budget, NOTES the related findings and recommendations laid down in the Special Report, namely for the Commission to:
- apply the “do no significant harm” principle across the EU budget;
 - include in the proposal for a revised Financial Regulation the “do no significant harm” principle;
 - fully integrate the EU Taxonomy criteria into the EU climate tracking methodology as and when they become available;
 - complement the current reporting on the contribution of the EU budget to climate action by disclosing the climate related EU expenditure that relates to applying a 100% coefficient, based on the EU Taxonomy criteria;
26. STRESSES that, for the application of the “do no significant harm” principle across the EU budget, it is first necessary to develop a coherent and appropriately harmonised approach to that end, and that, inter alia, an effective methodology for climate and biodiversity expenditure should first be set up; NOTES that such an approach should thus ensure the respect of the principle without increasing significantly administrative costs; STRESSES that careful consideration and evaluation of its potential impact including at individual Member States’ level, is necessary before this principle could be implemented in EU budgetary policy;

27. NOTES that the relevant EU Budgetary instruments and programmes in place have been launched in the absence of an established EU Taxonomy;
28. However, NOTES that continued application of coefficients or other impact-tracking standards that are not in line with the EU Taxonomy, might lead to a perception of double standards in the case of public and private co-financing;
29. STRESSES that the EU Taxonomy is designed for financial market participants' or issuers' use on a voluntary basis, without prejudice to corporates covered by the Non-Financial Reporting Directive, to enhance transparency and reporting, and thus improve the functioning of the Single Market;
30. Nonetheless, RECOGNISES that there is still scope to further improve, where relevant and to the extent possible, based on a careful case-by-case assessment, the consistent application of the "do-no-harm" principle under the EU Green Deal and the "do-no-significant-harm" principle underpinning the EU Taxonomy, aiming at highest levels of environmental and, as relevant, social sustainability while taking into account Member States' different starting positions and specific public investment needs, including where possible through national Recovery and Resilience Plans;

31. INVITES the Commission to examine the feasibility of progressively enhancing the alignment of the relevant indicators with the EU Taxonomy, having due regard to the specificities and complexities of those instruments and programmes, as well as of enhancing the methodology and reporting as regards the climate impact of financing operations;
32. Also INVITES the Commission to update in due time its Communication on the performance framework for the EU budget under the 2021-2027 Multi-Annual Financial Framework⁶;
33. As regards monitoring and reporting of the Sustainable Finance Action Plan and the Strategy for Financing the Transition to a Sustainable Economy, NOTES the related findings and recommendations laid down in the Special Report, namely for the Commission to:
 - create common performance indicators;
 - report on the implementation of the Action Plan and the Strategy for Financing the Transition to a Sustainable Economy;
34. WELCOMES these ECA recommendations and INVITES the Commission to follow up accordingly;
35. INVITES the Commission, in cooperation with the Member States and other relevant stakeholders, particularly as regards InvestEU deployment, to take forward the further assessment and possible implementation of the above ECA recommendations and the related considerations and conclusions by the Council, and to report regularly on progress to the Council, starting in the first quarter of 2022.

⁶ Doc. 9665/21