



EUROPEAN CENTRAL BANK

EUROSYSTEM

Sustainable finance: disclosures, data and usability challenges

6 July 2021
JRC summer school on
sustainable finance



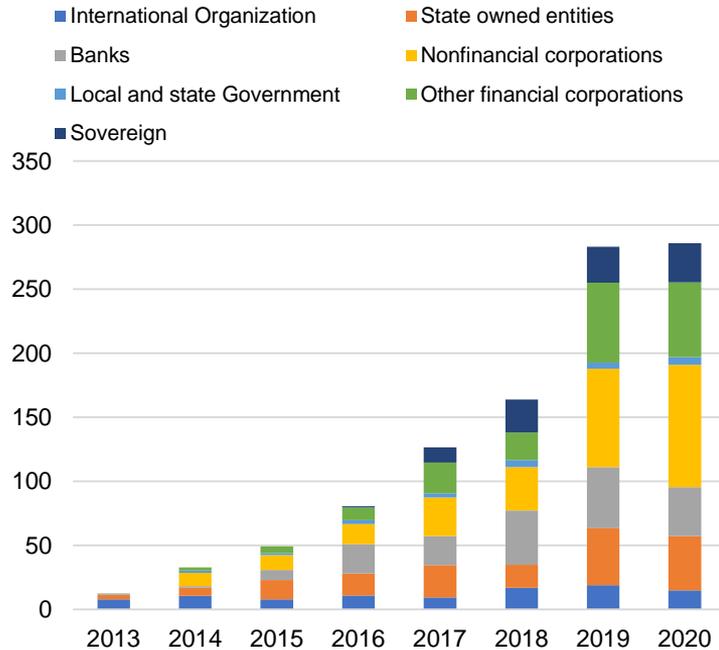
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Overview

- 1 Introduction
- 2 Ongoing EU initiatives
- 3 The international dimension & standardisation
- 4 Conclusions

Sizeable shifts in sustainable finance accelerated by the pandemic...

Green bond issuances by issuer (\$, billion)

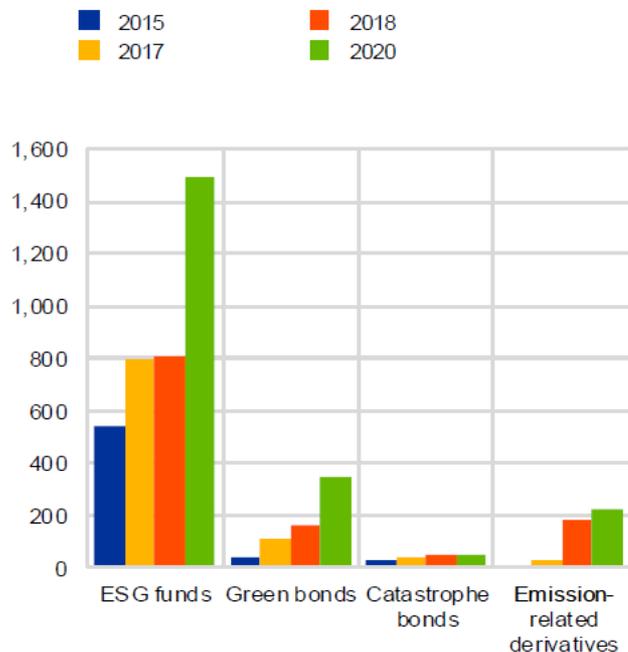


- Sustainable finance has experienced a **dramatic expansion** in recent years and financial markets play a pivotal role in funding green innovation.
- The ECB “.. can act as a **catalyst to help accelerate society’s transition to a carbon-neutral economy in line with its mandate**”.
Isabel Schnabel, speech 14/06/2021
- Consistent disclosures, definitions and standards of paramount importance for proper market functioning.

Source: Refinitiv, IMF Staff calculations.

...whilst substantial data gaps

Outstanding amounts of different green instruments (€, billion)



Source: Artemis, EPFR Global, Bloomberg.
The ECB Financial Stability Review, May 2021

Current information is:

- **Incomplete:** under coverage
- **Inconsistent:** *alphabet soup* of reporting frameworks
- **Incomparable:** lack of accepted global methodology
- **Insufficient:** gaps in reporting of emission of products or portfolios (Scope 3); scarcity of forward-looking information and geospatial data

→ **Closing the many remaining data gaps** is a necessary pre-condition for the sustainability agenda to succeed

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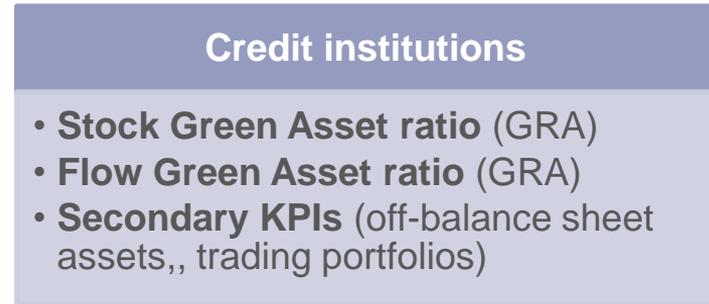
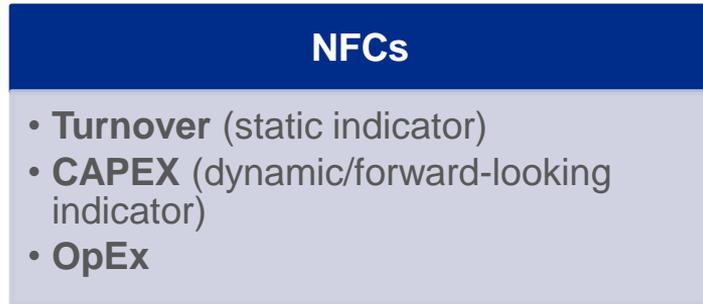
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Toward EU classification of sustainable activities

- The **EU taxonomy** sets **minimum criteria** according to which an economic activity can be classified as “*sustainable*”.
- Support the growth of green finance, **tackle greenwashing**, set example globally
- The **concrete application** of the Taxonomy **will be challenging**, especially at first:
 - Non-financial companies: novel internal accounting process on internal alignment
 - Financial companies (incl. banks):
 - resource-intensive effort to assess alignment of external exposures (stock and flow)
 - data availability on out-of-scope counterparts: exclusion or allow estimation?
- Going forward, it will be **essential** to find the **right balance** between **transparency** and **reliability** on the one hand, and **simplicity** on the other.
- Need for **taxonomy of harmful activities** to complement the green Taxonomy?

Toward EU classification of sustainable activities

- **Commission Art. 8 delegated act: KPIs** to disclose the proportion of environmentally sustainable activities that align with the EU Taxonomy criteria



Challenges

- **Statisticians** are key for defining proper **analytical indicators**
- **Non-listed companies** outside the scope will report on a voluntary basis
- **Data collection** is challenging for banks given data gaps in the corporate reporting

Toward EU sustainability reporting standards

- The EC has started a revision of the Non-Financial Reporting Directive (NFRD), as not fully adequate to address demand for sustainability disclosures.
- The upcoming **Corporate Sustainability Reporting Directive (CSRD)** aims to increase the availability, quality and consistency of sustainability information:
 - Mandatory reporting standard
 - Scope (large companies + all listed companies)
 - Double materiality principle

Challenges of the status quo:

- Current gaps in reporting and disclosure means **investors (and supervisors) cannot take sufficient account** of sustainability-related **risks and opportunities**
- Companies currently incur **unnecessary and avoidable costs** as they are often uncertain about the information they have to report

Standardisation and accessibility

- **Quality means reliability, comparability, but also timeliness:**
 - Taxonomies and standards for disclosure are the starting point
 - Digitalisation (i.e. availability of machine readable information) is essential to ensure transparency, data usability and timely action
- The **generalised use of standards** (e.g. ISO nomenclatures and Legal Entity Identifier) potentiates integration and facilitates data analytics and hence **knowledge and informed action**
- **“Open data”** policy brings transparency and creates an environment for competition and change
- Future proposal of a **European Single Access Point (ESAP)**, as a central repository of corporate (financial and sustainability) information → essential step

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Sustainable finance is a global issue, requiring close **international coordination** to promote internationally consistent frameworks and prevent regulatory fragmentation.

International coordination should be a priority

- Urgent need to **replace** the current *alphabet soup* of reporting frameworks by a **single global sustainability reporting standard** that is:
 - International **consistent**
 - Adopting the “**Double materiality**” principle
 - Focused on **all relevant sustainability information** (not just climate)
- Furthermore, we also need **globally coherent Taxonomies** (as a minimum by agreeing on common design principles) in order to:
 - **Avoid market fragmentation**
 - Provide **enhanced transparency** and prevent **green washing**
- The ECB strongly supports the international efforts



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Key takeaways

- **Increasing role of sustainable finance amidst substantial data gaps.**
- **Effective climate reporting and disclosure** standards to drive accountability around net zero targets and global sustainable investments.
- **EU policy initiatives** have started to tackle some of these issues (CSRD, Taxonomy).
- **Closing** the many remaining **gaps** and **addressing** future **challenges** are necessary **pre-conditions** for the entire sustainability agenda **to succeed**.
- **International coordination** and **standardisation** should be a **priority**.

Thank you very much
for your attention
