



# Sustainable finance and SMEs: regulation and assessment

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# No obligations on SMEs

- In fact, no obligations on anyone to invest sustainably or to be sustainable
- Only disclosure framework
- No disclosure obligations on SMEs at the moment
- Will be introduced for listed SMEs
- However, SMEs are involved in supply chains and financed by banks ->  
**indirect pressure to assess sustainability**

# Taxonomy Regulation

## Disclosure obligations

### Delegated Act on disclosure obligations (Art. 8)

- For **larger** (NFRD/CSRD) financial and non-financial companies
- 2022: disclosures on **CC** mitigation and adaptation (covering FY2021) – only eligibility reporting
- 2023: disclosures on **all objectives** (covering the FY2022)
- 2024: review clause
- KPIs for NFCs: Taxonomy-aligned Turnover, CapEx and OpEx
- KPIs for financial institutions: GAR and GIR

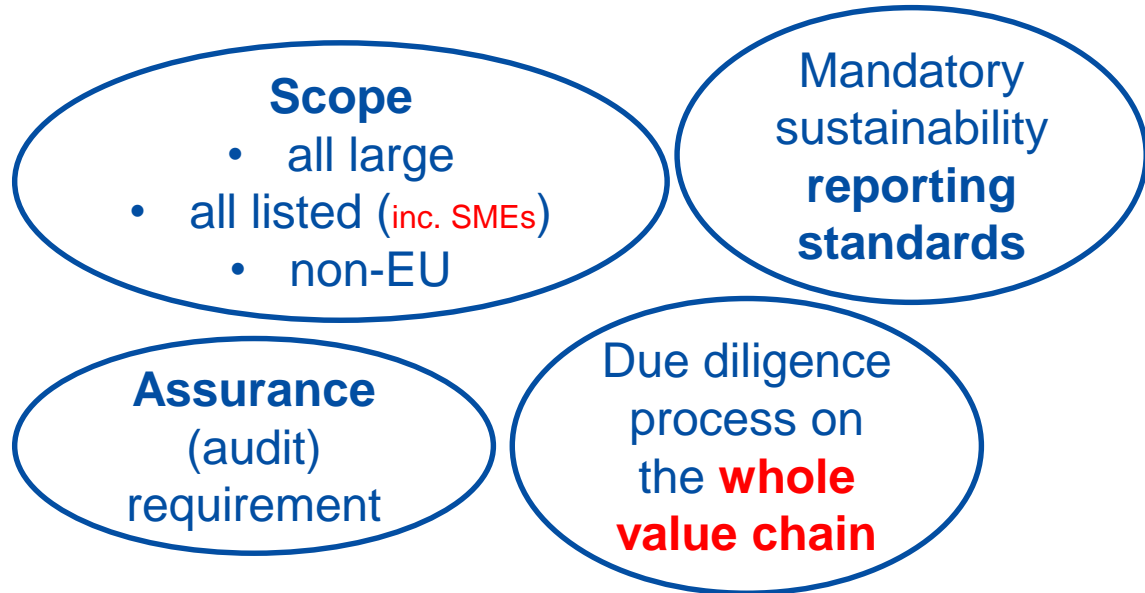
# Taxonomy Regulation

## Banks' Green Asset Ratio (GAR)

- Proportion of the bank's assets invested in Taxonomy-aligned economic activities as a share of total assets (except sovereign exposures)
- Exposures to **SMEs and non-EU** counterparties excluded from the numerator
- Inclusion of exposures to SMEs and non-EU in the GAR numerator will be considered by **2024** after impact assessment
- **Green bonds** included in the numerator (but not green loans to SMEs) based on their Taxonomy-alignment
- Financial institutions can disclose **voluntary KPIs** including (**estimates** of) exposures to sovereigns, SMEs, non-EU

# Corporate Sustainability Reporting Directive

## Main features

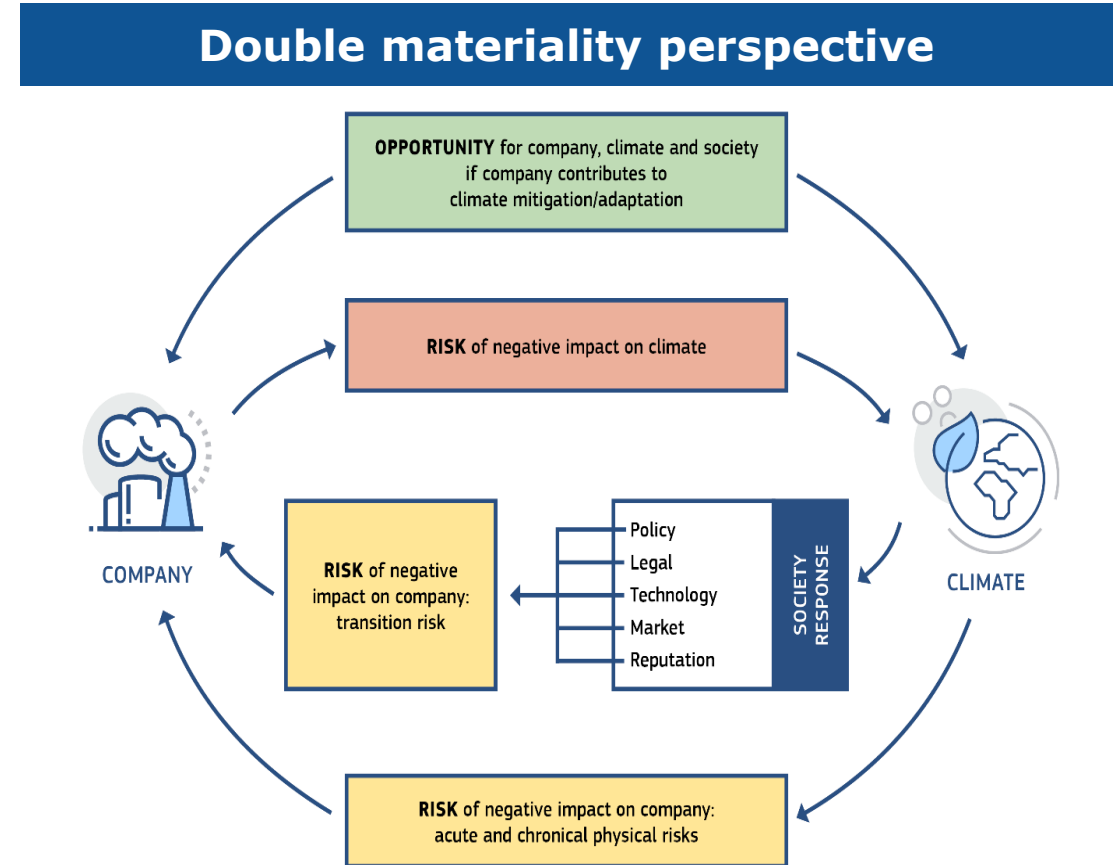


➤ “NFRD companies” (>500 empl): reports in 2025

➤ **Other large companies** (>250 empl): reports in 2026

➤ **Listed SMEs**: reports in 2027 (with 2-year opt-out)

➤ **Non-EU companies exceeding EU turnover threshold and with branches/subsidiaries in EU**: reports in 2029

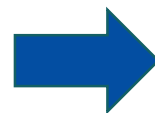


# Corporate Sustainability Reporting Directive

Deadlines for adoption of sustainability reporting standards

## 30 June 2023

- cross-cutting standards and standards for all sustainability topics



First set of draft standards published by EFRAG:

### Cross-cutting Exposure Drafts

- ESRS 1 General requirements
- ESRS 2 General disclosures

### Topical standards - Environment

- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine resources
- ESRS E4 Biodiversity and ecosystems
- ESRS E5 Resource use and circular economy

### Topical standards - Social

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end-users

### Topical standards - Governance

- ESRS G1 Business conduct

## 30 June 2024

- sector-specific standards
- **standards for listed SMEs**
- standards for non-EU companies exceeding EU turnover threshold

# Capital Requirements Regulation

## and Investment Firms Regulation

- **Pillar 3** disclosures under Art. 449a CRR2
- Scope: **large listed banks**
- First disclosure in **2023** (with ref. 2022), on an annual basis during the first year and biannually thereafter

- Qualitative disclosures on **ESG risks**
- Quantitative disclosures on **climate change transition and physical risks**
- KPIs on:
  - climate change mitigating measures, including **turnover-GAR** and **BTAR** (voluntary)
  - **financed GHG emissions**
  - distance to **Paris-aligned** scenario
  - energy efficiency of **RE portfolio**

# Data platform support to SMEs for ESG reporting and EU Taxonomy implementation

Moeslinger et al. (JRC, 2022)

## Findings

- Many different solutions exist – room for interpretation, different input data,...
- More harmonization of input data expected with European single access point (ESAP)
- No specific focus on SMEs
- Data gaps
- Technical expertise needed, e.g. on Taxonomy-alignment, climate risk and vulnerability assessment

## Recommendations

- Free platform access for SMEs
- Create benefits for sharing data:
  - Free assessment
  - Benchmarking
  - Visibility and access to investors
- Avoid burden and costly third party certification
- Crucial to communicate the **value of sustainability** compliance



# Two sides of the same coin: Green Taxonomy alignment versus transition risk in financial portfolios

Alessi and Battiston (IRFA, 2022)

- First Top-down approach to estimate taxonomy-alignment and exposure to transition risk of portfolios
- Makes use of standardized coefficients (TACs and TECs) by NACE sector of the obligor/investee company
- Can be applied to any portfolio, incl. lending
- Can be used whenever more granular info is not available
- Available for CC mitigation

# Standardised taxonomy-alignment coefficients (TACs)

Electricity, gas, steam and air conditioning supply

4-dgt NACE	Activity	TAC activity	TAC	Rationale
D35.1.1	Production of Electricity from Solar PV	1	0.35	Renewables
D35.1.1	Production of Electricity from Concentrated Solar Power	1	0.35	Renewables
D35.1.1	Production of Electricity from Wind Power	1	0.35	Renewables
D35.1.1	Production of Electricity from Ocean Energy	1	0.35	Renewables
D35.1.1	Production of Electricity from Hydropower	1	0.35	Renewables
D35.1.1	Production of Electricity from Geothermal	1	0.35	Renewables
	[...]			
D35.2.1	Manufacture of biogas and biofuels for use in transport and of bioliquids	1	0.01	Biogas share
D35.3.0	District Heating/Cooling Distribution	0.32	0.21	Renewables
D35.3.0	Installation and operation of Electric Heat Pumps	1	0.21	Renewables
	[...]			

# Standardised taxonomy-alignment coefficients (TACs)

Example: Manufacturing

4-dgt NACE	Activity	TAC (activity)	TAC (NACE)	Rationale
C23.5.1	cement	0.05	0.05	ETS approach (*).
C24.4.2	aluminium	0.05	0.05	ETS approach
C24.1.0 C24.2.0 C24.3.1 ...	iron and steel	0.05	0.05	ETS approach
C24.5.1 C24.5.2				
C20.1.1	hydrogen	n.a.	0	negligible
	[...]			

(\*). The threshold corresponds to the avg value of the top 10% installations (ETS approach). Assuming installations are uniformly distributed, 5% would then meet the requirements.

# Using the methodology

Used by:

- ESMA (Advice on Art. 8 TR)
- EBA (EU-wide pilot exercise on climate risk)
- ESRB (Climate-related risk and financial stability)

Suggested for use by:

- ESAs (Advices on Art. 8)
- Sustainable Finance Platform (Recommendations on Data and Usability)

**Paper and excel tool available here:**

<https://doi.org/10.1016/j.irfa.2022.102319>

# Thank you

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