ICMA

International Capital Market Association

Commentary and recommendations for the simplification of the EU Sustainable Finance legislation

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Introduction

ICMA is a trade association headquartered in Switzerland with over 610 members who are active in all segments of international debt capital markets in 70 jurisdictions globally. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. In pursuit of its objectives, ICMA prioritises three core fixed income market areas – primary, secondary, repo and collateral, with two cross-cutting themes of sustainable finance and FinTech and digitalisation (see www.icmagroup.org).

ICMA hosts the Green, Social, Sustainability and Sustainability-Linked Bond Principles (the "Principles") that underpin sustainable bond issuances globally. In 2024, 97% of the global sustainable bond issuance volume was aligned with the Principles. As globally accepted market standards, the Principles are the fruit of extensive work and input from over 344 organisations including issuers, investors, and various other stakeholders, such as external reviewers.

ICMA has actively engaged with the European Commission (EC), the European Parliament (EP), and the Council and Member States throughout the process to promote the effectiveness and usability of EU sustainable finance legislation. ICMA was represented in all of the Commission's sustainable finance expert groups since 2017, namely the High-Level Expert Group (HLEG), Technical Expert Group (TEG) and Platform on Sustainable Finance (PSF). ICMA is currently also represented in ESMA's Securities Market Stakeholder Group (SMSG).

ICMA has also published numerous responses and research papers on the EU sustainable finance legislation notably on the EU Taxonomy, EU Green Bond Standard (EU GBS), Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosures Regulation (SFDR), as well as ESMA Guidelines on funds' names using ESG or sustainability-related terms.

This note includes a commentary and key recommendations for making the EU sustainable finance legislation fit-for-purpose, through a future omnibus legislation or otherwise, as well as more specific proposals addressing usability and other issues relating to individual legislations.

This note has been prepared by ICMA staff with the input of the association's key constituencies including the Asset Management and Investors Council (AMIC), the Corporate Issuer Forum (CIF), the Executive Committee of the Principles, and the Regulatory Policy Committee (RPC). It does not, however, necessarily represent the view of each individual member of these committees or of the association.

The simplification debate

The discussion on an omnibus legislation which is expected by the end of February 2025 is the latest expression of the debate on the need for simplification of various pieces of EU sustainable finance legislation. It follows earlier European Commission (EC) announcements to reduce reporting obligations in the EU by at least 25% in general and by 35% for SMEs.

This announcement was preceded by the EC's adoption in July 2023 of important changes to EFRAG's proposal to introduce relief in the final corporate European Sustainability Reporting Standards (ESRS). Also, in July 2024, the due-diligence focused Corporate Sustainability Due Diligence Directive (CSDD Directive) was amended, resulting notably in an important reduction of the number of in-scope entities. Nonetheless, the Draghi Report in September 2024 pointed to the complexity and inconsistency of the EU sustainability reporting legislation and due diligence framework, and notably the Taxonomy's Do No Significant Harm (DNSH) criteria, as a major source of regulatory burden.

In December 2024, the German Government made several proposals focused on postponing the application of CSRD reporting, reducing the number of in-scope entities, use of lighter standards based on EFRAG's existing proposals (LSME for listed SMEs and VSME for non-listed SMEs) which would lead to a significant reduction in data requirements, and dispensing with additional Taxonomy reporting[1]. The French Government made similar proposals in January 2025 while further arguing for the creation of a new mid-cap category that would benefit from certain exemptions and simplifications.

The EC is reportedly working on proposals concerning sustainable finance reporting, sustainability reporting timelines, due diligence and taxonomy. This would translate into actions leading to (re)focus on the most harmful activities and greater proportionality for SMEs including for supply chain due diligence. If confirmed, these would represent an arguably overdue response to usability and proportionality concerns but would not answer the more fundamental concerns expressed notably regarding European competitiveness.

1 The French Accounting Standards Authority made some counter-proposals most of which go in the same direction, but emphasised that the revision of CSRD and ESRS must be carried out without abandoning the objectives of standardising sustainability reporting.

Key recommendations for the simplification of the EU SF framework

As a privileged observer and contributor to the early thinking and initiatives that were laid out in the Action Plan on sustainable finance in 2018 and the Strategy for Financing the Transition to a Sustainable Economy in 2021, we have progressively identified and warned of conceptual and methodological problems affecting EU sustainable finance legislation and diminishing the likelihood of achieving its stated goals.

At the core of the issues raised by the EU sustainable finance regime is the assumption that the Taxonomy can become the sole measure of sustainability assessment. The Taxonomy was designed to be ambitious and largely focused on economic activities that are already, or can become, in the near term, sustainable. It also suffers from significant usability challenges and a lack of international operability, as well as insufficient recognition of transition assets and trajectories. As a result, the footprint of the Taxonomy is structurally narrow. A recent study[2] showed average turnover and CapEx alignment for a subset of ex-NFRD, large, listed corporates at 9% and 12%, respectively, for FY 2023.

The original proposal for an EU Taxonomy[3] made by the HLEG was for a "technically robust classification system" that would "mobilise capital at scale for sustainable development". If used as the exclusive measure of sustainability, the EU Taxonomy is arguably at risk of doing the exact opposite by restricting such capital flows through its narrow focus.

Another critical issue is the multiplicity of data and reporting requirements under SFDR and CSRD compounded historically by a lack of logical sequencing between these legislations. This led to investor reporting becoming mandatory before corporates were required to provide the necessary information. Conversely, with the implementation of ESRS, corporates are now obliged to comply with very prescriptive, detailed and numerous data requirements (when material). It is questionable whether such level of detail, of which much will be qualitative, is in fact helpful and decision-useful for investors and other stakeholders.

We recommend bold reforms and modifications to EU sustainable finance legislation. We believe that this can be achieved with the help of the following key measures providing a powerful response to the need of simplification.

Key ICMA recommendations

1. Fundamentally address the usability and other challenges of the EU Taxonomy and its implementation by, among other measures, (i) limiting the mandatory reporting obligations to large, listed entities (i.e. ex-NFRD) and, for the time being, to climate change objectives (with "best effort" reporting for the remaining four objectives), (ii) introducing additional alignment approaches for the assessment of DNSH and MS based on an entity-level and risk-based testing, as well as of Substantial Contribution, and (iii) urgently assessing for equivalency treatment of other official sector and leading market-based taxonomies (see the next section for the detailed proposal).
2. Refocus mandatory reporting for all organisations in scope of CSRD to essential data points and disclosures (e.g. on the model of EFRAG's existing LSMEs) without compromising the double materiality perspective and the consistency with the ISSB standards.

2 See EU Taxonomy Reporting 2024 (EY, July 2024)
3 See Final Report 2018 by the High-Level Expert Group on Sustainable Finance.

3. Streamline the SFDR reporting in line with i) the refocused data from CSRD, ii) reporting based on ISSB and iii) other official sector and leading market-based taxonomies, while avoiding mis-aligned sequencing between CSRD and SFDR obligations.
4. Maintain a flexible definition of sustainable investments, as currently exists under SFDR, that allows for a wider approach to sustainability than under the EU Taxonomy alone.
5. Adjust timelines for pending legislation to allow for logical sequencing and implementation feedback while providing certainty on interim requirements or suspended enforcement notably for reporting.

Recommendations for individual EU sustainable finance legislation

From a capital markets perspective, the most relevant legislation which require reform are the Taxonomy Regulation, the SFRD and the CSRD. In this section, we provide detailed technical background as well as additional recommendations which require both Level 1 and Level 2 amendments, as relevant. These detailed comments and recommendations are consistent with our key proposals above and have the objective of complementing the planned omnibus approach to make the EU framework fit-for-purpose.

The Taxonomy regulation

a. Taking stock of implementation

Around 1,900 financial and non-financial, ex-NFRD, large and public interest companies have so far come under mandatory entity-level reporting against the EU Taxonomy (source: LSEG). By 2029, the scope will have gradually extended to 50 000 companies as per the current CSRD[4].

Data has emerged from this initial implementation for larger companies, both for the entity-level reporting of corporates (turnover, CapEx, and OpEx) and (financial institutions, Green Asset Ratio (GAR) and Green Investment Ratio (GIR)), as well as the fund level reporting applicable to ESG-related funds as per SFDR Article 8 and 9. The table below summarises the alignment results from some recent reports:

Source	Summary of alignment results
Reality check: 8 years after the first EU Taxonomy conversation (LSEG, October 2024)	According to a LSEG report (October 2024), around 1,900 large and public-interest companies (subject to previous NFDR) have so far come under mandatory reporting obligations (as per Taxonomy Regulation Art.8), with however 50% of these having so far not made any disclosure. Globally, less than 10% of the c.4,000 large and mid-cap companies in the FTSE All World Index fully disclose EU Taxonomy data. Where companies complied with the entity-level reporting obligation, most reported below 5% alignment. More generally, LSEG estimates that while the FTSE All World has around 8% green revenues, only 0.2% could be EU Taxonomy-aligned. This could go up to 2.1% if DNSH and MS were disapplied.
The Current State of EU Taxonomy Alignment in 2024 (Morningstar Sustainalytics, October 2024)	Based on a sample of 1,100 non-financial corporates, Morningstar reports that 42% reported 0% alignment for FY 2023. This led to average aligned revenues and CapEx of 12.9% and 18.6% respectively for the entire sample. Looking at companies reporting > 0% alignment, the numbers are an average of 23% aligned revenue, 27.5% aligned OpEx, and 28.5% aligned CapEx. On whichever basis, there is minimal variation with 2022. Taxonomy alignment averages are sector-dependant and highest for the utilities sector. Very few companies report above zero values for objectives other than climate change mitigation, which may however increase when mandatory reporting against the four remaining objectives starts in 2025.
EU Taxonomy Reporting 2024 (EY, July 2024	EU Taxonomy disclosures nearly doubled for the FY2023, from 38% to 76% in the EY's sample of 530 companies in 12 countries. Average turnover and CapEx alignment were at 9% and 12%, respectively. In the banking sector, the alignment average as measured by the Green Asset Ratio was around 2%, with national averages ranging from 0% to 13%.

4 See here for a summary of the current CSRD's phased-in application (source: GrantThorton).

Source	Summary of alignment results
SFDR Article 8 and Article 9 Funds: Q3 2024 in Review (Morningstar Sustainalytics, October 2024)	63% of 7,264 Article 8 funds (which promote E/S characteristics) and 52% of 759 Article 9 funds (with Sustainable Investment objective) reported 0% while a large portion of the remaining funds reported less than 10%.

In summary, we observe that:

- Non-compliance and/or reporting zero values remain widespread at around 40-50%, among large and listed companies.
- On the non-financial corporates side, alignment diverges significantly depending on the sector, with meaningful numbers concentrated on a few sectors such as utilities. Also, very few companies report on environmental objectives other than climate. Outside the EU, reporting is marginal.
- Both entity and fund-level reporting from the financial sector signal even lower alignment numbers for portfolios. Indeed, financial institutions may have exposure to in-scope companies who are not disclosing, as well as several out-of-scope companies (e.g. non-EU) who may however still count towards their ratio denominators. Where data is not available, policymakers have generally adopted stringent guidance against the use of estimates.

In any case, several sources report that the EU Taxonomy has so far not been used for strategic or investment decision making, or such use has been very limited, but it is rather perceived as a compliance exercise.

b. Challenges of usability, implementation, inclusivity and international operability

The challenges with the EU Taxonomy and its implementation are numerous.

Firstly, the usability of the Taxonomy is problematic. In EU PSF 1.0, ICMA tried to highlight these issues and make proposals, including by promoting a common estimation methodology and a workable approach towards grandfathering of Taxonomy alignment in financial products.

In February 2022, ICMA published a report called "Ensuring the usability of the EU Taxonomy". Most if not all the conclusions and recommendations of this report remain valid, as the Framework has not subsequently changed since then.

To reiterate, most usability issues are linked to the following factors: (i) widespread data unavailability due to highly granular data requirements; (ii) a stringent stance against estimates and lack of a common methodology for estimates/proxies to fill the data gaps where they exist; (iii) heavy reliance on EU legislation and criteria which hinders the assessment of non-EU located activities and projects. These issues are most pronounced for the current DNSH criteria, but they also effect Substantial Contribution TSC for several activities.

We note that the Principles adopt an entity-level and risk-based approach towards DNSH, by requiring issuers to disclose complementary information on processes by which the issuer identifies and manages perceived social and environmental risks, as well as encouraging environmental and social risk mitigation processes against known material risks. Both CSRD and CSDD Directive also cover several environmental and social risks at an entity-level.

As highlighted in our usability report, there is also no proportionality lens for smaller companies and projects. Most TSC, notably for the DNSH criteria, apply to all entities and projects identically and without considering their size or their limited potential negative impact on the environment. This seems in contradiction with the Taxonomy Regulation itself which provides that TSC should take into account the scale of the economic activity (Art.19(h)).

Methodologically, the activity-based NACE system on which the EU Taxonomy is built applies better to entity-level taxonomy accounting of revenue alignment and assessment of general-purpose instruments, than to project financing and use-of-proceeds products. We note that China's Green Bond Catalogue adopts a white-list measure/project-based eligibility approach targeted mainly at green use-of-proceeds instruments. The Singapore-Asia Taxonomy (SAT) is multi-dimensional and provides both an activity-level and measures/projects-based eligibility approach which can be used alternatively and aims to maximise usability for different financing types. The latter multi-dimensional TSC approach exists only for few activities in the EU Taxonomy. Notably, the EU Taxonomy focuses on an outcome-based approach referring to end-performance level of an asset for several transitional activities rather than measures and expense items to get there.

Furthermore, complex green projects consisting of several green sub-components and activities would be resource-intensive and challenging to assess for Taxonomy alignment, as explained in our usability report.

Several other challenges also exist in relation to the implementation of Taxonomy disclosures. For example, there are no TSC for several sectors and businesses. For others, only a small portion of activities may relate to the TSC, but they cannot disapply the reporting as a materiality test does not exist beyond the assessment of OpEx alignment. Also, as mentioned above, financial entities' GAR/GIR metrics, notably of their denominators, are not well adjusted to the scope of mandatory reporting on the client or investee side.

Beyond the usability and implementation challenges, the EU Taxonomy does not recognise many interim/"amber" transitions, and as such is not best placed to mobilise transition finance. We note that low Taxonomy alignment from emerging data is not only due to the Taxonomy's usability and implementation problems but also because the EU economy is still transitioning towards a Paris-aligned trajectory. The EU Taxonomy includes several transitional sectors and activities (e.g. steel, chemicals, etc), but recognises their alignment only at aspirational "green transition" performance levels and improvements. As such, the EU Taxonomy does not fully exploit its potential to support entities and activities that are on a credible pathway towards sustainability, notably those progressing from significantly harmful starting points.

We note that many Asian taxonomies, notably of Singapore, incorporate an amber category to foster transition, with several safeguards to prevent carbon lock-in risks. Appendix C of our report "Transition finance in the debt capital market" (February 2024) provides an overview of how various leading taxonomies accommodate transition finance through innovation.

At international level, there is a fragmentation issue with over 40 countries developing their own taxonomies. The recently updated Multi-Jurisdiction Common Ground Taxonomy aims to enhance interoperability of taxonomies across the EU, China and Singapore. However, it adopts the most stringent standard and threshold for 60% of common activities included in these three taxonomies. As such, it may be perceived as "gold-plated" and face challenges for uptake for broad use especially in transitional sectors. In the past, ICMA recommended that equivalency and the use of other leading official and market taxonomies are recognised.

ICMA recommendations for the EU Taxonomy

Address fundamentally the challenges of the EU Taxonomy and its implementation along the following lines:

1. Limit the mandatory reporting obligations to:
   - Large, listed entities (i.e. ex-NFRD) who have already come under Article 8 reporting scope. Estimated alignment analysis by investors and data providers should be permitted for non-EU exposures as well as smaller entities, such as listed SMEs, based on a common methodology. At a minimum, a simplified reporting template should be developed for the latter.
   - Climate change objectives, with encouraged voluntary and "best effort" basis reporting for the remaining four objectives. Over time, other objectives may be considered for mandatory reporting, subject to the resolution of usability issues.
   - Revenue and CapEx alignment metrics only if these pass a general materiality test based on the concept of "Taxonomy eligibility" (e.g. set at 5%). Drop the OpEx alignment metric as this is not seen as relevant for the purposes of Taxonomy reporting.
2. Regarding the DNSH and Substantial Contribution TSC:
   - Introduce an entity-level and risk-based testing approach and standard on DNSH and MS as an alternative addition to the existing DNSH TSC, by maintaining the latter to ensure no additional costs for those who have already complied. This may include proxies such as: (i) adequate entity-level processes to address material ESG risks; (ii) compliance with CSRD and CSDD Directive obligations where relevant; (iii) absence of proof of violation of local laws and regulations; (iv) absence of controversies (or if any, presence of remedial action and/or compensation plan); and, (v) regulatory environmental and social permits and environmental impact assessments. vi) implementation of international standards and management systems (e.g. IFC, ISO); (vii) contextual analysis assessing the relevance of a specific environmental risk considering among other things the scale and the nature of the issuer's activity/project/investment as well as the geography, the jurisdiction, and the sector in which it operates.
   - For Substantial Contribution to climate change mitigation, add new alternative TSC (while maintaining existing ones) which should prioritise: (i) quantitative metrics taking into account ISSB's Industry-based Guidance (June 2023); (ii) measures/projects-based alignment in addition to activity-level criteria (ref. SAT and China Green Bond Catalogue), and (iii) widely recognised international standards (e.g. LEED, BREEAM in buildings sector), if any;
   - For transitional activities, add "amber" and "interim" performance thresholds and measures/project-based criteria with adequate safeguards against lock-in risks. Reporting against and the use of interim/amber category should however not cause additional reporting obligations other than through voluntary opt-in.
3. Assess equivalency treatment for other jurisdictions' taxonomies and leading international market-based taxonomies (e.g. MDBs' Joint Methodology for Tracking Climate Change Finance and the Climate Bonds Initiative Taxonomy). A positive assessment of equivalency would require adequate safeguards against lock-in risks.

Corporate Sustainability Reporting Directive (CSRD)

In response to EFRAG's consultation on the ESRS, ICMA supported the development of a European standard for sustainability reporting based on the double materiality perspective and which will produce understandable, relevant, verifiable, comparable and faithful sustainability information, while at the same time, being proportionate as well as interoperable and consistent with international initiatives.

We recognise that several proportionality measures and reliefs have already been incorporated in the final ESRS. These include making all standards, disclosures and data points subject to entity's own materiality test (except for the "general disclosures" standard), removing the need to justify when a topic is not material except for climate change, making some disclosures voluntary and additional transition reliefs on Scope 3 reporting, on top of existing reliefs for value chain reporting[5].

Nonetheless, entities are obliged to comply with very prescriptive, detailed and numerous data requirements, when these are material. It is questionable whether such level of detailed disclosures, many of which will also be qualitative narrative statements, are in fact helpful and decision-useful for investors and other stakeholders. It seems optimal to reduce the data points of the ESRS and simplify the framework.

In our response to EFRAG's ESRS consultation, we had recommended:

- **Concentrating materiality assessments under the future sector-specific standards** as this would enable a more meaningful comparison of undertakings active in the same business. Sector-specific case studies on materiality assessments would also be helpful. We note that the sustainability-linked bond market has developed an Illustrative KPIs Registry which includes a sector-based materiality matrix based on double materiality, as well as several exemplary quantitative KPIs for different sectors.
- **Calibrated and non-duplicative data.** From a comparability and standardisation perspective, it would also be ideal to concentrate disclosures on more quantitative datapoints with accompanying calculation methodologies rather than qualitative statements.
- **Further proportionality and gradual implementation** which could be implemented based on (i) the prioritisation of the value chain reporting boundaries, for instance, by focusing on direct value chain/client relationships; (ii) the prioritisation in terms of sustainability topics, for instance, by focusing first on climate change; and, (iii) application of the future ESRS for SMEs across the value chain, where appropriate.
- **Development of usable equivalency mechanisms and/or specific templates** for the purposes of reporting of third country undertakings.

Separately, entities may hesitate to conclude ESRS topics or data points to be immaterial due to reputational and litigation concerns. Erring on the side of caution, there may be a tendency to rely on the assessment of third-party consultancies beyond the required limited assurance, which then markedly increase the costs. Reliance upon external consultancies can also be caused by the interpretable nature of several data disclosures, negatively impacting the robustness and decision-usefulness of ESRS reporting.

5 The other existing flexibilities on the value chain reporting include: (i) a general "comply or explain" approach for the first three years of any value chain reporting where data is not available; (ii) use of estimates and other proxies (e.g. sector averages) where data is not feasible to obtain, e.g. due to a lack of control on the value chain partner; and, (iii) information to be requested from SMEs' value chain partners to be levelled with the lighter standard for SMEs.

ICMA recommendations for CSRD

1. Adopt simpler reporting standards with fewer data points and disclosures (e.g. based on the model of EFRAG's existing LSMEs) without compromising the double materiality perspective and the consistency with the ISSB standards.
2. Consider if re-focusing materiality assessments with sector-specific standards would in fact help entities to focus on a few core topics and issues that are likely to be more material for their businesses. This could be done for example by providing sector-specific application case studies of general standards so that reporting entities are guided towards a more focused approach.
3. Focus on the generation of some robust quantitative metrics deemed to be helpful and decision-useful for investors, rather than data points leading to lengthy qualitative statements.
4. Consider legal safe harbours for each entity's own materiality assessments while communicating further support for ESRS disclosures without the need for third-party consultancies beyond limited assurance.

Sustainable Finance Disclosure Regulation (SFDR)

As highlighted in our response to the SFDR review consultation, the current framework has not fulfilled its objectives for a variety of reasons: (i) misuse of disclosures as labels; (ii) overload and complexity of disclosure requirements coupled with their divergent interpretation and application; (iii) current and potential future widespread data unavailability; (iv) lack of definitions and regulatory clarity on key concepts and requirements; and, (v) inconsistency between different sustainable finance regulations, etc. The framework also does not sufficiently accommodate transition-themed investments.

First, the SFDR review should lead to an overall simplification of the current disclosure regime. There should be fewer disclosures, which should be focused on most material issues and simpler disclosure templates (e.g. a dedicated 3 page maximum ESG template). Generally, when determining the disclosure requirements on asset managers, EU policymakers should consider international data availability as per ISSB standards and other taxonomies, as well as the limitations to data availability under the current and potentially reviewed versions of CSRD/ESRS.

In our response to the SFDR consultation, we had also noted that:

- Regarding asset managers' entity-level disclosures, the relationship between the application of the CSRD/ESRS and the SFDR should be clarified, and duplicative obligations should be avoided.
- Entity-level PAI disclosures currently provide little or no value given that asset owners invest in products but not in asset managers. Asset managers also have diverse business focuses and product offerings, and as such, entity-level PAIs fail to achieve the intended comparability.
- The EU should consider making at least some disclosures subject to FMPs' materiality assessment in response to the expanded materiality assessment scope on the investee side CSRD/ESRS.

We note that many respondents to the SFDR consultation, including ICMA, supported some uniform ESG-related disclosures for all products. **We argue that there should not be more than a single uniform disclosure imposed on all funds, showing the proportion of entities in the fund who are credibly transitioning; "% of exposure by any regulated fund to entities implementing "credible" transition plans for whom climate transition risks are material".** Over time, "credible" may be defined as an CTFH/ISSB/ESRS/UK TPT compliant and externally verified or reviewed transition plan[6]. In line with our consultation response and the EC's own definition of transition finance of June 2023, such metric should initially be inclusive of entities with science-based targets to accommodate proportionality and allow

6 See ICMA's February 2024 report "Transition finance in the debt capital market", Our report pointed to the emerging transition plan concept as an important opportunity for transition finance and provided "Key actions & disclosures for an integrated transition plan". While not exhaustive, this presents 15 key actions and disclosures that can help issuers align with IFRS S2, ESRS E1, and UK TPT in their transition plans while ensuring international consistency.

more comprehensive transition plan disclosures to emerge. The metric's denominator could initially focus on high-impact sectors. Beyond achieving transparency and comparability, the objective is to also create incentives for a behaviour change among investees based on a forward-looking disclosure. It may also enhance also the depth and intensity of engagement practices on decarbonisation by asset managers.

Importantly, ICMA and the majority of respondents supported the introduction of an EU ESG-related fund categorisation system that will be clearer than the current Article 8/9 based regime. In this respect, we note that the ESMA Guidelines on funds using ESG or sustainability-related terms (May 2024) are likely to significantly re-organise ESG-related fund categorisation and names and re-shape existing practices. **The future SFDR review should therefore aim to optimise consistency with it rather than leading to yet a new round of disruptive re-naming and re-organisation.**

We also recommend not to reduce the definition of sustainable investments and/or the criteria underlying any future "sustainable" category to the EU Taxonomy alignment alone. As outlined above, the current application of the EU Taxonomy is hindered by a variety of factors and cannot serve as a single reference for an ambitious sustainability assessment aligned with the EU's stated goals.

ICMA recommendations for SFDR

1. Simplify and streamline the SFDR reporting by reducing the number of disclosures, re-focusing these on most material issues, and considering the expected data availability and robustness from the future CSRD/ESRS scope, and internationally, the application of ISSB and other taxonomies.
2. Consider a single, universal disclosure for all funds based on the % exposure of the fund to entities implementing credible transition plans for whom climate transition risks are material.
3. Do not reduce the definition of Sustainable Investment and/or the underlying criteria of a future "sustainable" category to the EU Taxonomy alignment alone.

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