Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

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High-level panel
Sustainability reporting frameworks and standards: from interoperability to full harmonization

Presented by

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Presentation to UNCTAD-ISAR

6 November 2024

EDFI Membership

15 European DFIs

EDFI represents 15 European development finance institutions. These are state-backed, and exclusively focused on mobilising private finance in OECD-DAC countries. Together they hold over EURO 52 billion in assets under management.

EDFI & Harmonisation

EDFIs have a long history of cooperation and harmonisation around high standards.

- EDFI members manage a combined portfolio of more than US$50 billion according to high environmental, social and impact standards.
- EDFI member institutions have adopted shared approaches on impact and ESG management, pursuing these through our long running Harmonisation Initiative.
- EDFIs have agreed to harmonise the way that we track gender smart investments, measure job creation, determine alignment with the Paris Agreement, and count investments mobilised from the private sector.
- Recent European regulations make this more challenging.

EU Taxonomy

A regulatory definition of "sustainability"

- The Taxonomy Regulation establishes, for the first time, a sector-by-sector and product-by-product definition of what activities (and investments) can be called sustainable.
- Key concepts include "Substantial Contribution", "Do No Significant Harm", and "Minimum Safeguards".
- In-scope DFIs must disclose a Green Asset Ratio (GAR), which is the proportion of taxonomy-aligned assets to total assets.
- Reporting has already begun, with a phase-in of obligations.

Key issues

- Dependence on EU law
- Limited incorporation of pre-existing standards
- No interoperability

Challenges associated with the EU's regulations

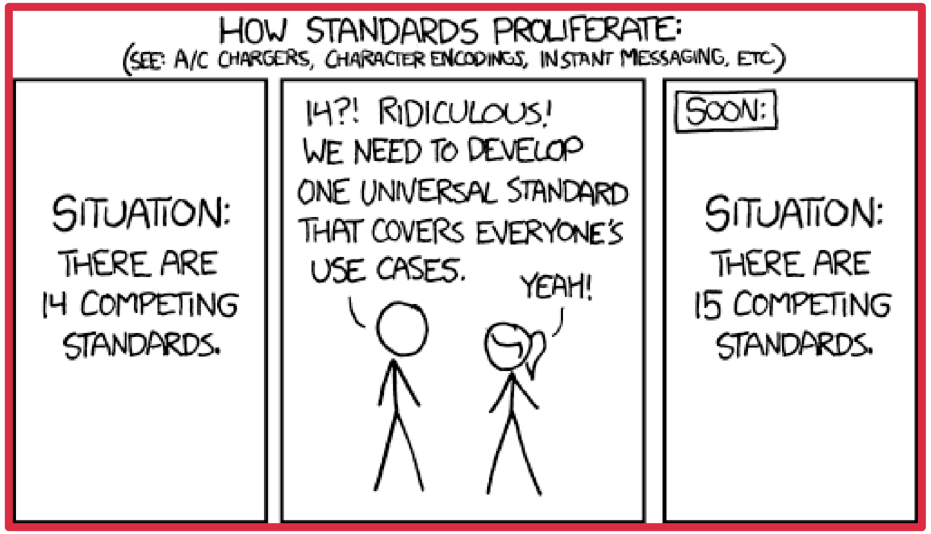
- Dependence on EU law: Under the regulations, sustainability is conceptualised via pre-existing European regulations. These regulations will not be suitable or relevant for many countries outside the EU.

- Limited incorporation of pre-existing standards: The regulations frequently do not incorporate other standards, which creates duplication and inefficiency.

- No interoperability – Investments and economic activities are held to European standards, regardless of where they take place. Other domestic taxonomies (e.g., South Africa's Green Finance Taxonomy) are not recognised under the regulation.

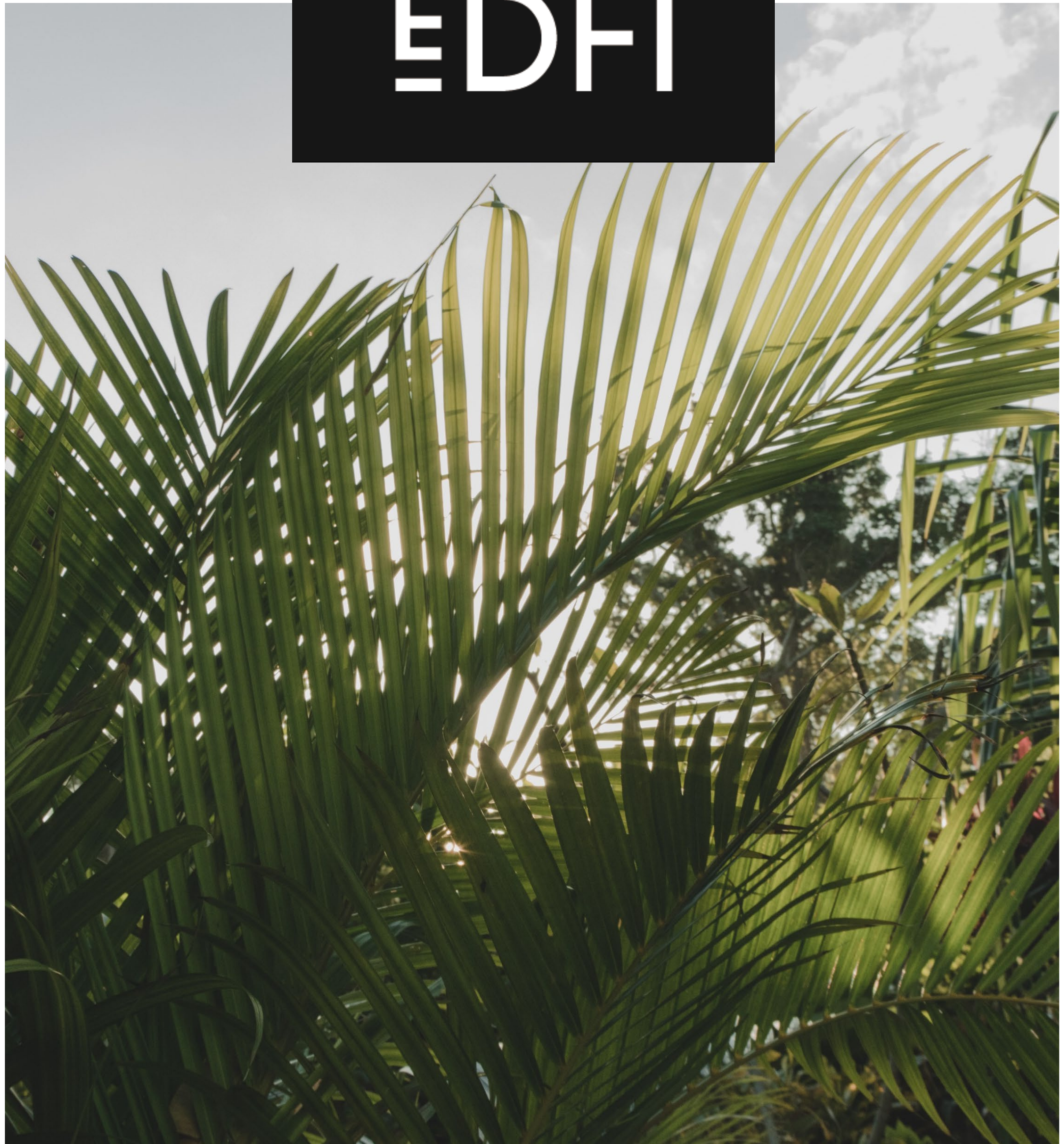
In June 2024, EDFI released a position statement calling for interoperability and recognition of other standards.

From interoperability to harmonisation



Europe has the regulatory initiative and must lead by example.

- Interoperability is a first step to ensuring that sustainable finance has a rational foundation, and one that takes account of national and sectoral differences.
- The EU, as a first-mover on regulation, can send a powerful signal by recognising other taxonomies as interoperable, so that a green investment in Ghana "counts" in Europe.
- Europe should then work towards alignment and harmonisation with other frameworks (e.g., IFC Performance Standards, TCFD, ISSB, etc.), particularly for non-EU countries lacking a domestic taxonomy.
- Regulators have the unique authority to deliver convergence and harmonisation, rather than additional competing standards.



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