
Press release

AFME report highlights room for improvement in EU sustainable finance regulation

Association outlines challenges and recommendations to unlock financing and investment

The Association for Financial Markets in Europe (AFME) has today published a new report “**Sustainable Finance in the EU: Priorities to unlock financing and investment**”. The paper outlines AFME members’ views and recommendations on the functioning of the current EU sustainable finance framework, the implementation challenges that banks face in applying it to financing companies, and how its effectiveness could be improved.

The paper then highlights AFME’s constructive recommendations for policymakers, including how policymakers and regulators can further enable financial institutions in providing financing in support of climate, environmental and social goals and provide a regulatory framework that helps to achieve this.

Oliver Moullin, Managing Director of Sustainable Finance at AFME said: *“Significant progress has been made in establishing the EU sustainable finance regulatory framework. A number of key areas of regulation now apply, with several more in the course of implementation. Nevertheless, the lack of clarity on policy to support the real economy transition combined with a number of significant challenges with the policy and regulatory framework are holding back the potential to further channel investments in support of sustainability objectives.*

“It is essential that the EU regulatory framework supports banks’ role in helping finance the transition and that it works in a way that supports the growth and competitiveness of the EU economy. It is time to take stock and consider targeted changes to enhance the coherence and effectiveness of regulation in achieving its objective. It is also critical to maintain focus on establishing roadmaps, reducing regulatory barriers and providing incentives for the real economy transition; and to provide greater emphasis on the important role of transition finance, recognising that financial institutions will need to provide finance to all parts of the economy throughout the transition.”

AFME’s latest report highlights where financial institutions see challenges arising under the current regulatory framework, including:

1. Lack of clarity on real economy transition and coherence with the sustainable finance regulatory framework;
2. The availability of high quality data to support the use of sustainable finance tools and financial institutions’ own disclosure obligations;
3. The usability and application of the EU taxonomy;
4. The application of SFDR;
5. Inconsistent treatment of derivatives in various disclosure metrics under the EU Taxonomy Regulation and SFDR;
6. Alignment & coherence across the various ESG products disclosure regulations (e.g. SFDR, BMR, MIFID)
7. Sequencing of the various reforms (e.g. SFDR, Taxonomy, BMR, Pillar 3)
8. Concerns regarding potential allegations of greenwashing;
9. Coherence and consistency of transition plans; and
10. Challenges with international application and interoperability.

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The report sets out five priority recommendations to address identified challenges:

- Maintain focus on establishing roadmaps, reducing regulatory barriers for the **deployment of sustainable investment** projects and providing incentives for the real economy transition;
- Ensure that the regulatory framework is achieving its goals, is **coherent and usable** in practice to promote and support sustainable finance (including transition finance);
- Provide a **stable regulatory framework** with time for implementation and review how it is working in practice, with targeted guidance/changes introduced where needed in consultation with market participants;
- Ensure that regulation is promoting investment and does not adversely impact the **competitiveness** of financial institutions or companies operating in the EU and internationally; and
- Enhance **international coordination** and improve international **interoperability** with other key jurisdictions.

Alongside recommendations on improving the functioning of the regulatory framework, the report also sets out recommendations in three further important areas which we see as priorities for EU policymakers:

- 1) Facilitating transition finance;
- 2) Developing carbon markets; and
- 3) Scaling finance for nature.

The full report is available here.

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Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu
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