EU business regulation

EU looks to exclude banks and funds from sustainability rules

MEPs and campaigners say 'incomprehensible' carve-out for financial sector weakens Brussels' ESG goals

German Green MEP Anna Cavazzini: 'The financial sector has an enormous steering effect and the EU should no longer tolerate investments in human rights violations and environmental destruction' © picture alliance/Geisler-Fotopress

Alice Hancock in Brussels

Published DEC 1 2022

EU ministers have backed a carve-out for banks and investment funds from a landmark regulation designed to force companies to report on environmental and human rights abuses in their supply chains.

The exemption, pushed by France and approved by ministers on Thursday, has prompted harsh criticism from campaigners who said the move will allow large banks and fund managers to continue financing fossil fuel or mining projects without properly scrutinising the environmental damage or social issues they might cause.

If the move is approved following negotiations with the European parliament next year, it would mark a significant weakening of the EU's efforts to hold companies to account on their sustainability goals and improve the credibility of Brussels' wider environmental and social governance agenda.

Anna Cavazzini, a German Green MEP, described the late push to exclude financial institutions as "scandalous and incomprehensible", adding: "The financial sector has an enormous steering effect and the EU should no longer tolerate investments in human rights violations and environmental destruction."

Pascal Durand, a French socialist MEP who spearheaded the original push for the legislation, called it a "major step back".

The EU has tried to be a leader on sustainable finance by introducing reporting standards for companies and a framework for investment known as the taxonomy. Other jurisdictions such as the US and UK are coming up with similar initiatives but despite moves by the accounting standards body, the IFRS Foundation, no global scheme to regulate the disclosure of ESG data has been set.

Under the EU's proposed rules, known as the corporate sustainability due diligence directive, companies with more than 500 employees or €150mn in global turnover would be required to identify and prevent or mitigate activities such as child labour, worker exploitation or damage to natural ecosystems in their supply chains. Victims of any damage would be empowered to take legal action if abuses that had not been reported by businesses were uncovered.

But several member states including France, Spain, Italy and Slovakia, pushed against the inclusion of the financial sector, arguing that banks do not have supply chains in the same way as companies producing physical goods.

Publicly Paris has said that it backs full inclusion of all companies within the reporting framework. Representatives of the French finance ministry on Wednesday told the Financial Times that it was a "misconception" that France had been pushing for such an exemption. "We think that this text has to apply to all sectors whatever".

"The information circulating indicating a request for specific treatment from the banking sector is false," it added in a separate statement.

But four diplomats confirmed to the Financial Times that France had been behind the last-minute effort to have financial institutions excluded as it tries to make Paris a hub for international finance.

According to the text approved on Thursday, member states will be able to choose whether banks and investment funds based in their country will be included under the due diligence rules. Financial institutions would only have to carry out light pre-checks before giving insurance or loans to clients and would not have to ensure their clients' activities meet ESG goals.

Ministers also recommended a phase-in period, with the rules only applying to companies with more than 1,000 employees and €300mn in global turnover for the first three years.

Julia Symon, head of research and advocacy at the NGO Finance Watch, said the "blanket exemption of financial institutions greatly undermines the EU sustainable finance agenda . . . Competitiveness considerations of a few member states are taking priority over compliance with international human rights and environmental agreements of the EU".

Climate Capital

Where climate change meets business, markets and politics. Explore the FT's coverage here.

Are you curious about the FT's environmental sustainability commitments? Find out more about our science-based targets here

Follow the topics in this article

EU business regulation

European companies

Impact investing

Climate change

ESG investing