

Veolia's contribution to the targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)

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If the SFDR directly impacts financial actors, it indirectly deeply impacts the non-financial companies, which have to provide the primary data necessary for the SFDR:

- e.g. the PAI which have been for this purpose integrated to the CSRD standards
- e.g. the green taxonomy KPI's

2 points are to be highlighted:

- 1. The irrelevance of the PAI application on the very sectors of which the activity consists in significantly abating one of the adverse impacts.**

Regarding the first point, let's take the example of the **treatment of wastewater**. This activity is undoubtedly contributing very positively to the environment. This is confirmed by the EU Green Taxonomy, which recognizes this activity as "sustainable", under certain conditions of alignment with technical performances. And its positive benefits are multiple, ranging from Climate change mitigation to Water resource, Circular economy, as well as to Biodiversity. The logics would lead to consider it a good contributor to the greenness of investors' portfolios.

But the message conveyed through the PAIs would tell just the contrary: stay away and don't include it in your investment portfolios. Why is it so ?

Imagine that the wastewater treatment plant abates 90% of the pollution load. The PAI would indeed induce a counterproductive information:

- by focusing only on the 10% residual load rejected (100% efficiency is in practice impossible to achieve)
- and omitting to inform of the removal of 90% of the pollution load of the incoming wastewater.
- So the more commercially successful this wastewater company would be by extending the range of its operated assets,
 - the more it would abate the total load of pollution for the benefit of the planet,
 - and the more its contribution to the corresponding PAI would increase, with a negative influence on the SFDR derived rating of the company.

The same reasoning would apply exactly in the same way on other activities such as:

- **sorting/recycling facilities**, due to the residual waste improper for recycling,
- **hazardous waste treatments**, due to the residual waste generated,

and it seems very necessary to exclude such activities from the calculation of PAIs !

Therefore, we would suggest for the sake of not inducing investors in total error, that activities consisting in essence in abating the “adverse impacts” considered by the PAIs, would be excluded from the PAI calculation.

NB : The other company’s activities would of course fully contribute to the PAI calculation.

2. The necessity to exclude the taxonomy Opex from the information needed to feed the SFDR reports of the financial actor

Regarding that second point, let’s make a little focus on the green taxonomy KPIs. Since 2021, non-financial companies have to disclose each the % of Turnover, Capex and Opex either eligible, or eligible and aligned with the lists of activities and technical screening criteria published by the European Commission in its Delegated Acts on green taxonomy. The conclusion widely accepted by all parties concerned by this type of publications, is that:

- The percentage of Turnover gives meaningful information about the current situation of the company, in terms of proportion of activities among those most contributing to the ecological transformation by the EU taxonomy standards.
- The percentage of Capex gives meaningful information about the efforts made by the company to maintain and extend the sustainable perimeter activities.
- The percentage of Opex brings no valuable information complementary to those mentioned above. It is all the more useless that the restricted definition for Opex set by the Commission for the taxonomy calculation is not interpretable. And its calculation is approximative and painful for companies, which generally don’t have a controlling system appropriate to apply the restricted definition to their own situations.

Therefore, it would be relevant to remove the percentage of Opex from the scope of the mandatory yearly disclosures of the taxonomy.

In 2022, the Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 has incorporated the 3 KPIs of the taxonomy within the SFDR disclosures. For the reasons exposed above, it would be necessary that this obligation set for the sake of the SFDR regulation would be restricted to the Turnover and the Capex. That is all the more necessary that the proper information of investors can derive no benefit from these Opex figures.

This initiative would remove a painful and useless reporting burden from the non-financial companies, in line with Commission President Ursula von der Leyen’s 2023 commitment on the reduction of this burden.

Our proposition is therefore to focus the taxonomy mandatory information on the Turnover and the Capex, by:

- removing the obligation to publish the Opex percentage within the taxonomy regulation,
- and to amend the SFDR regulation by removing as well the Opex from the mandatory scope of reporting, consistently with the above.