



# ESG Regulatory Market Watch For Financial Institutions

Deloitte Switzerland  
October 2023



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## Chapter 1

### ESG regulatory landscape

# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 1: ESG regulatory landscape

### ESG REGULATORY LANDSCAPE\*

Enabling Environmental, Social and Governance (ESG) practices in business has become critical. Part of the reason for ESG's momentum is that it is driven by both internal and external stakeholders. Moreover, clients are increasingly expecting their financial institutions to be knowledgeable about ESG and care about their provider's commitments.

Fig. 1.1: The importance of ESG to investors

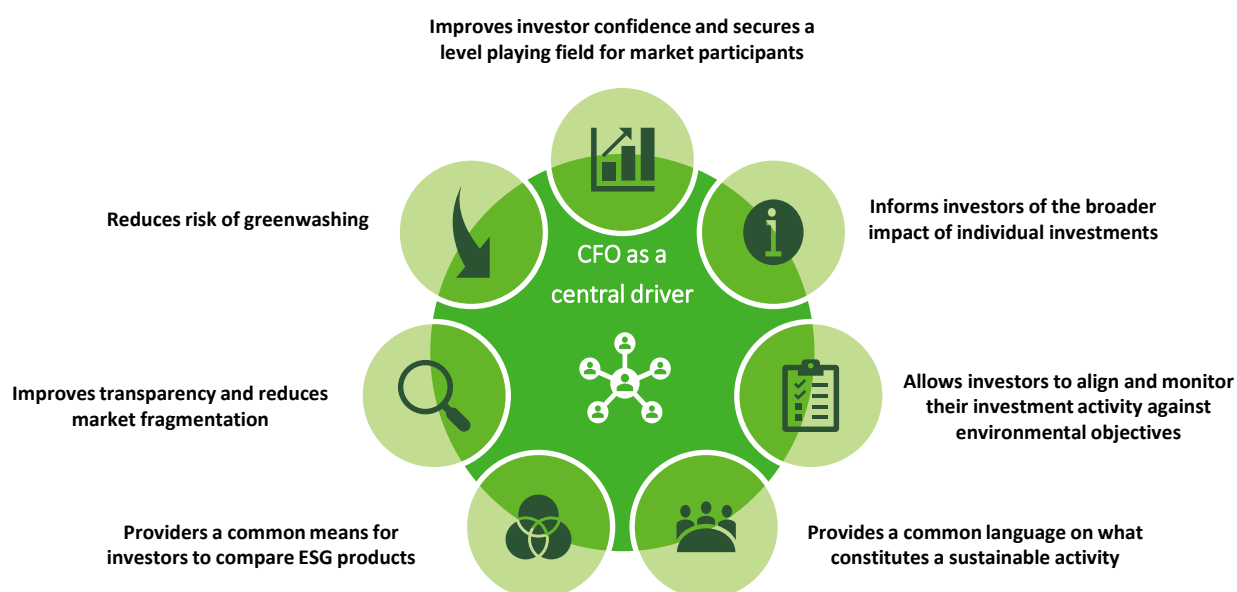


### FINANCE AS A KEY DRIVER

Since the 1990s, CFOs have shifted their perception of ESG from being regulatory and compliance-driven to purpose-led. There are two main reasons that outline this shift:

- **Internal stakeholders:** Finance functions are key drivers to operationalize ESG strategies. This makes CFOs pivotal to lead change and instil ESG into the DNA of financial institutions.
- **External factors:** CFOs have to consider increasingly widening the ESG regulation landscape with stricter regulation. In the medium to long term this means that regulation will lead to more common-place audits that will be more stringent and fines more severe.

Fig. 1.2: The role of CFOs in driving ESG change



\* Note: Financial institutions are subject to binding and non-binding regulation. Deloitte's focus on this publication is on the binding regulatory landscape.



# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

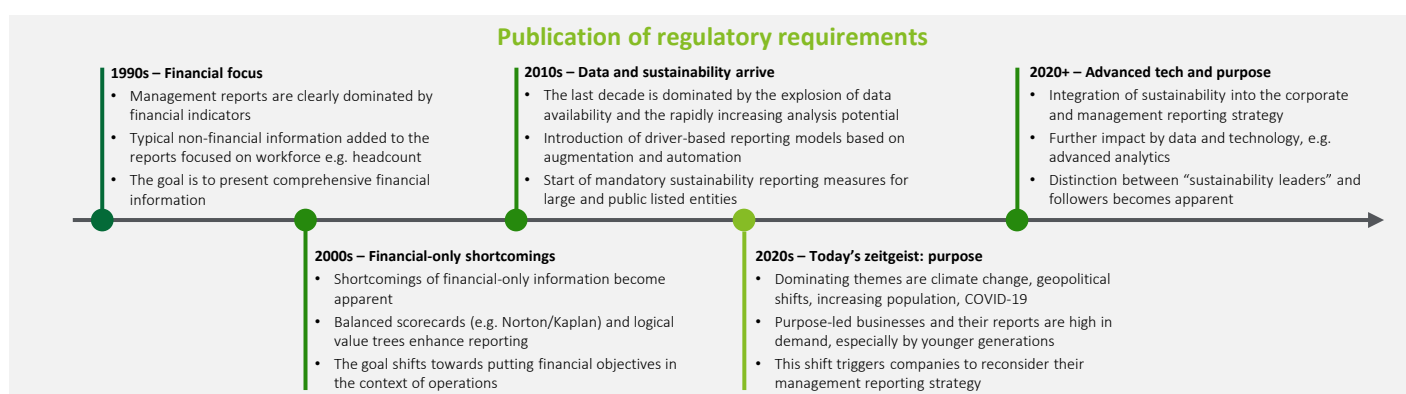
## Chapter 1: ESG regulatory landscape

### EVOLUTION OF THE REGULATORY ENVIRONMENT

We have come a long way from the era of Corporate Social Responsibility, where companies would promote only few ESG-friendly initiatives with very limited transparency or measurability. Due to the lack of clear guidance on best practices, international institutions began defining standardized, regulatory frameworks for financial institutions and other relevant companies, to stipulate impactful initiatives and measure their impact. However, the non-legally binding nature of these frameworks meant companies could still set their own frameworks without real accountability or transparency, a practice referred to as “greenwashing”.

Now regulators have gotten involved. We have reached a new stage of regulatory-mandated ESG standards deployment. Corporations across major markets are now subject to mandatory ESG reporting requirements. These help stakeholders uniformly understand ESG initiatives taken by corporations, their financial scale, and their impact on individuals, communities and the environment. Additionally, ESG initiatives improve transparency for investors to be informed about the ESG integrations within the relevant institutions.

Fig. 1.3: Evolution of ESG regulation across time



### REGULATORY LEADERS

Many regulatory frameworks are already in effect across major markets – Switzerland, the United Kingdom, the European Union and the United States – and more will come in the near future. For this reason, these are the scope of our regulatory market watch.

Fig. 1.4: ESG regulatory frameworks across western markets



### ESG Regulation in Europe

*“New regulations are going into force in Europe this year. For example, banks and insurance companies will need to report on their compliance with ESG standards. The regulations are still broad and often vague in their application, so there will be considerable interpretation and greenwashing until regulators make the regulations more precise. But regulators will start to enforce these rules over time, and banks and insurance companies could get fined. One country at the forefront of ESG regulation has been France. ESG regulation will be forcing banks to conduct ratings of their loan portfolios for example. Firms that do not comply with the ESG legislation will see their borrowing costs go up.”*



**Jean-François Lagassé**  
Global Wealth Management  
Leader, Financial Services  
Industry Leader, Deloitte  
Switzerland



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## Chapter 2

### Regulatory roadmap

# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 2: Regulatory roadmap

### 2023 REGULATORY WATCH OVERVIEW

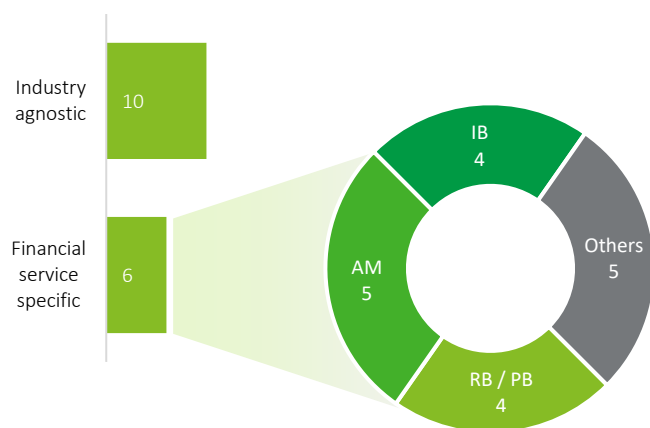
Financial institutions continue playing an important role in pushing ESG integration within the financial field. Loans, investments and assets allocated by providers can have a sizeable impact in supporting green investments and sustainable projects. This critical role has been noted by regulators, already heavily involved in the efficient and safe operating of financial service providers across the globe.

As of the beginning of 2023, 10 regulatory obligations are already in effect, 4 have been approved by their respective jurisdictions, and 2 are currently in discussion. These can take the form of amendments to existing legislation, such as MiFID II amendments, or newly enacted legislation (e.g., Sustainable Finance Disclosure Regulation SFDR). As opposed to other less monitored industries, financial institutions already hold extensive disclosure obligations towards regulators, for whom verifying compliance will be an easier task despite existing gaps within existing regulatory frameworks. It is a priority for financial institutions to be fully compliant, and this now includes standard ESG practices and reporting.

**Fig. 2.1: ESG regulatory framework implementation status**



**Fig. 2.2: ESG regulatory framework applicability**



In addition to being subject to industry-agnostic requirements, ESG regulatory landscape includes frameworks solely applicable to financial services providers. To illustrate, of the 16 frameworks, 6 are exclusively applicable to financial institutions. With respect to the latter, these have further been broken down by type of financial institutions in our ESG regulatory roadmap. Amongst others these include: retail / private banks, investment banking, asset managers, and others (such as private equity, pension providers, and insurance).

### NEW CHALLENGES CREATES NEW OPPORTUNITIES

Over 4 out of 10 financial institutions believe that their clients expect them to be knowledgeable on social impact and environmentally conscious investing and to offer ESG products and services. This results in financial institutions being increasingly under pressure from clients, regulators, employees, and investors to be environmentally and socially responsible.

This generates the opportunity to go beyond considering how to incorporate ESG into their products and also look internally how to fully embed ESG factors into financial institutions' strategies and organizational DNA. In the long-term, future-oriented firms are already incorporating ESG factors into their organizational culture to their advantage and disclosing their impacts in both mandatory and non-mandatory reports.

For CFOs, this entails leading this shift as they have the in-depth overview of their organizational data, processes and reports. In addition, CFOs have the professional toolkit to align ESG challenges with the company's profitability goals.

















Finally, current and upcoming regulation affects all key areas of finance. Identifying, understanding, and implementing these are central to the role of CFOs to achieve the implementation of company-wide ESG transformation.



# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 2: Regulatory roadmap

### BINDING REGULATORY TIMELINE

Year	Impl. Date	Regulating entity	Policy	Applicability	Financial services activity			
					RB / PB	AM	IB	Oth.
2014	Oct 2014	 EU Commission	<b>Non-Financial Reporting Directive</b> Enhanced non-financial ESG reporting	<ul style="list-style-type: none"> <li>Public interest companies</li> <li>Turnover threshold differs on size</li> </ul>	X	X	X	X
2020	July 2020	 EU Commission	<b>EU Taxonomy</b> Environmentally sustainable activity classification system	<ul style="list-style-type: none"> <li>EU financial market participants providing sustainability-related investment services</li> </ul>	X	X	X	X
2021	March 2021	 EU Commission	<b>Sustainable Finance Disclosure Regulation</b> Regulatory framework for sustainability-related investments	<ul style="list-style-type: none"> <li>EU financial market participants providing sustainability-related investment services</li> </ul>	X	X	X	X
2022	January 2022 *	 Financial Conduct Authority	<b>TCFD-aligned reporting</b> ESG reporting requirements aligning with Task Force on Climate-related Financial Disclosures	<ul style="list-style-type: none"> <li>UK-registered companies</li> <li>+£500m in turnover for ALBs</li> </ul>	X	X	X	X
	April 2022	 UK Government	<b>Climate-related Financial Disclosure Regulations</b> Inclusion of climate-related financial disclosures	<ul style="list-style-type: none"> <li>UK-registered companies</li> <li>+500 employees</li> <li>+£500m in turnover</li> </ul>	X	X	X	X
	August 2022	 European Securities and Markets Authority	<b>AIMFD II amendments</b> Sustainability inclusion in fund management activities	<ul style="list-style-type: none"> <li>Alternative investment fund managers</li> </ul>		X		X
	August 2022	 European Securities and Markets Authority	<b>UCITS Directive amendments</b> Sustainability inclusion in fund management activities	<ul style="list-style-type: none"> <li>Companies engaging in the management of UCITS</li> </ul>		X		X
	August 2022	 European Securities and Markets Authority	<b>MiFID II amendments</b> Sustainability inclusion in portfolio management activities	<ul style="list-style-type: none"> <li>Companies offering investment services and activities</li> </ul>	X	X	X	X
	December 2022	 European Banking Authority	<b>EBA ESG Pillar 3</b> Standardized ESG risk disclosure framework	<ul style="list-style-type: none"> <li>Banks with securities traded in the EU</li> </ul>	X	X	X	X
2023	January 2023	 Swiss Confederation	<b>Non-financial reporting requirements</b> Enhanced non-financial ESG reporting	<ul style="list-style-type: none"> <li>+20m balance sheet or +40m sales revenue</li> </ul>	X	X	X	X
	January 2023	 EU Commission	<b>Corporate Sustainability Reporting Directive</b> Replaces NFRD for standardized non-financial ESG reporting	<ul style="list-style-type: none"> <li>All listed companies on regulated market by 2026</li> <li>Relevant companies involved in EU market as per CSRD</li> </ul>	X	X	X	X
2024	January 2024	 Securities and Exchange Commission	<b>Art. 14 Regulation S-X **</b> Enhanced financial ESG reporting	<ul style="list-style-type: none"> <li>Any company reporting to the SEC under GAAP principles</li> </ul>	X	X	X	X
	January 2024	 Securities and Exchange Commission	<b>Subpart 1500 Regulation S-K **</b> Enhanced non-financial ESG reporting	<ul style="list-style-type: none"> <li>Any company reporting to the SEC under GAAP principles</li> </ul>	X	X	X	X
	January 2024	 Swiss Confederation	<b>Swiss Climate reporting ordinance</b> Enhanced non-financial ESG reporting aligned with TCFD recommendations	<ul style="list-style-type: none"> <li>+500 employees</li> <li>+CHF 20m in total assets or +CHF 40m in turnover</li> </ul>	X	X	X	X
	In progress	 EU Commission	<b>Corporate Sustainability Due Diligence Directive</b> Standardize procedures for due diligence considerations	<ul style="list-style-type: none"> <li>Turnover threshold differs on size</li> </ul>	X	X	X	X
		 Financial Conduct Authority	<b>UK Sustainability Disclosure Standards</b> ESG disclosure requirements and reporting standards	<ul style="list-style-type: none"> <li>UK registered &amp; listed companies and limited liability partnerships</li> </ul>	X	X	X	X

\* 2021 premium listed companies and 2022 for standard listed companies

\*\* Specific regulatory reference: S-X, 17 CFR 210.14-01 and 02 & S-K, 17 CFR 229.1500-1507



# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 2: Regulatory roadmap

### IMPACT MAP

	Investor Relations	Sustainable Finance	Transformation	Planning & Analysis	Business Unit Organization	Reporting	Operational
Non-Financial Reporting Directive	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Sustainable Finance Disclosure Regulation	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
EU Taxonomy	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
TCFD-aligned reporting	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Climate-related Financial Disclosure Regulations	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
AIMFD Level 2 amendments	Medium impact	Strong impact	Medium impact	Minimal impact	Minimal impact	Strong impact	Medium impact
UCITS Directive Level 2 amendments	Medium impact	Strong impact	Medium impact	Minimal impact	Minimal impact	Strong impact	Medium impact
MiFID II Level 2 amendments	Medium impact	Strong impact	Medium impact	Minimal impact	Minimal impact	Strong impact	Medium impact
EBA ESG Pillar 3	Strong impact	Strong impact	Strong impact	Medium impact	Medium impact	Strong impact	Strong impact
Responsible Business counter-project	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Art. 14 Regulation S-X	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Swiss Climate reporting ordinance	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Subpart 1500 Regulation S-K	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Corporate Sustainability Reporting Directive	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
Corporate Sustainability Due Diligence	Medium impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact
ISSB IFRS Sustainability Disclosure Standards	Strong impact	Strong impact	Medium impact	Medium impact	Minimal impact	Strong impact	Medium impact

Strong impact
  Medium impact
  Minimal impact



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## Chapter 3

### Our capabilities



# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 3: Our capabilities

### CAPABILITIES

Instead of operating with a silo-based ESG response, banking CFOs should engage in a more holistic approach to address crucial economic and societal developments and selecting the best of breed tools to enable sustainable business benefits.

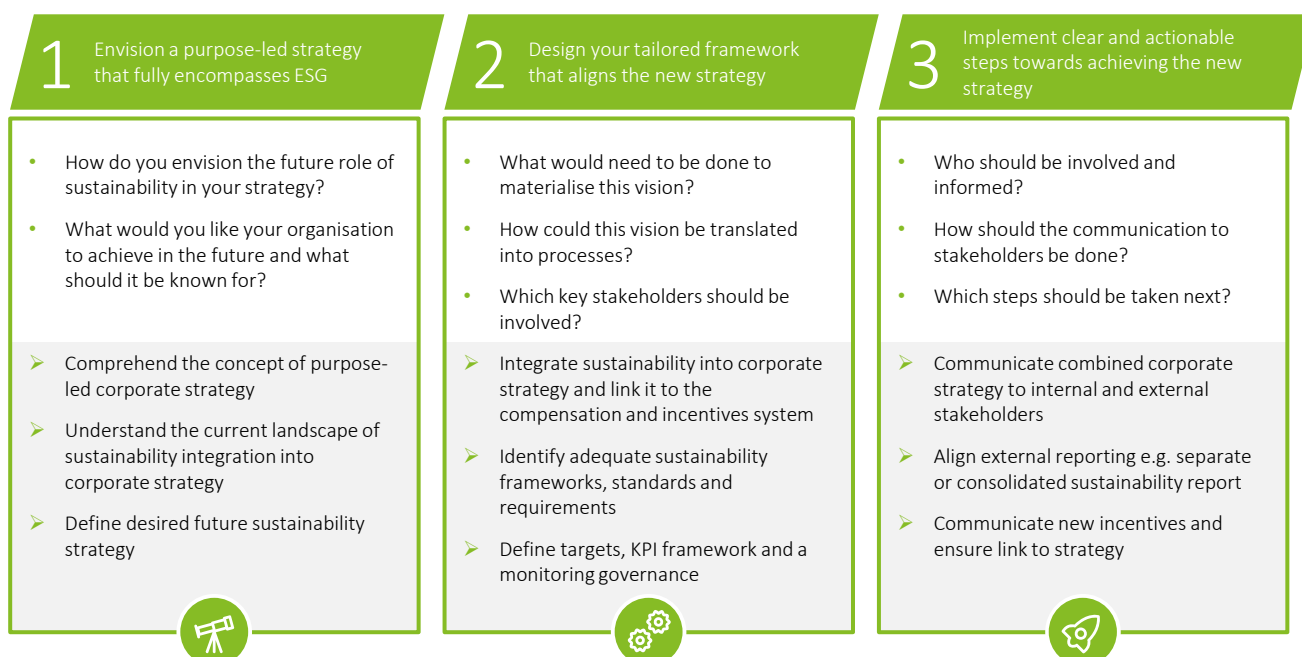
**Fig. 3.1: Considerations when tackling ESG in your enterprise**



### APPROACH

We help financial institution CFOs to embark on a path towards sustainability and to stay on track, with special attention to the change-leading role of the CFO, the combination of digital technologies and key ESG reporting metrics.

**Fig. 3.2: Focused approach**



# ESG REGULATORY MARKET WATCH FOR FINANCIAL INSTITUTIONS

## Chapter 3: Our capabilities

### OUR EXPERTS

At Deloitte, we believe sustainability is not just an option: it's a responsibility. We understand that the choices we make today directly impact the world we leave for future generations, which is why we are committed to progress with our own sustainability journey. Change starts from within. Through our *WorldClass* and *WorldClimate* programmes, we strive to make a positive impact on society and drive responsible climate choices.

Deloitte aims to combine its willingness to make a difference with its industry expertise and know-how for the financial services sector, of which Deloitte supports different financial institutions domestically and internationally. More specifically, CFOs in solving some of the most pressing challenges in the banking industry. Deloitte provides an experienced core team with a dedicated industry, functional and technical expertise, and a proven track-record in the design and delivery of finance solutions in the financial services industry.

As a result of this, from sustainability regulations, impact valuation and sustainable M&A to decarbonisation solutions, circularity and other sustainability-related challenges for the financial services sector, our colleagues bring extensive experience helping them to understand and address your specific challenges.

Our experts are looking forward to discussing your challenges as well as sharing their experience and industry insights with you. Please do not hesitate to contact our subject matter experts below.

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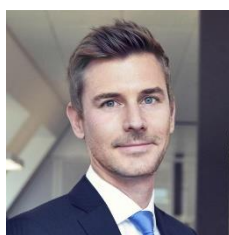


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