

Regulatory | Regulatory Landscape for 2024: focus on Sustainable Finance

Getting Started

Here with you today



Francesca Messini

Partner - Sustainability Leader
+ 352 661 451 744
fmessini@deloitte.lu



Eleonora Maria Belenghi

Analyst - Climate and Sustainability
+352 621522419
ebelenghi@deloitte.lu

Agenda

- 1 Overview of existing regulation
- 2 What's new with SFDR?
- 3 What's new with the EU Taxonomy?
- 4 European Green Bond Standards
- 5 CSRD Overview

Overview of EU ESG regulations



	Regulation	Date of approval	Regulation objective	Directly impacted industry
Focus regulations	SFDR	2019	<ul style="list-style-type: none"> Channeling private investment towards the sustainable transition Preventing greenwashing practices Increasing transparency on the degree of sustainability of financial products 	Asset Management
				Banking
				Insurance
	EU Taxonomy	2020	<ul style="list-style-type: none"> Establishing the criteria for determining whether an economic activity is environmentally sustainable 	Asset Management
				Banking
				Insurance
				Corporate
	CSRD	2022	<ul style="list-style-type: none"> Establishing new criteria for CSR reporting 	Asset Management
				Banking
Insurance				
Corporate				

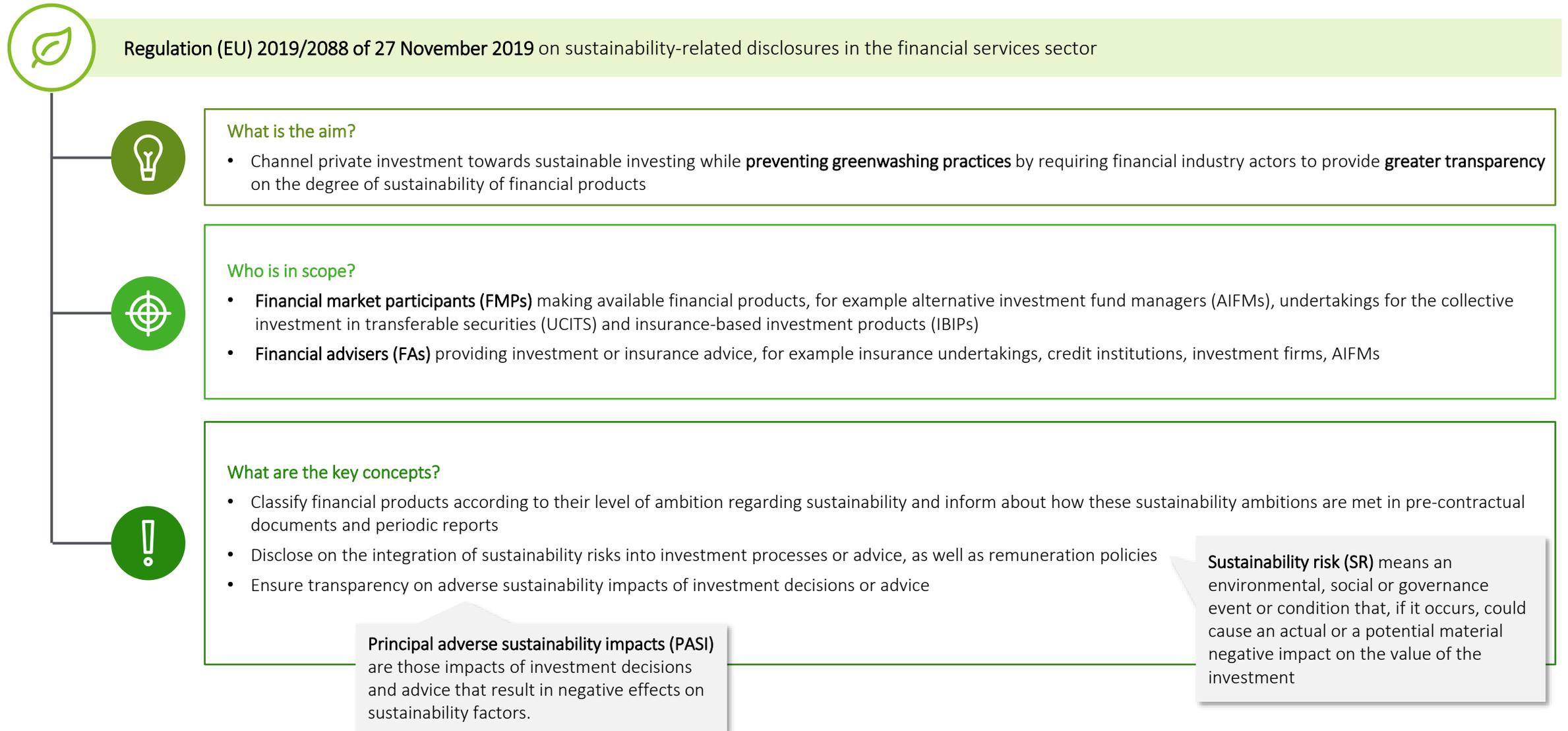
	Regulation	Directly impacted industry
Additional key regulations	EBA Guidelines on loan origination and monitoring	Banking
	ECB Guidelines on climate related and environmental risks	Banking
	MiFID II/IDD ESG	Asset Management
		Banking
		Insurance

Please note that this is a **non-exhaustive** list of the existing European ESG regulation

Sustainable Finance Disclosure Regulation (SFDR)

Updates

SDFR – Overview of the current regulation



Source: [Delegated Regulation \(EU\) 2019/2088](#)

SDFR – Overview of the current entity level requirements

ARTICLE	REQUIREMENTS	INDICATIVE OWNERS
ART 3 SFDR <i>Transparency of sustainability risk policies</i>	Publication on the website of policies on the integration of sustainability risks in the investment decision-making process/ investment and insurance advice	<ul style="list-style-type: none"> • Chief Risk Officer • Head of Compliance • Head of Internal Audit • Board
ART 4 SFDR <i>Transparency of adverse sustainability impacts at entity level</i>	Publication on the website of a statement regarding due diligence policies concerning the principal adverse impacts (PAIs) of investment decisions on sustainability factors, or of an explanation on why the PAIs are not considered, including information as to whether and when they intend to consider them eventually	
ART 5 SFDR <i>Transparency of remuneration policies in relation to the integration of sustainability risks</i>	Inclusion and publication on the website of information about the integration of sustainability risks in the remuneration policies	

SDFR – Overview of the current product level requirements

ARTICLE	REQUIREMENTS	INDICATIVE OWNERS
ART 6 SFDR <i>Transparency of the integration of sustainability risks</i>	Inclusion in pre-contractual disclosures of information on how sustainability risks are integrated in investment decisions and advice	<ul style="list-style-type: none"> • Portfolio manager • Chief Risk Officer • Head of Compliance • Head of Internal Audit • Board
ART 7 SFDR <i>Transparency of adverse sustainability impacts at financial product level</i>	Publication of PAI at product level (in case PAI are also published at entity level) or explanation of why the adverse impacts of investment decisions on sustainability factors are not considered by the financial product	
ART 8 SFDR <i>Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures</i>	Explanation in the precontractual documents of how the environmental and/or social characteristics promoted by the product are met	
ART 9 SFDR <i>Transparency of sustainable investments in pre-contractual disclosures</i>	Explanation in the precontractual documents of how sustainable investment objective promoted by the product is met	
ART 10 SFDR <i>Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites</i>	Publication and maintenance on the website of the information referred to in Article 8,9, and 11, as well as an overview of the methodologies used to assess, measure and monitor the E/S/sustainable investment objective of the financial product	
ART 11 SFDR <i>Transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports</i>	Inclusion in periodic reports of a description of the following elements:- the extent to which environmental or social characteristics are met; - the overall sustainability-related impact of the financial product by means of relevant sustainability indicators	

SDFR – Main novelties

ESAs' final report on draft Regulatory Technical Standards (RTS) on the review of PAI and financial product disclosures

4 December 2023

Response of the Platform on Sustainable Finance on the EC's targeted consultation

15 December 2023

ESAs' final report on draft Regulatory Technical Standards (RTS)



The report responds to an EC's mandate aimed at reviewing several aspects of SFDR



April 2022

EC mandate

April 2023

Publication of ESAs Consultation paper

December 2023

Publication of ESAs report proposing amendments for SFDR

Main proposed amendments

Having considered the feedback to the consultation, the ESAs have adjusted the draft RTS in several areas :

- Extension/addition of the **social PAIs** → E.g. introduction of “Exposure to companies active in the cultivation and production of tobacco”; “Interference in the formation of trade unions or elections of workers representative
- **Modification of other PAIs** → E.g. updating “Exposure to companies active in the fossil fuel sector” to reflect the EUT exemption of Taxonomy-aligned gas activities
- New financial product disclosure of **GHG emission reduction target** → Inclusion in in pre-contractual documents, in websites, and in periodic reports of GHG emissions reduction targets, including intermediary targets and milestones, where relevant, and actions pursued
- **Simplification** of the templates and requirements for the disclosures to be in a machine-readable format

Response of the Platform on Sustainable Finance on the EC's targeted consultation



The Platform on Sustainable Finance – an advisory body subject to the Commission – puts forward 3 recommendations to improve the effectiveness of SFDR



Disclaimer

The recommendations do not commit the European Commission nor do they preclude any policy outcome

Reminder

The main questions raised in the consultation by the EC revolved around

1. The current **requirements** of SFDR
2. The **interaction** of SFDR with other sustainable finance legislation
3. Potential changes to the **disclosure requirements** for financial market participants
4. Potential establishment of a **categorization** system for financial products

Recommendation

1. Establish a precise **alignment** between a **product's name**, its sustainability **marketing claims**, declared sustainability **contributions**, and the actual **investment strategy**
2. Reporting on sustainability performance should cover the **entire product**, rather than just a **portion** of it
3. The definitions of **environmentally sustainable investments** should be exclusively derived from the **Taxonomy**

Market's reaction

EFAMA has also put forward a comment on the consultation, asking the EC to redefine SFDR to be more **investor-centric**, in particular

1. **Simplified product level disclosures** for **retail investors** with a **uniform template** across all financial products with sustainability claims
2. Making **detailed disclosures** (current Annexes II-V) **available only upon request** and keeping Article 10 websites disclosures as they are
3. Streamlining **entity-level sustainability disclosures** to avoid regulatory duplication with CSRD → Possibly removing current Article 4 disclosures (PAI)

Sources: [Platform Briefing on EC targeted consultation regarding SFDR Implementation](#) ; [EFAMA's response to the EC's targeted consultation on the implementation of SFDR](#)

EU Taxonomy

2024 Requirements

EU Taxonomy – Overview of the current regulation



Regulation (EU) 2023/852 of 18 June 2023 on the establishment of a framework to facilitate sustainable investment, and amending Regulation 2019/2088 on sustainability-related disclosures in the financial services sector



What is the aim?

- Establish the criteria via clear rules and standards for determining **whether an economic activity is environmentally sustainable** for the purposes of establishing the degree of **environmental sustainability** of an investment



Who is in scope?

- Measures adopted by **Member States** or by the Union setting out any requirements on financial market participants or issuers in respect of financial products or corporate bonds that are made available as environmentally sustainable
- **Financial market participants (FMPs)** making available financial products
- **Undertakings which are subject to the obligation to publish a non-financial statement** or a consolidated non-financial statement pursuant to Articles 19a or 29a of Directive 2013/34/EU



What are the key concepts? (Article 3)

For the purposes of establishing the degree of environmental sustainability of an investment, an **economic activity shall be considered environmentally sustainable** where that activity complies with all of the following criteria:

1. Substantially **contribute** to at least one of the six environmental objectives
2. Do **not significantly harm** any other environmental objective
3. Comply with **minimum safeguards** such as the OECD Guidelines for Multilateral Enterprises, UN Guiding Principles on Business and Human Rights, ILO,...
4. Comply with **technical screening criteria (TSC)**

The 6 environmental objectives are:

- Climate change mitigation (DA1)
- Climate change adaptation (DA1)
- Sustainable use and protection of water and marine resources (DA2)
- Transition to circular economy (DA2)
- Pollution prevention and control (DA2)
- Protection and restoration of biodiversity and ecosystems (DA2)

Defined for each environmental objective by the **delegated acts**

Source: [Delegated Regulation \(EU\) 2020/852](#)

EU Taxonomy – Main novelties

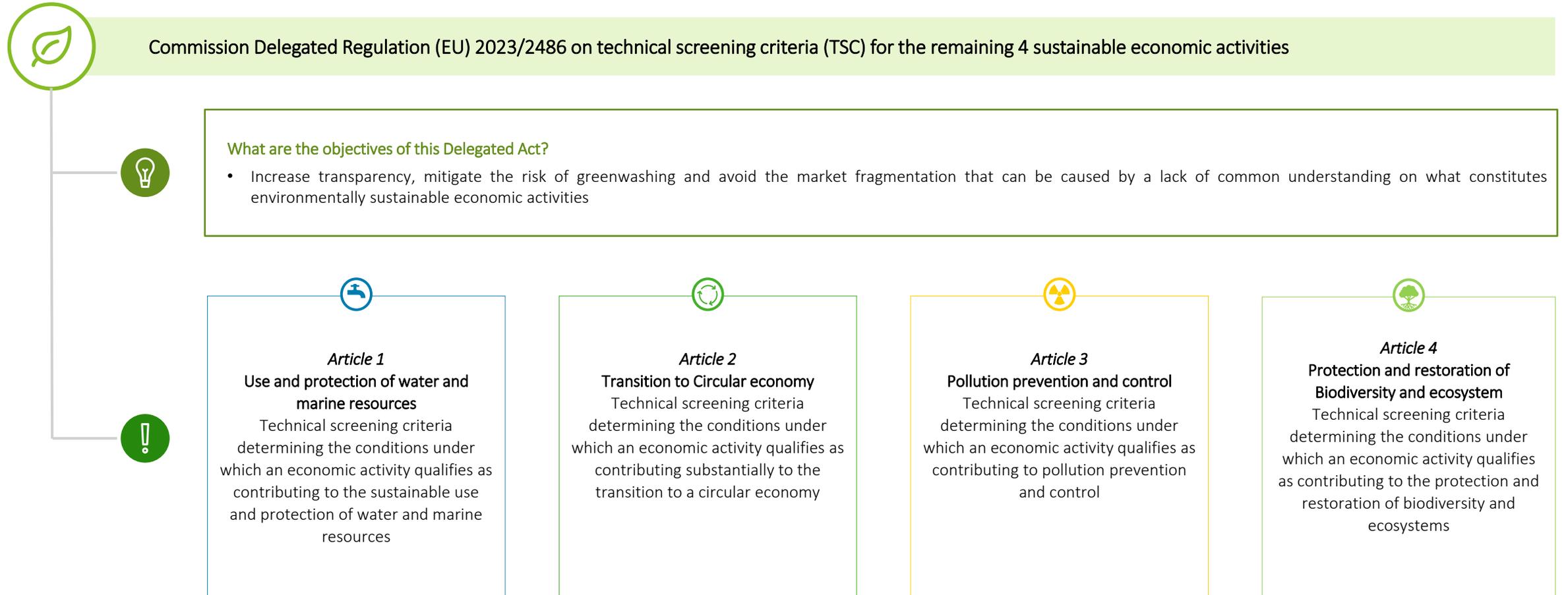
Entry into force of the Commission Delegated Regulation on the TSC on the (remaining) 4 sustainable economic activities

1 January 2024

New disclosure requirements for financial and non-financial undertakings

1 January 2024

The completion of the Delegated Acts



Source: [Delegated Regulation \(EU\) 2023/2486](#)

New disclosure requirements

ASSET MANAGER	CREDIT INSTITUTIONS	INVESTMENT FIRMS	INSURANCE AND REINSURANCE UNDERTAKINGS	NON-FINANCIAL UNDERTAKINGS
<ul style="list-style-type: none"> ➤ Regulatory reference <ul style="list-style-type: none"> • Principles: Annexes III,XI Regulation 2021/2178 • Template: Annex IV Regulation 2021/2178 ➤ Main KPIs <ul style="list-style-type: none"> • Weighted average value (by Turnover and CapEx) of all investments directed at funding or associated with taxonomy-aligned economic activities relative to the value of total assets covered by the KPI • The percentage of assets covered by KPI relative to total investments (total AuM) 	<ul style="list-style-type: none"> ➤ Regulatory reference <ul style="list-style-type: none"> • Principles: Annexes V,XI Regulation 2021/2178 • Template: Annex VI Regulation 2021/2178 ➤ Main KPIs <ul style="list-style-type: none"> • Green asset ratio (GAR) Proportion of the of credit institution's assets financing and invested in taxonomy-aligned economic activities as a proportion of total covered assets • Green ratio for financial guarantees to financial and non-financial undertakings (FinGuar KPI) • Green ratio for assets under management (AuM KPI) • Fees and Commissions (F&C KPI) →2026 • GAR for the trading portfolio → 2026 	<ul style="list-style-type: none"> ➤ Regulatory reference <ul style="list-style-type: none"> • Principles: Annexes VII, XI • Template: Annex VIII ➤ Main KPIs <ul style="list-style-type: none"> KPI for dealing on own account/services for others <ul style="list-style-type: none"> • Proportion of assets/revenue associated with Taxonomy-eligible economic activities within total assets • Proportion of assets/revenue associated with Taxonomy-aligned economic activities within assets associated with Taxonomy-eligible economic activities • Proportion of assets/revenue associated with Taxonomy-aligned economic activities within total assets (GAR) 	<ul style="list-style-type: none"> ➤ Regulatory reference <ul style="list-style-type: none"> • Principles: Annexes IX,XI • Template: Annex X ➤ Main KPIs <ul style="list-style-type: none"> • Weighted average of those investments that are directed at funding, or are associated with Taxonomy-aligned economic activities • Gross premiums written non-life insurance/reinsurance revenue corresponding to Taxonomy-aligned insurance or reinsurance activities 	<ul style="list-style-type: none"> ➤ Regulatory reference <ul style="list-style-type: none"> • Principles: Annex I • Template: Annex II ➤ Main KPIs <ul style="list-style-type: none"> • Proportion of turnover from products or services associated with Taxonomy-aligned economic activities • Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities • Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities

Source: [Delegated Regulation \(EU\) 2021/2178](#)

European Green Bond Standards

Overview

Overview of Objective & Key dates



Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on **European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds**



What is the aim?

- Lay down uniform standards for issuers who wish to use the designation 'European green bond' ('EuGB') for the marketing of their bond
- Establish a registration system and supervisory framework for external reviewers of such bonds as well as rules for them to manage conflict of interest
- Better direct capital towards more sustainable technologies and businesses
- Align with the EU's taxonomy framework

6 July 2021
EU Commission launches proposal for European green bonds regulation



13 April 2022
EU Council position on the proposal



28 February 2023
Provisional agreement reached



5 and 23 October 2023
EP and EU Council adopt amendments on the European green bonds proposal



30 November 2023
The text has been signed and published in the EU's Official Journal and is entering into force 20 days later.

21 Dec 2024
Application



Source: [Regulation \(EU\) 2023/2631](#)

The EuGB is intended to be a voluntary based standard available for both EU and non-EU issuers



Use of proceeds: at least 85% of the net assets (after deduction of issuance costs) of an EuGB offering must be invested in EU Taxonomy-aligned activities to one or more specific categories. Up to 15% of the funds may be allocated to economic activities for which no technical screening criteria under EU Taxonomy yet exist, but which otherwise comply with the EU Taxonomy



Prospectuses, disclosures and reviews: unless exempted, the issuer of green bonds must publish a prospectus in line with EU Prospectus Regulation. In addition, issuers must publish other documents supported by reports from external reviewers, such as a pre-issuance factsheet, an annual allocation report until the funds reach full allocation and a complete impact report following allocation. These documents must remain on the issuer's website until at least 12 months after the maturity of the bonds and the issuer is requested to notify both its national competent authority and ESMA of each publication



Registration system for external reviewers: following an initial 18-month transition period, companies that wish to act as external reviewers of EU green bonds will be asked to be registered with ESMA and to satisfy certain requirements on organization, processes and governance



Compliance and sanctions: the national competent authority responsible for approving the prospectus will also be responsible for ensuring compliance with the EuGB requirements. To avoid greenwashing, the spectrum of powers attributed to the national competent authority is wide and consists in the power to suspend approval of a prospectus/offering/listing application, suspend or prohibit advertisements, withdraw the EuGB label or prohibit an issuer from issuing EU green bonds for up to a year. Moreover, the competent authority can impose fines up to 0,5% of an issuer's turnover and Member States are free to impose criminal sanctions for non-compliance

Corporate Sustainability Reporting Directive (CSRD)

Overview

CSRD – Overview of CSRD scope & requirements



CSRD has been published on the 14th of December 2022. Member States now have 18 months for transposition of CSRD



Who is in scope?

- **EU large undertakings** that exceed at least two of the following over two financial years
 - ❑ €25M balance sheet total
 - ❑ €50M net turnover
 - ❑ 250 average number of employees
- **Listed SMEs** that meet at least two of the following over two financial years
 - ❑ >450k€ <€25M balance sheet total
 - ❑ >900k€ <€50M net turnover
 - ❑ >10 <250 average number of employees
- Non-EU Companies listed on EU regulated markets
- EU subsidiaries of non-EU companies
- Exemption from publication for (EU/non-EU) subsidiaries only if parent publishes consolidated sustainability reporting in accordance with EU standards/ requirements or deemed equivalent
- Not in scope listed micro-enterprises



Format and Channel

- Mandatory and externally published standalone Sustainability Report
- Mandatory **digital reporting of the sustainability reporting in ESEF format** (“Tagging”)
- Prepare financial statements and management report in **machine readable format** (XHTML)
- Reported in accordance with **EU sustainability reporting standards (ESRS)**
- Accompanied by a **statement** by Management that the Sustainability Report has been prepared in accordance with ESRS



Assurance, helping to ensure that reported info is accurate and reliable

- **Mandatory (limited) assurance** of reported information, including digital tagging and indicators to be reported in the Sustainability Report
- Option of Member States to open the verification to an independent assurance services provider

- **CSRD’s extraterritorial** effect means it will also affect companies which are headquartered outside of the EU but conduct their business within the EU. Companies may therefore have to comply with EU obligations alongside separate provisions prescribed by their home jurisdiction. CSRD does include a mechanism for the Commission to determine equivalence of third-country issuers, but it remains unclear what the Commission’s approach in that regard will be
- The information provided is subject to a **double materiality principle** i.e., companies will need to understand the impact their business has on sustainability matters and how sustainability matters affect their business development, performance and position

CSRD – Five key areas

Enlarged Scope

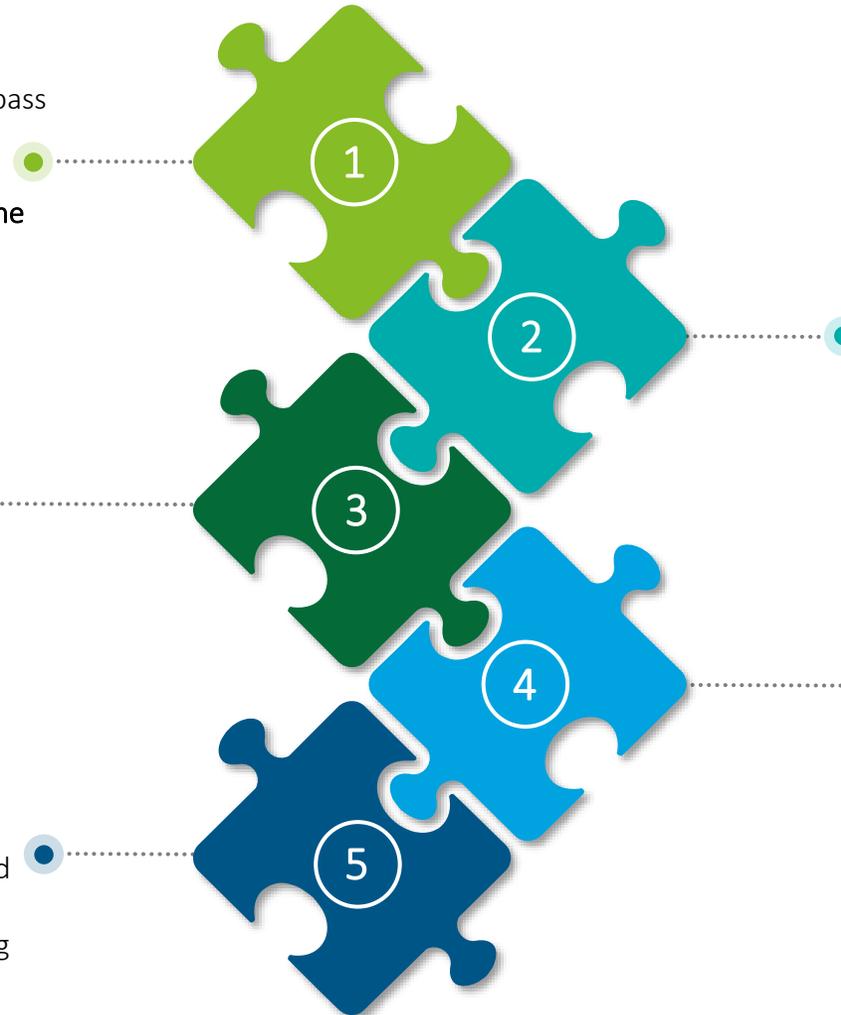
The directive has been broadened to encompass all significant enterprises and publicly traded entities listed on regulated marketplaces. Approximately **50,000 companies** fall under the CSRD, a substantial increase from the 11,000 entities previously covered by the NFRD

Stricter reporting requirements

The directive enforces rigorous reporting guidelines and standardization measures in alignment with the ESRS. This approach ensures enhanced **comparability of data**, thereby facilitating more meaningful analysis and evaluation

Mandatory Audit assurance

The CSRD mandates compulsory **audit of sustainability information**, initially with limited third-party assurance, with the intention to transition to reasonable assurance in the long run



Double materiality

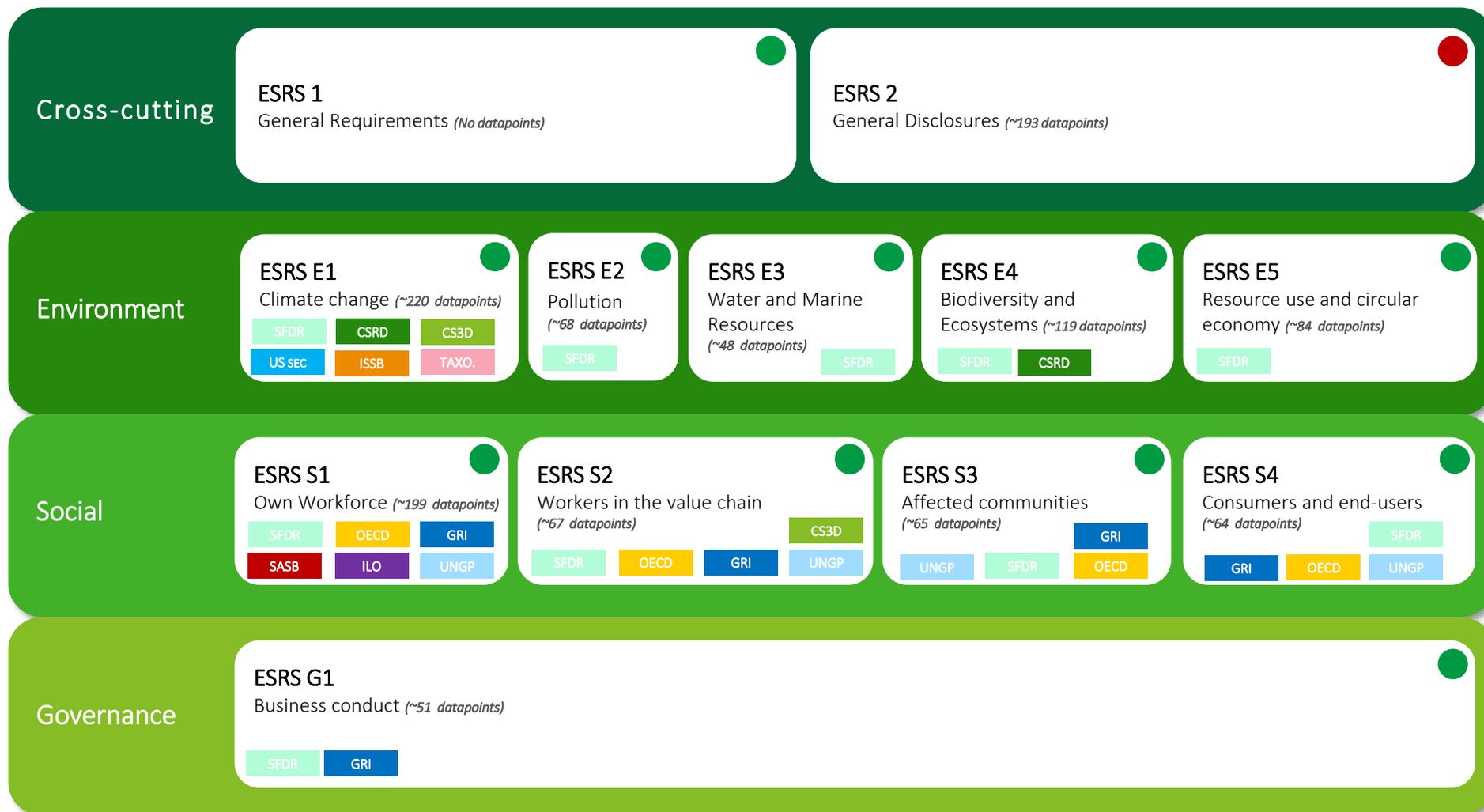
Under the CSRD, companies must report on both how their business is impacted by environmental risks and how their activities affect the world, shifting from single to **double materiality perspective**

Digitalization of information

Firms are mandated to disclose sustainability information and data within their reports. Additionally, this information must be submitted in a **XHTML format**, ensuring it is digitally processed and machine-readable, aligning with contemporary data accessibility requirements

The European Sustainability Reporting Standards (ESRS)

Two cross-cutting, five environmental, four social and one governance standards



Key requirements

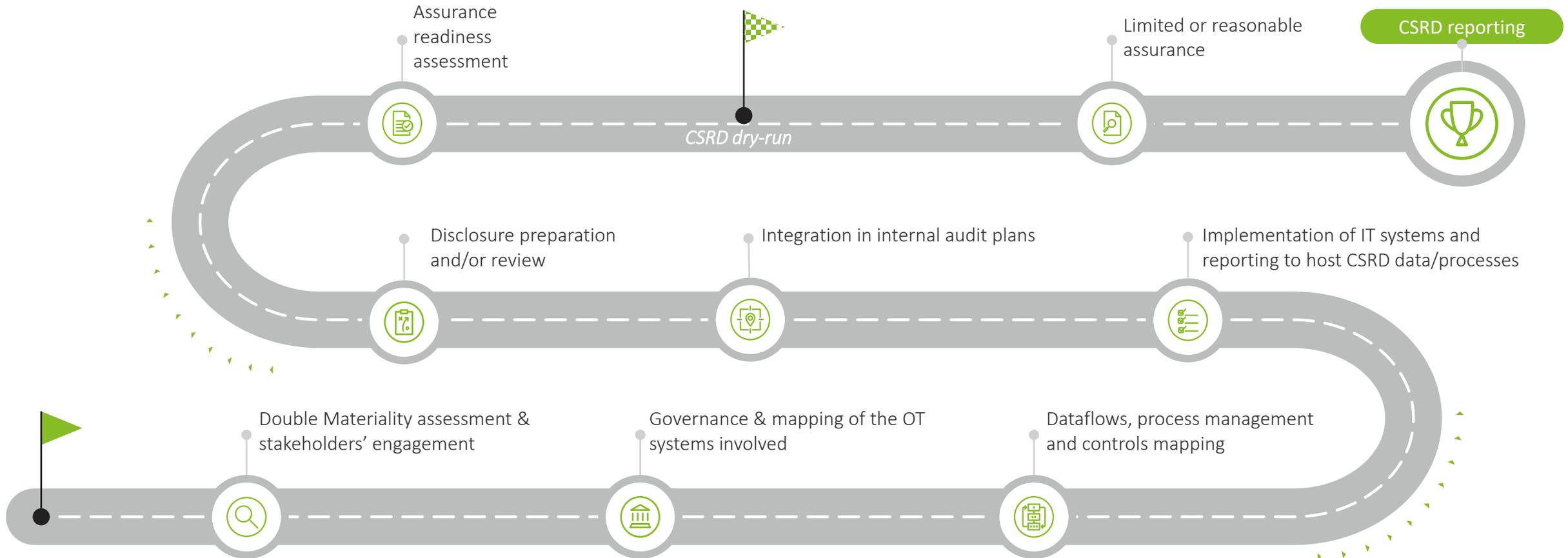
- 12 ESG Standards
 - 5 on Environment
 - 4 on Social
 - 1 on Governance
- 84 Disclosure Requirements
 - Qualitative information
 - Quantitative information
- ~1178 Datapoints
- Double Materiality
 - Financial materiality
 - Impact materiality
- 4 Reporting areas (TCFD pillars)
 - Governance
 - Strategy
 - Impact, Risk & Opportunity (IRO) Management
 - Metrics & Targets

● Upon materiality ● Mandatory

The CSRD reporting journey



Deloitte can assist you in pinpointing your current challenges and provide solutions to overcome them on each of those steps.



Next Link'n Learn webinar

Date: 21/02/2024

**Topic: Risk & Asset management |
Distribution and Product lifecycle
management – The ManCo as a
key stakeholder!**





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s approximately 457,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.