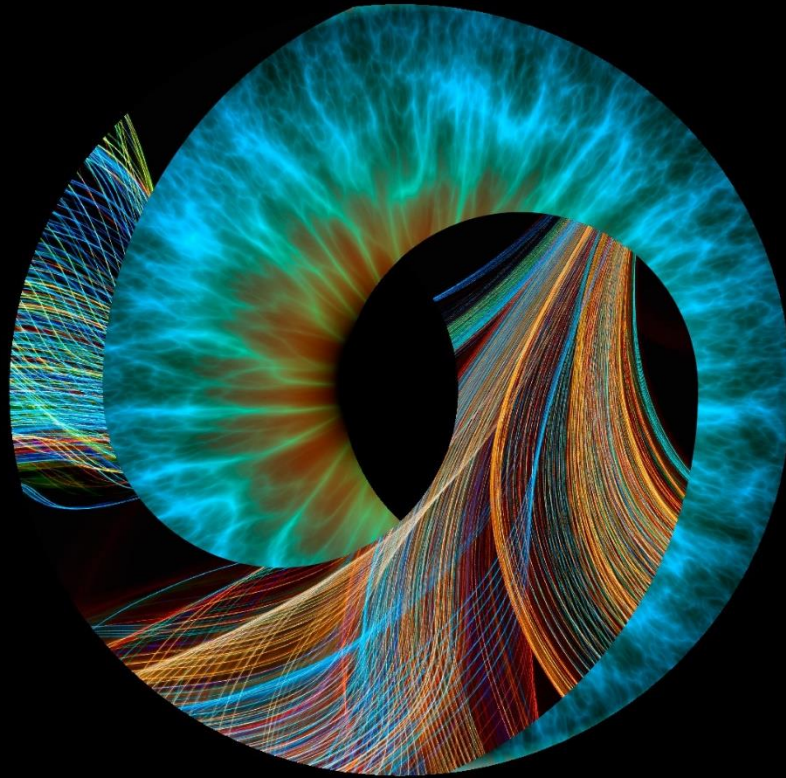


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## **Sustainability Insight** **Unravelling regulatory complexity**

Key policy and regulatory developments: January 2024

*Sustainability Insight* is a monthly newsletter to keep you up to date with key sustainability-related regulatory developments in the EU. The newsletter focuses on the EU Green Deal and EU institutions, but also includes selected international and national developments where they provide context for EU developments. The developments covered are intended to be used for broader general awareness and do not imply any form of advice from Deloitte.

The newsletter is produced by Deloitte's [EMEA Sustainability Regulation Hub](#), supported by [RegHub](#), Deloitte's market-leading digital compliance platform.

## Recent publications from the EMEA Sustainability Regulation Hub




**Webinar:** Join the EMEA Sustainability Regulation Hub on 19 February (10:00-11:30 CET) as we **launch the 2024 edition of our annual Sustainability Regulation Outlook report**. We will be joined by a panel of experts from the European Commission, industry and Deloitte to discuss the key messages of the report and wider themes. This includes [s](#) immediate steps companies can take to unlock opportunities and value. Find out more and register [here](#).



**Blog:** [EU Green Bond Standard: Paving the way for the development of transition finance](#), 18 January 2024.

## Contents



Sustainability reporting		
EU	EFRAG	<a href="#">EFRAG publishes exposure drafts for SMEs and voluntary reporting</a> , 22 January
<p>The European Financial Reporting and Advisory Group (EFRAG) launched a public consultation on the European Sustainability Reporting Standards (ESRS) Exposure Draft for listed small and medium enterprises or SMEs (ESRS LSME ED) and the Exposure Draft for the voluntary reporting standard for non-listed SMEs (VSME ED). The consultation will be open until 21 May 2024.</p> <p>Following the consultation, EFRAG will assess the feedback. It aims to deliver its draft standards to the Commission in November or December 2024. Subsequently, the Commission should adopt the standards in 2025. The expected application date is 1 January 2026, with an additional two-year opt-out option for listed SMEs. The last possible date for a listed SME to begin reporting is financial year 2028, with first sustainability statement to be published in 2029.</p>		
		
EU	PSF	<a href="#">Platform on Sustainable Finance publishes report on EU taxonomy and Sustainable Finance Framework</a> , 29 January
<p>The EU Platform on Sustainable Finance (PSF) published a report on how the EU Taxonomy and sustainable finance framework are helping financial and non-financial actors transition to net zero. The report includes market observations and a list of updated priorities for the PSF to improve the usability of the EU Taxonomy and sustainable finance framework. Key areas for future work include:</p> <ul style="list-style-type: none"><li>- Taxonomy: improve the usability of Do No Significant Harm (DNSH) criteria; advise on practical guidance for implementation; expand the scope of eligible economic activities; and refine existing criteria across the EU's six environmental objectives.</li></ul>		

- Transition plans: focus on the interoperability of transition plans within the EU sustainable finance framework, and promote the use of the framework for transition and sustainability-linked debt.
- Investor/asset management engagement: support the European Commission to simplify the Sustainable Finance Disclosure Regulation (SFDR); and enhance shareholders' role, engagement and proxy voting within the sustainable finance framework.
- Small- and medium-sized enterprises (SMEs): advise on a simplified Taxonomy approach for SMEs to inform their sustainable transition, and support SMEs to access green and transition finance.



## Sustainable finance

**EU**                      **EBA**                      [EBA consults on Guidelines on the management of ESG risks](#), 18 January

The European Banking Authority (EBA) launched a public consultation setting out draft guidelines, under the Capital Requirements Directive (CRD6), on minimum standards and reference methodologies for the identification, measurement, management and monitoring of Environmental, Social and Governance (ESG) risks by financial institutions. The draft guidelines indicate that firms should:

- integrate ESG risks in their regular risk management framework, recognising the potential for ESG factors as drivers of traditional categories of financial risk;
- soundly manage and mitigate ESG risks over the short, medium and long term, including time horizons of at least ten years; and
- embed ESG risks in regular processes such as risk appetite, internal controls and the Internal Capital Adequacy Assessment Process (ICAAP).

The EBA plans to finalise the guidelines by end-2024. The guidelines will become applicable from the application date of CRD6. CRD6 is currently under legislative processing and has not entered into force yet.

The EBA has also published a [consultation](#) to receive input from credit institutions on their methodologies to classify exposures to ESG risks, and on the accessibility and availability of ESG data for this purpose. The consultation is open until 29 March 2024, following which the EBA may organise an industry workshop with institutions that participated in the survey.



**EU**                      **ECB**                      [Expansion of work with focus on green transition, climate and nature-related risks](#), 30 January



The European Central Bank (ECB) identified three focus areas related to sustainability that will guide its activities in 2024 and 2025. These include:

- impact and risks of the transition to a green economy, especially associated transition costs and investment needs;
- increasing physical impact of climate change; and
- risks stemming from nature loss and degradation.

The ECB has agreed to take the following measures:

- intensify its work on the effects of transition funding, transition plans and how the green transition affects the economy;
- deepen analysis of the impact of extreme weather events on inflation and the financial system;
- analyse the links between climate change and associated economic implications; and
- launch the Environmental Management Programme and incorporate environmental footprint considerations into the design of the Digital Euro.



<b>EU</b>	<b>ECB</b>	<a href="#">ECB publishes report on risks from misalignment of banks' financing with the EU Climate objectives</a> , 23 January
<p>The ECB has published a report on risks from misalignment between banks' financing and the EU's climate objectives. The report demonstrates how transition risks can be quantified using the credit portfolio of the banking sector through an alignment assessment, which is a methodology that is being developed by banks and regulatory and supervisory authorities. The methodology measures transition risks by comparing the projected production volumes in key economic sectors with the required rate of change to meet climate objectives. The report analyses 95 banks covering 75% of euro area loans and shows that, at present, banks' credit portfolios are substantially misaligned with the goals of the Paris Agreement, leading to transition risks for approximately 90% of them. The analysis found that the transition risks largely stemmed from exposures to companies in the energy sector that were lagging behind in phasing out high-carbon production processes and were late in rolling out renewable energy production. The report outlines that having a Paris-aligned transition plan is the best approach for companies to mitigate misalignment risks.</p>		
		
<b>UK</b>	<b>TPT</b>	<a href="#">UK extends TPT mandate</a> , 24 January
<p>The UK government extended the Transition Plan Taskforce's (TPT) mandate until at least 31 July 2024. The TPT was formed in April 2022 to establish best practice guidelines on transition plans for companies, which in turn would influence national and international standard setting. The TPT had an initial two-year mandate to deliver its final Disclosure Framework, implementation guidance and draft sector guidance, which were published last year. The TPT's extended mandate aims to enable the taskforce to:</p> <ul style="list-style-type: none"> <li>- contribute fully to the UK's review of credible transition finance;</li> <li>- continue to engage around the world to support the development of an internationally consistent approach on transition planning and transition finance; and</li> <li>- support market participants with guidance and tools to deliver credible transition plans.</li> </ul>		
		

<b>Real economy</b>		
<b>EU</b>	<b>EC</b>	<a href="#">Commission adopts new EU-wide hygiene standards for materials and products in contact with water</a> , 23 January
<p>The European Commission adopted new minimum hygiene standards for materials and products that enter into contact with drinking water, through delegated acts under the existing Drinking Water Directive. The standards will apply as of 31 December 2026 to materials and products intended to be used in new installations for the abstraction, treatment, storage or distribution of water, or for repair works (e.g., supply pipes, valves, pumps, water meters, fitting and taps), or in the renovation of older installations. The standards seek to:</p> <ul style="list-style-type: none"> <li>- make water safer to drink by preventing microbial growth and decreasing the risk of harmful substances entering into contact with drinking water;</li> <li>- decrease the administrative burden for companies; and</li> <li>- simplify the approval process, which was previously conducted by each national authority.</li> </ul> <p>The European Parliament and the Council have two months to provide objections to the three delegated acts, prior to publication in the EU Official Journal.</p>		
		
<b>EU</b>	<b>European Council</b>	<a href="#">European Council formally adopts two regulations on fluorinated gases and other substances causing global warming</a> , 29 January
<p>The Council adopted two regulations to phase down fluorinated gases and ozone-depleting substances (ODSs). The two regulations were proposed by the European Commission on 5 April 2022 to align better with the objectives of the European Green Deal. The regulations seek:</p>		

- the complete phase out of the consumption of hydrofluorocarbons (HFCs) by 2050, and production rights allocated by the Commission to produce HFCs will be phased down to a minimum (15%) by 2036. The phase down will be on the basis of a schedule with a regressive quota allocation;
- the complete phase out of the use of F-gases in air conditioning, heat pumps and switchgears between 2030 and 2035, depending on the F-gas use category;
- the ban of ODSs for all uses, with strictly limited exemptions (e.g., the use of ODSs as feedstock to produce other substances); and
- Extends the recovery of ODSs for destruction, recycling or reclamation to sectors including building materials (insulation foams), refrigeration, air conditioning and heat pump equipment where economically and technically feasible.

The regulations will be published in the EU Official Journal shortly.



**EU**                      **European Council**                      [Council and Parliament reach a deal to lower CO2 emissions from trucks, buses and trailers](#), 18 January  
**EP**

The European Council and the European Parliament reached a provisional political agreement on carbon emission standards for heavy-duty vehicles (HDVs), including smaller trucks, urban buses, coaches and trailers. The following measures were adopted:

- exemption from CO2 reduction targets for small-volume manufacturers and vehicles used for mining, forestry and agriculture; vehicles for use by the armed forces and fire services; and vehicles for use in civil protection, public order and medical care;
- extension of the scope of the regulation to include vocational vehicles (e.g. garbage trucks) in 2035 and potential inclusion of smaller lorries (under five tonnes);
- new emission-reduction targets for 2030 (45%), 2035 (65%) and 2040 (90%) applying to heavy trucks over 7.5 tonnes and coaches;
- zero-emission target for urban buses by 2035; and
- review of the targets by the Commission planned for 2027.

The agreement will next be submitted to Member States' representatives within the Council and to the Parliament's environment committee for endorsement. If approved, the agreement will need to be adopted formally by both institutions before it is published in the EU Official Journal.



**EU**                      **European Council**                      [European Council and Parliament reach provisional political agreement on Urban Wastewater Treatment Directive](#), 29 January  
**EP**

The European Parliament and Council reached a provisional agreement on the final text of the revision of the Urban Wastewater Treatment Directive. The European Commission published a proposal to revise the Directive in October 2022 to address sources of pollution better and align the sector's contribution to the EU's climate goals. The European Parliament and Council agreed to:

- extend the scope of the Directive to include all agglomerations of 1,000 population equivalent (p.e.) and above;
- require agglomerations of 1,000 p.e. or more to set up urban wastewater collection systems from 2035, and remove the following from urban wastewater before it is discharged into the environment:
  - o biodegradable organic matter (also known as secondary treatment) from 2035;
  - o nitrogen and phosphorus (tertiary treatment) by 2039;
  - o a broad spectrum of micropollutants by 2045 (quaternary treatment); and
- require producers of pharmaceuticals and cosmetics that cause urban wastewater pollution to pay at least 80% of the cost for quaternary treatment. This would be implemented through an extended producer responsibility (EPR) scheme.

The European Parliament and Council will need to give final approval for the agreement before it is published in the EU Official Journal.



EU	European Council EP	<a href="#">European Council and Parliament reach provisional political agreement on regulation for digital labelling of fertilising products</a> , 22 January
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The European Parliament and European Council reached a provisional agreement on the final text of the regulation for digital labelling of fertilising products. The regulation aims to improve information flow for the fertiliser sector. It allows suppliers of fertilising products to communicate labelling information in a physical format, a digital format (QR code or bar code) or a combination of the two. For products sold without bulk packaging, the provisional agreement allows the use of digital labels as long as the label is displayed in a physical format at the point of sale. The digital labels will need to remain available for 10 years from the moment they are placed on the market. The European Parliament and Council will need to give final approval for the agreement before it is published in the EU Official Journal.



## Contacts

### EMEA Sustainability Regulation Hub

**Simon Brennan**

Head, EMEA Sustainability Hub  
[simbrennan@deloitte.co.uk](mailto:simbrennan@deloitte.co.uk)

**Ramon Bravo Gonzalez**

Senior Manager, Decarbonisation, Nature and Greenwashing Lead  
[rbravogonzalez@deloitte.co.uk](mailto:rbravogonzalez@deloitte.co.uk)

**Magda Puzniak-Holford**

Senior Manager, Supply Chain, Circularity and Reporting Lead  
[mepuzniakholford@deloitte.co.uk](mailto:mepuzniakholford@deloitte.co.uk)

**Ruth Kilsby**

Senior Consultant, Decarbonisation, Nature and Greenwashing  
[rkilsby@deloitte.co.uk](mailto:rkilsby@deloitte.co.uk)

**Adithya Subramoni**

Consultant, Supply Chain, Circularity and Reporting  
[asubramoni@deloitte.co.uk](mailto:asubramoni@deloitte.co.uk)

**Aymeric Bricout**

Senior Consultant  
[aymebricout@deloitte.be](mailto:aymebricout@deloitte.be)

**Ejona Haka**

Consultant  
[ehaka@deloitte.lu](mailto:ehaka@deloitte.lu)

**Maroussia Loots**

Consultant  
[mloots@deloitte.com](mailto:mloots@deloitte.com)

**Camille Navarro Kessler**

Analyst  
[cnavarrokessler@deloitte.lu](mailto:cnavarrokessler@deloitte.lu)

**David Belgers**

Consultant  
[dbelgers@deloitte.nl](mailto:dbelgers@deloitte.nl)

### About the EMEA Sustainability Regulation Hub

The [EMEA Sustainability Hub](#) is a source of critical regulatory strategy insight and advice, designed to help business leaders understand and assess how sustainability regulation will drive the evolution of business strategies and operating models. As sustainability regulatory requirements and standards expand, it is essential to adopt a strategic approach to navigate the complexity, and to engage with regulators proactively. We develop early insights across industries on emerging EU sustainability regulations, policies, industry standards and codes of conduct to help you assess how best to transform strategies and operating models.

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## About RegHub

[RegHub](#) helps firms to optimise the management of regulatory adherence. RegHub is designed by risk and compliance professionals and helps firms establish traceability and transparency, transform how they report and achieve cost efficiencies by digitising the lifecycle into a single platform.

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