



The matrix: EU corporate sustainability framework

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ERCST

Roundtable on
Climate Change and
Sustainable Transition

Sustainable Finance Disclosure Regulation (2021)

What is it?

Transparency requirements for **“sustainable” financial products**

Who?

Financial market participants (banks, investment funds, asset managers, financial advisors)

Regulatory Technical Standards by ESA – specifies SFDR reporting obligations

When?

In force since 2021

SFDR refers to the concepts from the **Taxonomy** (definition of sustainable investment) and **NFRD/CSRD** (sustainability factors, double materiality)

The EU Taxonomy (2020) I

What is it?

Flagship project of the EU Sustainable Finance

Classification of economic activities contributing significantly to climate & environment (six objectives)

Obligatory reporting by non-financial undertakings and financial market participants based on the Taxonomy

Main features:

Taxonomy-alignment requires meeting jointly three conditions:

Significant contribution to a specific climate or environmental objective

Minimum Social Safeguards (UNGP, OECD)

Do No Significant Harm to other climate or environmental objectives

Criteria subject to change

Criteria for **generic economic activities** – not industry specific

Demanding thresholds - **expected low alignment**

Main **reference in many EU policies**

The EU Taxonomy (2020) II

Disclosure: Revenue, capital expenditure, and operating expenses

Plan to align the company with the Taxonomy in max. 10 years

Who: Large (500+ employees) listed undertakings
Extension to 250+ employees (also non-listed) and all listed undertakings (incl. SMEs) (same as NFRD/CSRD)

When: 2022 reporting on the Taxonomy-eligibility – attributing company's economic activities to those described by the Taxonomy
2023 reporting on the Taxonomy-alignment by non-financial undertakings - to what extent a company meets the screening criteria
2024 reporting by financial market participants on the Taxonomy-alignment of their investment portfolio

Non-Financial Reporting Directive (2014) → Corporate Sustainable Reporting Directive (2022)

What is it?

Detailed reporting about **impact of the company** and **risks to the company** related to environment, human rights, social standards, governance (so called double materiality)

The reported information is supposed to correspond with the requirements of SFDR

Corporate Sustainable Reporting Directive (2022) II

Disclosure

Impacts, risks and opportunities related to **climate** and **environment, social** (e.g. treatment of employees, respect for human rights), and **governance** (e.g. anti-corruption, diversity on boards), including:

Company's strategy, business model and targets in relation to those factors

Governance and organisation – incl. **role of the board and management** in relation to sustainability

Implementation measures (policies, targets, actions, plans, allocation of resources)

Performance metrics and **source of reported information**

Transition plans to align with the Paris Agreement objectives

An explanation of the role of and **the plans for future Taxonomy alignment**

Corporate Sustainable Reporting Directive (2022) III

Other features:

External verification by certified verifiers

Detailed **reporting standards (ESRS)** to be adopted (i.a. incorporating the Taxonomy indicators) - in November 2022

Double materiality – assessed from the financial perspective and of magnitude of impact

All matters mentioned in ESRS are presumed to be material – subject to rebuttal by the reporting company

All (potentially) affected stakeholders, **upstream and downstream value chain of business relationship**, over the short-, to long term

Inclusion of considerations about deploying prevention, mitigation, adaptation and other **management measures** (ESRS)

Corporate Sustainable Reporting Directive (2022) IV

Who:

Large (500+ employees) listed undertakings ➡ will extend to 250+ employees (also non-listed) and all listed undertakings (incl. SMEs)

Non-EU companies generating 150 EUR mn turnover and having a subsidiary or branch in the EU

When:

2022 – expected formal adoption by co-legislators

2024 – reporting starts for companies currently subject to NFRD

2025 – reporting starts for all large companies (also non-listed)

2026 – reporting starts for listed SMEs

Corporate Sustainable Due Diligence Directive I

What is it?

Beyond reporting: obligation of companies to identify, prevent, end, mitigate and publicly inform on risks for **human rights** and **environment** along their value chain, also outside EU

Who?

Large, limited liability companies: 500+ employees and 150 mn EUR revenue

Extension to 250+ employees and 40 mn EUR revenue in 2 years (in high-risk sectors, like agriculture, textiles, minerals)

Indirect effect on SME being part of value chains

When?

The EP and the Council currently work on their positions

Corporate Sustainable Due Diligence Directive II

Scope: Adverse impacts and requirements are based on **international standards** (UNGP, OECD) and **conventions** (ILO)

Integrating due diligence into company's policies, incl. establishing complaints procedure

Director's duty to set up, implement and oversee due diligence

Director's **remuneration** linked to the fulfilment of the corporate climate plan; responsibility for **breach of director's duties**

Civil **liability of the company** for failure to comply in case of adverse impact; possibility to claim **compensation for damages**, also for **operations of subsidiaries** and of **established business partners**

Administrative orders and fines for failure to comply – implemented at Member States level

Transition plans to align with the Paris Agreement objectives

Conclusions

The **EU corporate sustainability framework**, while responding to the call for harmonization, is **highly complex** – which brings the **risk for accuracy**, adequacy, **usability** and **usefulness** of reported information

All the disclosure frameworks are interrelated, and their **boundaries are blurred**

It interplays with existing **international voluntary standards** and **national due diligence** requirements (FR, DE, NL)

It entails **significant effort and cost in implementation**

Esp. Taxonomy is **politicized** and becomes **a reference for many EU policies** beyond SF before full implementation

It goes **beyond reporting** – it also entails **pro-active managing the impacts and risks** (along the value chain), in short- to long timeframe, and an **obligation to adopt plans to act** (on the Paris Agreement or the Taxonomy alignment)

Its effect **spills over SME** (being part of corporate value chains)

Impact on the real economy: on reputation; on possibility to raise capital for transformation; potential civil liability of the undertaking and directors' responsibility – possibly beyond what can be controlled by the company.

Guiding questions

Overall design of the EU sustainable finance framework – is it fit for purpose?

The EU corporate sustainability structure – is it complementary or overlapping?

Usefulness vs. burden stemming from this framework - where is the right balance?

Major issues requiring clarification or to be addressed in the sustainable disclosure's framework