

Topic 1.3 Sustainable finance



Sustainable finance

Presented by



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THE SUSTAINABLE FINANCE FRAMEWORK

Sustainable finance refers to the incorporation of environmental, social and governance considerations in investment and financing decisions.

EU Sustainable Finance Framework

Voluntary for investing

Mandatory for disclosure and reporting

EU Taxonomy Rules on Disclosure & Reporting **Standards &** Labels

Companies

Investors

EU Green Bond Standard

EU Climate Benchmarks

Rules for ESG rating providers



EU TAXONOMY



A classification framework for environmentally sustainable economic activities.

Six environmental objectives

- Climate change mitigation
- 6 Protection & restoration of biodiversity and ecosystems
 - **5 Pollution** prevention & control



- Climate change adaptation
 - Sustainable use and protection of water & marine resources
- Transition to circular economy

Environmentally sustainable economic activity

- **Substantial contribution** to at least one objective
- **Do not significantly harm** any other objective
- Minimum (social) safeguards
- Comply with relevant **technical requirements**

Eligible

Aligned



SUSTAINABILITY REPORTING **Mandatory** First reporting Full Large companies 2025 for 2024 **CSDR ESRS** Proportional; 2027 for 2026, Corporate Sustainability European Listed SMEs opt for 2029 **Reporting Directive** Sustainability for 2028 Reporting Standards Non - listed SMEs **Voluntary Companies + FI** Product Sustainability reporting **SFDR** level **Disclosures &** and disclosure for Pilar III Sustainable Finance selling financial Reporting Company **Disclosure Regulation** products level **Financial institutions (FI)** Taxonomy eligible, taxonomy aligned KPIs Non – financial com. Phase in from % turnover, % CAPEX, % OPEX EU 2022 **TAXONOMY** Banks Phase in from **GAR -** Green Asset Ratio 2023 **Companies + FI** Investment companies % of investments Insurance companies % of investments, % of gross non-life

premium

ESRS – European Sustainability Reporting Standards



High level alignment with ISSB + GRI

Cross Cutting
Standards

ESRS 1 General requirements

ESRS 2 General disclosures

- Material sustainability matters
- Double materiality
 - Governance
- Strategy
- Impact
- Risk and Opportunities
- Targets and Metrics

Environmental Standards

ESRS E1 Climate change

ESRS E2 Pollution

ESRS E3 Water and marine resources

ESRS E4 Biodiversity and Ecosystems

ESRS E5 Circular Economy

Social Standards

ESRS S1 Own Workforce

ESRS S2 Workers in the value chain

ESRS S3 Affected Communities

ESRS S4 Consumers and end-users

Governance Standards

ESRS G1 Business Conduct

Sector Specific Standards

Future adoption

Value chain perspective

Phase in Implementation



SFRD – 3 Level Classification for Investment Products

Labeling of investment funds sold in EU

Article 6: Funds, that do not integrate any kind of sustainability into investment process

Article 8: Funds, that promote environmental or social characteristics among other characteristics (**light green**)

Article 9: Funds that have sustainable investment as their target (dark green)

ESG PRINCIPLES



Core elements of the sustainability imprint or ESG rating

ENVIRONMENTAL

SOCIAL

GOVERNANCE

CLIMATE

WATER

RESOURCE USE

BIODIVERSITY POLLUTION

☐ GHG emissions

- water management
- □ Resources and circular economy

☐ Actual and

- Scope 1,2,3 (gross)
- Emission intensity
- GHG removals & carbon credits
- Resources inflow (renewable, non-renewable)
 - Resources outflow
 - Waste & waste management

• Usage of secondary raw

materials (recyclates)

Application of circular design

practices (value retention)

Application of circular business

Packaging

- Resource efficiency, particularly with critical raw materials and rare earth
- risk areas
- Introduction of alien

□ Energy

- Energy consumption mix (energy sources, exposure to coal, oil, gas)
- Renewable energy deployment
- Energy intensity (per revenue)
- Energy efficiency (buildings)

□ Water consumption,

- Water consumption, water sourcing, water discharges
- Water intensity
- Activities in areas of highwater stress or water risk
- Water recycling
- Water pollution

☐ Biodiversity & **Ecosystems**

- Effects on biodiversity and ecosystems (loss, degradation)
- Respecting of planet boundaries
- Impact on the biodiversity
- Impact on threatened spicies
- spicies

potential pollution

- Air pollutants
- Emissions to water,
- Pollution to soil
- Substances of concern



WORKFORCE

(own & value chain)

☐ Working conditions

- Secure environment
- Social dialogue
- Adequate wages
- Health & Safety...

Equal treatment & opportunities

- Gender equality, equal pay
- Training & skills
- Inclusion of persons with disabilities
- Preventing harassment & violence

☐ Other work-related rights

- Child labour, forced labour
- Adequate housing
- Privacy

COMMUNITIES

SOCIAL

- ☐ Communities' social and economic rights
- Adequate food & housing
- Clean water & sanitation
- Land & security related impacts
- ☐ Communities' civil and political rights
 - Freedom of expression & assembly
 - Impacts on human rights defenders
- **□Rights of indigenous peoples**
 - Free, prior and inform consent
 - Self determination
 - Cultural rights

CONSUMERS & END-USERS

- ☐ Information & privacy
- Privacy
- Freedom of expression
- Access to quality information
- □ Personal safety
- Health & Safety
- Security
- Protection of children
- □ Social inclusion
 - Non-discrimination
 - Responsible market practices
 - Access to product & services



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ENVIRONMENTAL

SOCIAL

GOVERNANCE

A lot of **analytical data** is /will be needed to satisfy relevant stakeholders: shareholders, banks, investors, buyers, consumers, communities, regulators,...





□ Business Conduct Matters

- Corporate culture & business ethics
- Protection of whistle-blowers
- Animal welfare
- Political engagement and lobbying activities
- Relationships with suppliers including payment practices
- Corruption and bribery



KEY TERMINOLOGY

ESG – Environmental, Social and Governance

CSRD – Corporate Social Reporting Directive

SFRD – Sustainable Finance Disclosure Directive

ESRS – European Sustainability Reporting Standards

GHG emissions

- Scope 1 direct emissions from sources under the control of the company (e.g. company vehicles,...)
- Scope 2 indirect missions from the purchased electricity, heat, cooling, steam
- Scope 3 emissions from the value chain (purchased goods and services, waste disposal, business travel,...)



Appendix – Links to Additional Material

EU Sustainable Finance Package

https://finance.ec.europa.eu/publications/sustainable-finance-package-2023 en

European Sustainability Reporting Standards explained https://www.efrag.org/lab6?AspxAutoDetectCookieSupport=1

ESRS pubished by the EU Commission

https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/corporate-sustainability-reporting-directive en