



For the EU to reach carbon neutrality by 2050, the European Commission has aligned a number of policies around sustainability. The EU Sustainable Finance Action Plan aims to promote sustainable investment across the member states. The reforms will:

- Reorient capital flows toward sustainable investment to achieve sustainable and inclusive growth
- Mainstream sustainability into risk management
- Foster transparency and long-termism in financial and economic activity

The European Parliament and Council (i.e. member states) have already adopted EU laws implementing these reforms, through the Sustainable Finance Disclosure Regulation (SFDR), which integrates environmental, social and governance (ESG) considerations into investment advice and portfolio management, and the Non-Financial Reporting Directive (NFRD), which requires a non-financial statement as part of annual public reporting for public-interest companies. The EU Taxonomy Regulation commencing 2022 establishes a common classification system of economic activities, which alongside the proposed Corporate Sustainability Reporting Directive (CSRD) complement the sustainable finance regulatory regime. The European Commission plans to adopt the CSRD in late 2022. A preliminary set of standards will most likely be adopted in October 2022. A second set of complementary standards will be adopted by October 2023, which will include sector-specific information. Companies will likely need to start reporting to the new sustainability reporting standards in 2024, using the information from the 2023 financial year. However the publication and reporting time is subject to change as the CSRD negotiations continue to evolve.

The disclosure obligations will increase corporate transparency and demonstrate a company's attractiveness to investors, with future investments directed at those that enable carbon neutrality by 2050. Companies not subject to the NFRD, including SMEs, may decide to voluntarily disclose their taxonomy-alignment KPIs for the purpose of accessing environmentally sustainable finance, based on alignment with the Taxonomy Regulation or as part of their overall business strategy based on environmental sustainability.

This evolving policy landscape necessitates close monitoring to ensure compliance with the developing standards and legal obligations. The precise requirements and applicability at EU and member state level are complicated and vary depending on the size of the company. It is advisable to proactively adapt to the current NFRD reporting requirements and voluntarily disclose such information for both investors and public reputation.

	Sustainable Finance Disclosure Regulation (SFDR)	Non-Financial Reporting Directive (NFRD)	EU Taxonomy Regulation
What is it?	<p>A set of EU rules that aim to make the sustainability profile of funds more comparable and better understood by end-investors.</p> <p>So far, requirements cover financial products and financial advice. Generally, financial products include portfolios under discretionary portfolio management, alternative investment funds, insurance-based investment products, pension products and schemes, as well as undertakings for the collective investment in transferable securities. Advice includes investment and insurance advice.</p>	<p>A non-financial statement as part of the annual public reporting obligations on how sustainability issues could negatively impact financial returns, and the impact on people and the environment.</p>	<p>A proposed classification system "Taxonomy" to clarify the environmental performance of assets and economic activities of financial and non-financial companies against six objectives:</p> <ul style="list-style-type: none"> • Climate change adaption • Climate change mitigation • Sustainable use and protection of water and marine resources • Transition to a circular economy • Pollution prevention and control • Protection and restoration of biodiversity and ecosystems
Who does it apply to?	<p>The SFDR will apply directly to any EU regulated companies that:</p> <ul style="list-style-type: none"> • Manages money in some way, e.g. a bank or investment firm providing single managed account services, an asset manager (i.e. AIFM or UCITS ManCo), a pension provider or an insurance undertaking that provides insurance-based investment products (IBIPs) • Advices on investments or investment strategy, e.g. a bank, investment firm or asset manager that provides investment advice, or an insurance firm that provides advice on IBIPs <p>Non-EU companies</p> <p>There are broadly two ways in which the SFDR could impact non-EU companies:</p> <ul style="list-style-type: none"> • Directly, through national private placement regimes • Indirectly, through relationships with regulated EU firms 	<p>Subject to local implementation rules on the NFRD in the various EU jurisdictions, the rules of the NFRD apply to:</p> <ul style="list-style-type: none"> • European listed and large public-interest non-financial companies with >500 employees and balance sheet >€20 million or net turnover >€40 million • EU banks • EU insurance companies • Other companies as designated public-interest companies by member states <p>Subsidiaries of multinational companies</p> <p>These may be regarded as large companies or public-interest companies in member states. This depends on the set criteria in each EU member state for the application of the NFRD and the related criteria.</p> <p>Future</p> <p>Proportionate standards for SMEs, which non-listed SMEs can use voluntarily.</p>	<ul style="list-style-type: none"> • European listed and large public-interest companies with >500 employees and • balance sheet >€20 million or net turnover >€40 million • Financial participants in SFDR whose products promote environmental characteristics

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Disclosures	<p>Substantive obligations</p> <ul style="list-style-type: none"> • Sustainability risk disclosure – How sustainability risks could negatively impact the financial returns. • Article 8 and 9 products – Article 8 products actively promote environmental or social characteristics, while Article 9 products have sustainable investment as their objective. Both categories are subject to higher standards of disclosure under the SFDR. • Adverse sustainability impacts – How their investments could negatively impact the environment and social factors “Principal Adverse Sustainability Impacts (PAIs)” <p>This is often referred to as “double materiality”.</p> <ul style="list-style-type: none"> • Statement on due diligence of sustainability risks • Integration of sustainability factors in the remuneration policies 	<p>Information about the business model, policies – including implemented due diligence processes, outcomes, risks and risk management, and key performance indicators relevant to the business on:</p> <ul style="list-style-type: none"> • Environmental protection • Social responsibility and treatment of employees, including diversity on company boards • Respect for human rights • Anti-corruption and bribery <p>There is currently flexibility on how to disclose this information; however, the proposed CSRD (Q3 2022) will significantly increase the scope of reporting and require assurance of this.</p>	<p>Information on how, and to what extent, their activities are associated with environmentally sustainable economic activities:</p> <ul style="list-style-type: none"> • As a percentage of the turnover • Capital expenditures aligned with the EU Taxonomy • Operational expenditures aligned with the EU Taxonomy • Asset managers will have to report the percentage of their portfolio invested in activities aligned with the EU Taxonomy
Effective Date	<p>The “Level 1” text of the SFDR applies from 10 March 2021.</p> <p>However, as with many EU Regulations, the SFDR requires a number of detailed “Level 2” Delegated Regulations or “RTS” to be put in place before market participants have a complete picture of how the legislation is intended to apply. Although draft RTS have been consulted on by the ESAs, they have not yet been finalised.</p> <p>The European Commission intends to bundle all 13 RTS under SFDR into a single delegated act and to defer the application of 1 January 2022 by six months to 1 July 2022.</p>	<p>2018</p> <p>Proposed Corporate Sustainability Reporting Directive (Q3 2022).</p> <p>Publishing parameters of reporting against the NFRD (and the future CSDR, when adopted) are still to be defined; however, these are expected to include content, methodology and presentation of material.</p>	<p>04/06/2022</p> <p>The Delegated Act for the disclosure of information on environmental sustainability applies from 4 June 2021.</p> <p>The disclosures listed above apply to relevant companies when reporting on financial year 2021</p> <p>Future</p> <p>The European Commission is in the process of further developing the EU Taxonomy framework. It will be updated to include future delegated acts specifying technical screening criteria for additional economic activities substantially contributing to the climate objectives and the other environmental objectives of the EU Taxonomy Regulation. It will also reflect reviews of the delegated acts in the future.</p> <p>The first EU Taxonomy Delegated Act on climate change mitigation and adaptation is currently under review by the European Parliament and the Council of the EU. If published, required companies will need to disclose the percentage of EU Taxonomy eligibility of their economic activities against the first two objectives of the EU Taxonomy Regulation.</p>

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		<p>The remaining four disclosure obligations will enter into force from 1 January 2023. Non-financial companies must disclose their EU Taxonomy alignment against all six environmental objectives in the next annual report.</p> <p>Financial and non-financial companies will need to disclose their EU Taxonomy alignment against all six objectives from 1 January 2024.</p> <p>Publishing parameters of reporting against the EU Taxonomy Regulation are still to be defined; however, these are expected to include content, methodology and presentation of material.</p>

For multinational companies, it is worth noting that even though the EU's disclosure standards are yet to be defined, this potential divergence between the EU, if it follows the EFRAG recommendations, and an emerging global standard in TCFD could create substantial additional reporting obligations.

How We Can Help

- **We understand the business and legal implications of legislative and regulatory policy developments** that affect business and provide ongoing monitoring and compliance against current and future developments.
- **We are fully immersed in relevant ongoing regulatory and legislative policy debates within the EU** including adjacent regulatory issues (eg: the European Green Deal, EU Climate Law, Carbon Border Adjustment Mechanism)
- **We maintain and continuously cultivate effective working relationships with key stakeholders** therefore we understand the inner dynamics of the EU legislative and regulatory processes, having led or served in key policymaking roles related to federal/national sustainability policy and funding.
- **We develop robust compliance frameworks**, assisting in creating comprehensive compliance programmes and/or enhancing a company's existing programme to effectively manage risk and cover compliance with legal and regulatory requirements. In addition, we offer a holistic assessment of business integrity that takes into account reputational and commercial factors.
- **We help you demonstrate accountability and transparency.** From the governance reviews that provide independent assurance for investors to strategic guidance on purpose and business integrity processes, our services enable corporates to demonstrate accountability and transparency in their relations with investors and shareholders.



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