

ESG disclosure reporting

START





Today's agenda





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non-financial
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EU and UK non-financial reporting





Investor impact

**UN PRI –
global approach**

**TCFD –
global approach**

**The EU Green Deal
– and updates:
Fit for 55**

**EC Sustainable
Finance Package
and updates:
revised finance
strategy**

**Sustainable
Finance Disclosure
Regulation (SFDR)**

EU Taxonomy

**New Benchmarks:
Paris Aligned and
Carbon Transition**

**UCITS, AIFMD and
MiFID changes**

**Stewardship Code –
all new, all change**

**Corporate
Sustainability
Reporting Directive
(CSRD)**

**Jurisdictional
differences:
Germany, France
and Spain**

UK – SDR

UK – TCFD

**Corporate
Sustainability
Due Diligence
Directive**

The list goes on....





Sustainable Finance Disclosure Regulation





Scope and implications

SFDR introduced disclosure obligations for asset managers, institutional investors, insurance companies, pension funds, etc., in relation to both their own investment processes and the sustainability aspects of the products they offer to EU investors; the intention is to improve transparency and reduce the risk of greenwashing. It has been fully in force since 1 January 2023.

Application

SFDR applies to products “made available” in the EU. This means that, for example, a US fund of a US manager would be caught by SFDR if it is sold in the EU.

Issues for investee companies

SFDR was introduced before linked legislation for investee companies (eg CSRD) meaning that data is a significant issue. Companies need to understand (and provide) the information needed by funds to allow them to invest or risk divestment

Disclosures required

- Pre-contractual – defined template with detailed requirements on strategy and metrics being used **[linked to EU Taxonomy]**
- Website – similar to above with additional disclosure on data methodologies
- Periodic – annual review of how the sustainability strategy and metrics have performed **[linked to EU Taxonomy]**

Article 6

Article 6 is an entity level disclosure around the way in which product providers integrate sustainability risks into their investment decision making processes. Products only having Article 6 disclosure have no ESG characteristics above those implemented at an entity level by the product provider. These products require a negative EU Taxonomy disclosure.

Article 8

Disclosure under Article 8 is for products which “promote environmental or social characteristics”. This has been very broadly interpreted, from simple exclusions at one end to sophisticated transition strategies at the other. There is no requirement to have a specific allocation to “sustainable investments” and no requirement to report on principal adverse indicators – though many do. Necessary to state level of commitment to EU Taxonomy.

Article 9

“Article 9” products are those which have “sustainable investment” as their objective. In practice, this means that all invested assets of an Article 9 fund must be “sustainable investments” and so must comply with the principle of Do No Significant Harm and report against principal adverse indicators. Necessary to state level of commitment to EU Taxonomy.

Future thoughts: the nature of the current disclosure requirements are largely left to the consideration of the product provider (eg, what is a sustainable investment?). We expect that future changes will revolve around specific asset allocation and labelling requirements.



What do funds need to report?

Principal adverse impacts and “Do No Significant Harm”



Scope 1 GHG emissions	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Scope 2 GHG emissions		
Scope 3 GHG emissions	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas	
Total GHG emissions	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	
Carbon footprint	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	
GHG intensity of investee companies		
Share of investments in companies active in the fossil fuel sector	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	
Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources		Average ratio of female to male board members in investee companies
		Share of investments in investee companies involved in the manufacture or selling of controversial weapons



EU Taxonomy ...a snapshot





D35.30	Energy	4.23	Production of heat/cool from renewable non-fossil gaseous and liquid fuels	Construction and operation of heat generation facilities that pr	1. The life-cycle GHG emissions from the generation of heat/cool	The activity complies with the criteria set out in Appendix A to
D35.30	Energy	4.24	Production of heat/cool from bioenergy	Construction and operation of facilities that produce heat/cool	1. Agricultural biomass used in the activity for the production o	The activity complies with the criteria set out in Appendix A to
D35.30	Energy	4.25	Production of heat/cool using waste heat	Construction and operation of facilities that produce heat/cool	The activity produces heat/cool from waste heat.	The activity complies with the criteria set out in Appendix A to
M72, M72.1	Energy	4.26	Pre-commercial stages of advanced technologies to produce en	Transitional	Research, development, demonstration and deployment of inn	General criteria pertaining to substantial contribution to climat
D35.11, F42.22	Energy	4.27	Construction and safe operation of new nuclear power plants, f	Transitional	Construction and safe operation of new nuclear installations fo	General criteria pertaining to substantial contribution to climat
D35.11, F42.22	Energy	4.28	Electricity generation from nuclear energy in existing installatio	Transitional	Modification of existing nuclear installations for the purposes	General criteria pertaining to substantial contribution to climat
D35.11, F42.22	Energy	4.29	Electricity generation from fossil gaseous fuels	Transitional	Construction or operation of electricity generation facilities tha	1. The activity meets either of the following criteria:(a) the life-
D35.11, D35.30	Energy	4.30	High-efficiency co-generation of heat/cool and power from foss	Transitional	Construction, refurbishment, and operation of combined heat/k	1. The activity meets either of the following criteria:(a) the life-
D35.30	Energy	4.31	Production of heat/cool from fossil gaseous fuels in an efficient	Transitional	Construction, refurbishment and operation of heat generation	1.The activity meets either of the following criteria:(a)Life-cycle
E36.00, F42.99	Water supply, sewerage,	5.1	Construction, extension and operation of water collection, treatment and supply systems	Construction, extension and operation of water collection, trea	The water supply system complies with one of the following cri	The activity complies with the criteria set out in Appendix A to
E36.00, F42.99	Water supply, sewerage,	5.2	Renewal of water collection, treatment and supply systems	Renewal of water collection, treatment and supply systems incl	The renewal of the water supply system leads to improved ener	The activity complies with the criteria set out in Appendix A to
E37.00, F42.99	Water supply, sewerage,	5.3	Construction, extension and operation of waste water collection and treatment	Construction, extension and operation of centralised waste wat	The net energy consumption of the waste water treatment plan	The activity complies with the criteria set out in Appendix A to
E37.00	Water supply, sewerage,	5.4	Renewal of waste water collection and treatment	Renewal of centralised waste water systems including collectio	1. The renewal of a collection system improves energy efficienc	The activity complies with the criteria set out in Appendix A to
E38.11	Water supply, sewerage,	5.5	Collection and transport of non-hazardous waste in source segregated fractions	Separate collection and transport of non-hazardous waste in sil	All separately collected and transported non-hazardous waste t	The activity complies with the criteria set out in Appendix A to
E37.00, F42.99	Water supply, sewerage,	5.6	Anaerobic digestion of sewage sludge	Construction and operation of facilities for the treatment of se	1. A monitoring and contingency plan is in place in order to min	The activity complies with the criteria set out in Appendix A to
E38.21, F42.99	Water supply, sewerage,	5.7	Anaerobic digestion of bio-waste	Construction and operation of dedicated facilities for the treati	1. A monitoring and contingency plan is in place in order to min	The activity complies with the criteria set out in Appendix A to
E38.21, F42.99	Water supply, sewerage,	5.8	Composting of bio-waste	Construction and operation of dedicated facilities for the treati	1. The bio-waste that is composted is source segregated and co	The activity complies with the criteria set out in Appendix A to
E38.32, F42.99	Water supply, sewerage,	5.9	Material recovery from non-hazardous waste	Construction and operation of facilities for the sorting and proc	The activity converts at least 50 %, in terms of weight, of the pr	The activity complies with the criteria set out in Appendix A to
E38.21	Water supply, sewerage,	5.10	Landfill gas capture and utilisation	Installation and operation of infrastructure for landfill(229) gas	1. The landfill has not been opened after 8 July 2020.2. The lan	The activity complies with the criteria set out in Appendix A to
F42.21, H49.50	Water supply, sewerage,	5.11	Transport of CO2	Enabling	Transport of captured CO2 via all modes.Construction and oper	1. The CO2 transported from the installation where it is capture
E39.00	Water supply, sewerage,	5.12	Underground permanent geological storage of CO2	Permanent storage of captured CO2 in appropriate underground	1. Characterisation and assessment of the potential storage con	The activity complies with the criteria set out in Appendix A to
H49.10, N77.39	Transport	6.1	Passenger interurban rail transport	Transitional	Purchase, financing, rental, leasing and operation of passenger	The activity complies with one of the following criteria:the trai
H49.20, N77.39	Transport	6.2	Freight rail transport	Transitional	Purchase, financing, leasing, rental and operation of freight tra	1. The activity complies with one or both of the following criter
H49.31, H49.3.9, N77.39, N77.11, N77.21	Transport	6.3	Urban and suburban transport, road passenger transport	Transitional	Purchase, financing, leasing, rental and operation of urban and	The activity complies with the one of following criteria:the acti
H49.32, H49.39, N77.11	Transport	6.4	Operation of personal mobility devices, cycle logistics	Transitional	Selling, purchasing, financing, leasing, renting and operation of	1. The propulsion of personal mobility devices comes from the f
H49.4.1, H53.10, H53.20	Transport	6.5	Transport by motorbikes, passenger cars and light commercial	Transitional	Purchase, financing, renting, leasing and operation of vehicles	The activity complies with the following criteria:for vehicles of
H50.30	Transport	6.6	Freight transport services by road	Transitional	Purchase, financing, leasing, rental and operation of vehicles de	1. The activity complies with one of the following criteria:vehic
H50.4	Transport	6.7	Inland passenger water transport	Transitional	Purchase, financing, leasing, rental and operation of passenger	The activity complies with one of the following criteria:the vess
H50.4, H50.30, C33.15	Transport	6.8	Inland freight water transport	Transitional	Purchase, financing, leasing, rental and operation of freight ves	1. The activity complies with one or both of the following criter
H50.2, H52.22, N77.34	Transport	6.9	Retrofitting of inland water passenger and freight transport	Transitional	Retrofit and upgrade of vessels for transport of freight or passe	1. Until 31 December 2025, the retrofitting activity reduces fue
H50.10, N77.21, N77.34	Transport	6.10	Sea and coastal freight water transport, vessels for port operati	Transitional	Purchase, financing, chartering (with or without crew) and open	1. The activity complies with one or more of the following criteri
H50.10, H50.2, H52.22, C	Transport	6.11	Sea and coastal passenger water transport	Transitional	Purchase, financing, chartering (with or without crew) and open	The activity complies with one or more of the following criteria
F42.11, F42.12, F42.13, F	Transport	6.12	Retrofitting of sea and coastal freight and passenger water tran	Transitional	Retrofit and upgrade of vessels designed and equipped for the	1. Until 31 December 2025, the retrofitting activity reduces fue
F42.12, F42.13, M71.12,	Transport	6.13	Infrastructure for personal mobility, cycle logistics	Enabling	Construction, modernisation, maintenance and operation of inf	The infrastructure that is constructed and operated is dedicate
F42.11, F42.13, F71.1, F7	Transport	6.14	Infrastructure for rail transport	Enabling	Construction, modernisation, operation and maintenance of rail	1. The activity complies with one of the following criteria:the in
F42.91, F71.1, F71.20	Transport	6.15	Infrastructure enabling low-carbon road transport and public tr	Enabling	Construction, modernisation, maintenance and operation of inf	1. The activity complies with one or more of the following criteri
F41.20, F42.99	Transport	6.16	Infrastructure enabling low carbon water transport	Enabling	Construction, modernisation, operation and maintenance of inf	1. The activity complies with one or more of the following criteri
F41.1, F41.2, F43	Construction and real est	7.1	Low carbon airport infrastructure	Enabling	Construction, modernisation, maintenance and operation of inf	1. The activity complies with one or more of the following criteri
F41, F43	Construction and real est	7.2	Construction of new buildings	Transitional	Development of building projects for residential and non-reside	Constructions of new buildings for which:1. The Primary Energy
F42, F43, M71, C16, C17,	Construction and real est	7.3	Renovation of existing buildings	Transitional	Construction and civil engineering works or preparation thereof	The building renovation complies with the applicable requirem
F42, F43, M71, C16, C17,	Construction and real est	7.4	Installation, maintenance and repair of energy efficiency equip	Enabling	Individual renovation measures consisting in installation, maint	1. The activity consists in one of the following individual measure
F42, F43, M71, C16, C17,	Construction and real est	7.5	Installation, maintenance and repair of charging stations for ele	Enabling	Installation, maintenance and repair of charging stations for ele	Installation, maintenance or repair of charging stations for elec
F42, F43, M71, C16, C17,	Construction and real est	7.6	Installation, maintenance and repair of instruments and devices	Enabling	Installation, maintenance and repair of instruments and device	The activity consists in one of the following individual measure
F42, F43, M71, C16, C17,	Construction and real est	7.6	Installation, maintenance and repair of renewable energy techn	Enabling	Installation, maintenance and repair of renewable energy techn	The activity consists in one of the following individual measure





Corporate Sustainability





Corporate Sustainability Reporting Directive

Scope and Timing

EU entities

- All listed companies (including SMEs but not micro-enterprises).
- Large companies are in scope providing they meet two out of three of:
 - 1) €40 million in turnover
 - 2) €20 million on the balance sheet
 - 3) Average of 250 or more employees

1
January
2024

For companies already subject to the Non-Financial Reporting Directive

1
January
2025

For large companies that are not presently subject to the Non-Financial Reporting Directive

1
January
2026

For listed SMEs, small and non-complex credit institutions and captive insurance undertakings

Non-EU entities

All non-EU companies that generate a net turnover of €150 million in the EU and have at least one subsidiary or branch in the EU exceeding €40 million net turnover.

The reporting standards comprise of 82 disclosures with phasing-in periods for several areas. There are 1,144 data points that may need to be reported on, dependent on how material they are assessed to be.



Corporate Sustainability Due Diligence Directive

Scope and implications

The proposed directive establishes a corporate sustainability due diligence duty requiring companies to identify and, where necessary, prevent, end or mitigate the potential or actual adverse impacts of their activities on human rights and the environment.

EU entities

- all EU limited liability companies of substantial size and economic power (with 500+ employees and EUR 150 million+ in net turnover worldwide).
- other limited liability companies operating in defined high impact sectors which have more than 250 employees and a net turnover of EUR 40 million worldwide, provided half of which comes from engaging in that sector.

Non-EU entities

- a net turnover in excess of EUR 150 million in the EU in the financial year preceding the last financial year
- a net turnover in excess of EUR 40 million provided that at least 50% of this net worldwide turnover was generated in one or more of the defined high impact sectors

Value chain

duty will apply to a company's **own operations**, their **subsidiaries** and **their value chains**. Value chains for financial undertakings encompass the activities of professional clients who receive services, and their subsidiaries whose activities are linked to the contract.

Directors

new directors' duties to set up and oversee the implementation and integration of sustainable due diligence into the corporate strategy. Director's duties are also now likely to include taking into account human rights, climate change and environmental consequences of their decisions in the near, medium and long term.

Sanctions

Non-compliance with the directive could result in specific sanctions, including, damages (based on a company's turnover) where a failure to comply with the obligations leads to damage

The EU legislative process is ongoing – this is one to watch over the next year.



UK rules





Task Force on Climate-Related Financial Disclosure

The Financial Stability Board established the Task Force on Climate-Related Financial Disclosures to develop effective climate-related disclosures, to promote better understanding of the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks

2021

- Premium listed companies
- Banks, building societies
- Large occupational pension schemes

Governance

- Describe the board's oversight of climate related risks and opportunities
- Describe management's role in assessing and managing risks and opportunities

2022

- Largest UK authorised asset managers, life insurers and pension providers
- Smaller occupational pension schemes
- Wider scope of listed companies

Strategy

- Describe identified climate related risks and opportunities over the short, medium and long term
- Describe impact of climate related risks and opportunities on the business, strategy and planning
- Describe resilience of the organisation's strategy, taking into consideration different climate related scenarios

2023

- Other UK authorised asset managers, life insurers and pension providers

Risk Management

- Describe the processes for identifying, assessing and managing climate related risks
- Describe how these processes are integrated into the overall risk management

2024-25

- Other occupational pension scheme
- Refinements to other categories

Metrics

- Disclose the metrics used to assess climate related risks and opportunities
- Disclose greenhouse gas emissions and the related risks
- Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets



Sustainable Disclosure Requirements

Labelling and disclosure

“Mutually exclusive”

“Non-hierarchical”

Prohibited terms for funds without a sustainable label include but are not limited to:

- ESG (or any of environmental, social or governance)
- climate
- impact
- sustainable or sustainability
- responsible
- green
- SDG
- Paris-aligned
- net zero

Three proposed categories: **sustainable focus**, **sustainable improver**, and **sustainable impact**.

In-scope firms will be able to voluntarily label their products if they meet the **relevant criteria** for each category:

- (1) five overarching principles;
- (2) “cross-cutting” considerations associated with the principles; and
- (3) category-specific considerations relevant to each label.

Sustainable focus: Products with an objective to maintain a high standard of sustainability in the profile of assets by ensuring 70% of the portfolio meets a “credible standard of environmental and/or social sustainability” or aligns with a specified environmental and/or social sustainability theme.

Sustainable improvers: Products with an objective to deliver measurable improvements in the sustainability profile of assets over time.

Sustainable impact: Products with an explicit objective to achieve a positive, measurable contribution to sustainable outcomes.

Five principles:

1. Sustainability Objective
2. Investment Policy and Strategy
3. Key Performance Indicators
4. Resources and Governance
5. Stewardship

Disclosures:

1. Consumer facing documents
2. Pre-contractual disclosures
3. Periodic disclosures
4. Entity reporting

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