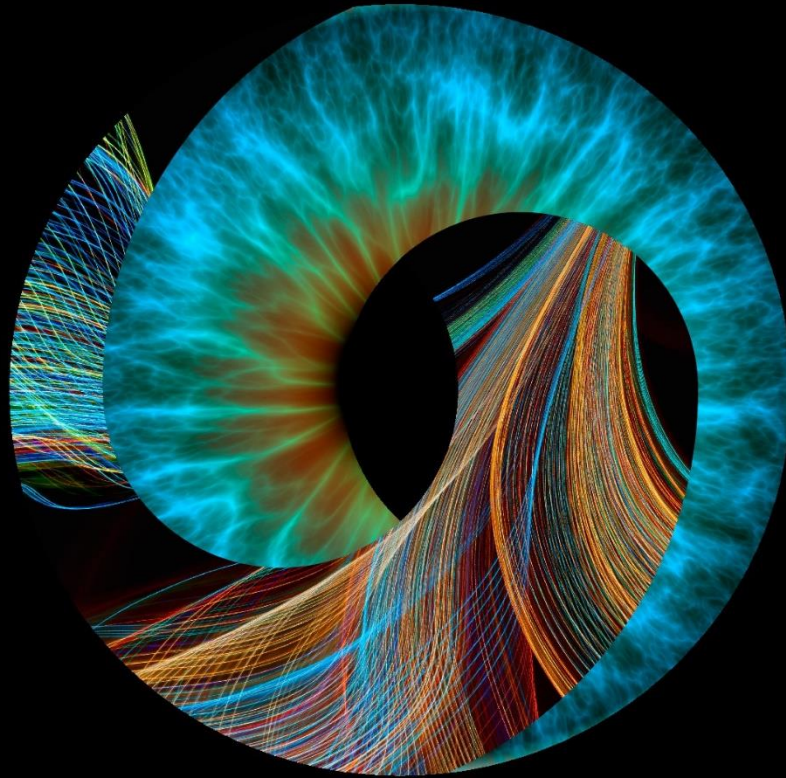


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## **Sustainability Insight** **Unravelling regulatory complexity**

Key policy and regulatory developments: October 2023

*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**



Podcast series: Every step taken at COP28 will shape history and define our global journey towards sustainability. As the world prepares, the Sustainability Regulation Hub brings you a series of engaging conversations with Deloitte Middle East leaders to get their perspectives on industry and regulatory trends, unique challenges and opportunities facing the region and anticipated outcomes at COP.

You can watch the podcasts here: [COP28 Conversations](#)



Blog: [Transition Plan Taskforce publishes final Disclosure Framework and guidance](#), 10 October 2023



Blog: [Emissions Trading Systems – Unlocking opportunities](#), 4 October 2023

**Contents**



Sustainability reporting		
EU	EC	<a href="#">EC publishes Burden Reduction Package, 17 October</a>
<p>The European Commission (EC) adopted its 2024 Work Programme, including a Burden Reduction Package aimed at streamlining reporting across multiple policy areas. Highlights of the Package include:</p> <ul style="list-style-type: none"> <li>- Targeted amendments to the Accounting Directive adjusting the size criteria for companies that fall under the reporting requirements of the CSRD, and therefore reducing its scope.</li> <li>- Postponement of the deadline for the adoption of sector-specific and third country European Sustainability Reporting Standards (ESRS) to June 2026 from June 2024.</li> <li>- Publication of a call for evidence to identify reporting requirements in the general EU framework that can be removed or rationalised. The consultation will run until 28 November.</li> </ul> <p>Clarification that under the Second Notice on Taxonomy reporting no assessment is needed for activities that are not material to the business and where the business lacks evidence or data to demonstrate compliance with the technical screening criteria of the EU Taxonomy.</p>		
EU	EP, Council, EFRAG	<a href="#">ESRS formally endorsed, while ESRS Q&amp;A Platform launched, 23 and 24 October</a>
<p>The European Parliament (EP) and the Council of the EU (Council) endorsed the <a href="#">Delegated Act</a> on the European Sustainability Reporting Standards (ESRS). The EC adopted the Delegated Act in July 2023, which marked the start of a two-month scrutiny period. The Delegated Act contains the first set of standards that certain companies will have to use to prepare their sustainability reporting</p>		



under the Corporate Sustainability Reporting Directive (CSRD). The Delegated Act will now be published in the EU Official Journal and enter into force.

Following this crucial step, the European Financial Reporting Advisory Group (EFRAG) launched the [ESRS Q&A platform](#). The platform aims to collect and answer technical questions to support the implementation of the ESRS.



<b>EU</b>	<b>ESMA</b>	<b>Three reports published on corporate reporting, 25 October</b>
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The European Securities and Markets Authority (ESMA) has published the following three reports: the [annual Public Statement](#) setting out the European common enforcement priorities for 2023 annual financial reports; [guidance assisting report issuers](#) with their climate-related disclosures; and the [results of a fact-finding exercise](#) on corporate reporting practices under the EU Taxonomy.

Annual Public Statement:

ESMA, alongside national enforcers in the European Economic Area (EEA), will focus on various key areas when examining the application of relevant reporting requirements, including:

- Priorities related to financial statements:
  - o Consistency between International Financial Reporting Standards (IFRS) financial statements and non-financial information.
  - o Accounting for emission trading schemes, renewable energy certificates and Power Purchase Agreements.
- Priorities for non-financial statements:
  - o Disclosures relating to Article 8 of the Taxonomy Regulation (taxonomy eligibility and taxonomy alignment of undertakings' economic activities).
  - o Disclosures of scope 3 emissions, climate-related targets, actions and progress.

Fact-finding exercise on corporate reporting practices under the Taxonomy:

ESMA assessed the quality of non-financial undertakings' disclosures related to the new requirements under the Taxonomy Regulation. It found that almost all issuers disclosed the required Taxonomy alignment key performance indicators (KPIs); that the mandatory reporting templates have generally been used; but the operating expenditure (OpEx) alignment KPI was least reported.

Disclosures of Climate-Related Matters in the Financial Statements:

The guidance aims to enhance the ability of report issuers to provide more robust climate-related disclosures within IFRS financial statements. The report provides practical examples of how climate-related issues can be presented in IFRS financial statements. ESMA expects issuers and auditors to consider the illustrative examples when preparing or assessing financial reports.



## Sustainable finance

<b>Intl.</b>	<b>NGFS</b>	<b><a href="#">NGFS publishes a conceptual note on short-term climate scenarios, 3 October</a></b>
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The Network for Greening the Financial System (NGFS) published a conceptual note on short-term climate scenarios to help central banks and supervisors understand the immediate macro-prudential effects of the transition to a net-zero economy. The note presents five scenarios based on geopolitical and economic factors, addressing both transitional and physical risks over a three- to five-year time horizon. These scenarios seek to improve climate stress tests and macroeconomic impact assessments for central banks. This publication highlights the ongoing initiatives undertaken at the EU level, in particular the EU-wide stress tests carried out by the European Central Bank.



<b>EU</b>	<b>ESMA</b>	<b><a href="#">ESG names and claims in EU fund industry, 2 October</a></b>
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ESMA analysed 36,000 funds managing a total of EUR 16 trillion of assets to determine the use of ESG language in fund names. It also examined 100,000 documents available at the end of 2022 to

determine the extent of ESG language across funds' regulatory documentation and marketing material. Key findings include:

- Funds are increasingly using ESG-related language in fund names, and investors consistently prefer funds with ESG terms in their name.
- The fund industry adapts its ESG communication depending on the audience. Funds sold to retail investors tend to have more ESG claims in the key information documents, compared to funds targeting institutional investors, to enhance retail investors' understanding of the fund in line with regulatory requirements.

Based on the study's findings, ESMA concluded that recent efforts by policymakers to ensure that EU funds' names and disclosures accurately reflect their activities are necessary and justified.



**EU**                      **ESMA**                      [Common Supervisory Action on MiFID II sustainability requirements, 3 October](#)

ESMA announced that in 2024 it plans to launch a Common Supervisory Action (CSA) with national competent authorities to integrate sustainability suitability assessment and product governance processes and procedures into firms. The CSA will cover:

- How firms collect client information on sustainability preferences.
- How firms understand and categorise investment products with sustainability factors.
- How firms ensure the suitability of investments with respect to sustainability.

How firms specify sustainability-related objectives and their compatibility with the target market assessment for investment products.



**EU**                      **EP Council**                      [Parliament and Council approve new standards for green bonds, 5 October and 24 October](#)

The EP and the Council adopted the Regulation on European green bonds, which lays down standards for issuers that aim to use the designation 'European Green Bond' or 'EuGB' for marketing purposes. The regulation establishes a registration system and supervisory framework for external reviewers of European green bonds. To prevent greenwashing, it also includes voluntary disclosure requirements for other environmentally sustainable bonds and sustainability-linked bonds issued in the EU which do not use the EuGB label.

The next step is for the Regulation to be published in the EU Official Journal, after which it will enter into force within 20 days. The Regulation will apply from 12 months after its entry into force.



**EU**                      **EC**                      [The Platform on Sustainable Finance and EC launch the stakeholder request mechanism, 17 October](#)

The Platform on Sustainable Finance, together with the EC, introduced a mechanism to request feedback from stakeholders on the EU Taxonomy. This mechanism will enable parties to suggest new economic activities to add to the scope of the EU taxonomy or propose revisions to existing technical selection criteria. This tool will be in place until 15 December 2023, when the input received will be reviewed by the Platform's Technical Working Group. The requests and recommendations will be shared with the EC for independent assessment.



**EU**                      **EBA**                      [EBA publishes report on the prudential treatment of environmental and social risks, 12 October](#)

The European Banking Authority (EBA) issued two types of policy recommendations for enhancing the Pillar 1 framework by taking into account environmental and social risks.

Short-term actions (targeted enhancements that could be implemented while 'preserving Pillar 1's integrity and purpose') include:

- Integrating environmental risks as part of stress testing programmes under the internal ratings-based (IRB) and internal model approaches under the Fundamental Review of the Trading Book (FRTB).
- Incorporating environmental and social factors into the due diligence and assessment of immovable property collateral.
- Identifying environmental and social factors as triggers for operational risk losses.
- Developing environmental concentration risk metrics for monitoring reports.

'Medium- to long-term' actions (more fundamental revisions needing international agreement) include:

- Exploring scenario analysis for a more forward-looking prudential framework.
- Considering the potential role of transition plans in enhancing risk-based elements within Pillar 1.
- Reevaluating the IRB supervisory formula and standardised approach for credit risk to better account for environmental risk.
- Introducing concentration risk metrics related to the environment under Pillar 1.



#### **EU ESAs ESAs publish 2024 work programmes, October**

The [European Supervisory Authorities](#) (ESAs) ([European Banking Authority](#) -EBA-, [European Securities and Markets Authority](#) -ESMA- and [European Insurance and Occupational Pensions Authority](#) -EIOPA) included sustainability as one of their strategic priorities for 2024. As part of their work programmes, they plan to:

- Deliver a report on the extent and quality of the voluntary reporting of principal adverse impacts of investment decisions on sustainability factors.
- Monitor financial stability and sustainability in the context of increased interest rates and uncertainty.
- Develop rules for sustainable finance within the framework of the EuGB standard and issue their final report on greenwashing.
- Contribute to building up sustainable insurance and pensions, including by addressing protection gaps, for the benefit of EU citizens and businesses.



### **Real Economy**

#### **EU EC [EC publishes its 2024 Work Programme](#), 17 October**

In its 2024 Work Programme, the EU listed the actions it plans to take in the coming year, ahead of the EP elections in June. In 2024, alongside focusing on reducing reporting burdens for companies (see separate entry above) the EC will move towards implementing and enforcing already-approved legislation. The EC will also seek to introduce the following non-legislative initiatives under the European Green Deal:

- The European Wind Power Package (published on October 24, 2023).
- A process to establish a 2040 climate target by Q1 2024.
- A water resilience initiative by Q1 2024.
- An industrial carbon management initiative (timeline not disclosed).



#### **EU EC [EC proposes measures to reduce microplastic pollution from plastic pellets](#), 16 October**

The EC published a draft regulation on measures to prevent microplastic pollution from the unintentional release of plastic pellets. The proposal aims to ensure that all operators handling pellets in the EU take necessary precautionary measures. Under the proposed measures:

- Operators will have to abide by best handling practices dependent on installation size or transport activity.
- There is a combined threshold for medium- and large-operators, based on the volume of pellets handled in the previous calendar year, with the purpose of reducing the burden on micro and small companies.
- Medium- and large-sized operators (handling over 1,000 tonnes of pellets in the previous calendar year) may be required to obtain a certificate of compliance from an independent third party. Smaller companies (operating less than 1,000 tonnes of pellets in previous calendar year) can make self-declarations of their conformity.
- The introduction of a standardised methodology to estimate the volume of pellets released into the environment to help operators monitor spilled pellets and loss of pellets.

The proposal will now be discussed by the EP and the Council before it can enter into trilogues.



**EU**                      **EC**                      [EC publishes new Wind Power Action Plan, 24 October](#)

The EC published a new European Wind Power Action Plan to tackle the range of challenges facing the wind power sector in the EU. The Action Plan sets out immediate actions the EC will take to ensure a clear and secure pipeline of projects, attract necessary finance, and enhance the international competitiveness of the sector. These actions include:

- Supporting Member States to implement the permitting provisions in the Renewable Energy Directive.
- Developing recommendations and guidance on how to improve the design of project auctions.
- Facilitating access to EU financing via the Innovation Fund, Strategy Energy Technology plan and Strategic Technologies for Europe Platform.
- Working alongside the World Trade Organization (WTO) to develop a rulebook on subsidies.
- Facilitating the launch of European Net Zero Industry Skills Academies.
- Working with the Industry to develop an EU Wind Charter.

The Wind Power Action Plan was published alongside a [Communication on delivering the EU's offshore energy ambition](#). The Communication set out additional measures the EC will take for the offshore wind sector, including providing guidance on cost-benefit analysis for Maritime Spatial Plans and addressing the role of ports in the offshore energy supply chain.



**EU**                      **EP, Council**                      [Parliament and Council reach provisional political agreement on fluorinated gases and ozone-depleting substances, 5 October](#)

The EP and Council reached a provisional political agreement on fluorinated greenhouse gases (F-gases) and ozone-depleting substances (ODSs). The new rules build on existing legislation to reduce these emissions further.

The F-gases agreement calls for a minimum production reduction of 15% of hydrofluorocarbons (HFCs) by 2036 and a complete phase-out by 2050. It also introduces a ban from 2025 on HFC-containing products, and a mandatory extended producer responsibility (EPR) system for designated electronic equipment containing F-gases from January 2028.

The ODSs agreement seeks to impose restrictions on the use of ODSs as feedstock, and require the recovery of ODSs for destruction, recycling, or reclamation.

Both agreements require formal adoption by the EP and Council before being published in the EU Official Journal.



**EU**                      **Council**                      [EC welcomes completion of key 'Fit for 55' legislation, putting EU on track to exceed 2030 targets, 9 October](#)

The Council has formally approved the revision of the [Renewables Energy Directive \(RED\)](#) and the [REFuelEU Initiative](#). The RED increases the share of renewables in the EU's final energy consumption to 42.5% by 2030. To help achieve this goal, it sets out a comprehensive framework for the deployment of renewable energy across all sectors. Meanwhile, the REFuelEU Initiative sets out provisions to increase the production and use of sustainable aviation fuels.

The formal adoption of the two pieces of legislation by the Council marks the completion of the EU's 'Fit for 55' package. Both pieces of legislation will shortly be published in the EU Official Journal. The RED will apply from 2025, while the ReFuelEU will apply from 2024.



**EU**                      **Council**                      [Council agrees on new rules to strengthen CO2 emission standards for heavy-duty vehicles, 16 October](#)

The Council has reached agreement on its initial position on the regulation strengthening CO2 emission performance standards for new heavy-duty vehicles. The regulation was proposed by the EC in February 2023 to reduce CO2 emissions further in the road transport sector and introduce new CO2 emission reduction targets for 2030, 2035 and 2040. In its position, the Council agreed on the following:

- To amend the definition of 'zero emission heavy duty vehicle' by lowering the proposed emission threshold.
- To add a sub-category of vehicles to include extra heavy combination lorries.



- To maintain the targets set by the EC (45% emission reduction from 2030, 65% from 2035 and 90% from 2040).
- To require the EC to review the targets in 2027.

The EC, EP and the Council will now engage in trialogue negotiations to determine the final text of the regulation.



**EU Council** [Council adopts position on new rules for more efficient treatment of urban wastewater, 16 October](#)

The Council has reached agreement on the proposal to review the Urban Wastewater Treatment Directive. The review aims to update the Directive by aligning it with the European Green Deal's objectives. Key updates include the introduction of:

- Extended Produce Responsibility (EPR) for manufacturers of pharmaceutical and cosmetic products to account for wastewater pollution caused by micro-pollutants. The Council agreed that EPR should apply to all products placed on the EU market.
- An energy neutrality target for the urban wastewater treatment sector by 2050.

The agreement gives a mandate to the Council for negotiations with the EP and the EC on the final text of the legislation.



**EU Council** [Council formally agrees new rules on Intelligent Transport Systems, 23 October](#)

The Council formally approved the final text on the revision of the Directive on the deployment of intelligent transport systems (ITS). The revised Directive aims to improve road safety, and reduce emissions and congestion problems through technologies, such as car navigation, automatic number plate recognition and speed cameras. The main provisions include:

- Extending the scope of the Directive to cover emerging services, such as booking and ticketing services (e.g., apps to find and book journeys that combine public transport, shared car, or bike services), communication between vehicles and infrastructure, and automated mobility.
- New targets that Member States must meet on the digitisation of information, such as speed limits and roadworks, and the delivery of essential services, such as road safety.
- A five-year implementation programme for Member States to meet those targets.
- The requirement for Member States to make available certain types of data, such as speed limits, traffic circulation plans, road closures, roadworks, and critical services.

The Directive will shortly be published in the EU Official Journal. Member States will have 24 months after the legislation has entered into force to transpose it into national laws.



**EU EP** [EP adopts position on the establishment of a "Strategic Technologies for Europe Platform", 17 October](#)

The EP adopted its initial position on the regulation establishing a Strategic Technologies for Europe Platform (STEP). The EC-proposed regulation aims to strengthen various EU programmes and funds to channel up to €160bn into new investments to foster the growth of net zero industries and address labour and skill shortages. The EP made the following changes in its position:

- The addition an extra €3bn to the EC's proposed STEP budget of €10bn.
- A call for the EC to conduct an interim implementation evaluation of STEP by 2025, followed by potential amendments or the establishment of a new European Sovereignty Fund.
- A request for agreement on the regulation so that it can be included in the 2024 annual budget (set to be negotiated in November 2023).

The EP will enter trialogue negotiations with the Council and the EC once the Council has agreed its initial position on the proposed regulation.



**EU EP, Council** [Commission begins investigation on electric cars from China, 4 October](#)

The EC formally launched an anti-subsidy investigation into the imports of battery electric vehicles (BEV) from China. The investigation will examine if BEV value chains in China are benefitting from illegal subsidies and whether this is negatively affecting EU BEV producers. If the investigation determines the use of illegal subsidies, it will examine the potential impact on importers, users and consumers of BEV in the EU. The investigation will conclude within 13 months, with potential provisional anti-subsidy duties imposed following that within 22 months.



**EU**                      **EC**                      **[EC publishes latest State of the Energy Union Report, 24 October](#)**

The EC published its State of the Energy Union Report 2023. The report assesses the EU's progress in achieving its climate and energy goals and its response to the global energy crisis. Key takeaways from the report include:

- The EU's net greenhouse gas (GHG) emissions decreased by approximately 3% in 2022, which represents a 32.5% reduction since 1990.
- The EU's electricity generation was made up of 39% renewable energy in 2022. In May 2022, the amount of electricity generated by wind and solar technologies surpassed fossil fuels for the first time.
- The EU's solar photovoltaic capacity increased by a record amount in 2022 (41GW). This was a 60% increase from 2021. New onshore and offshore wind capacity increased by 26GW, which was 45% higher than in 2021.

Despite the progress made, the report calls for the EU to take further action, including tripling annual reductions in GHG to meet its 2030 target, and concluding the legislative process on the Net Zero Industry Act and Critical Raw Materials Act.



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### 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.

<https://www2.deloitte.com/uk/en/pages/financial-services/topics/emea-sustainability-regulation-hub.html>.

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