

NAVIGATING THE EUROPEAN ESG REGULATORY LANDSCAPE



Numerous regulatory bodies are introducing increasingly complex ESG regulation to identify, measure, and mitigate the negative externalities associated with business operations in their jurisdictions. Europe is seen at the forefront of these efforts with regulations covering a wide issues from carbon accounting and supply chain responsibility, to worker safety,

gender equity, and human rights. Business owners and investors need to be aware of these regulations to ensure compliance and maximize the value creation opportunities arising from these regulations. This paper aims to help firms do that by providing a brief overview example regulation coming into force.

	 Corporate Sustainability Reporting Directive (CSRD)	 Corporate Sustainability Due Diligence Directive (CSDDD)	 Sustainable Finance Disclosure Regulation (SFDR)	 Financial Conduct Authority ESG/TCFD Reporting
Objective	Standardise non-financial reporting by establishing reporting rules and requirements	Sets minimum requirements for human rights and environmental due diligence policies	Create transparency for investors by establishing harmonised rules on sustainability disclosures	Prevent greenwashing and create transparency on ESG issues by mandating disclosures rules
Who it Affects	EU companies that meet two of: <ul style="list-style-type: none"> >€40M annual turnover >€20M balance sheet >250 employees Non-EU firms with other criteria	EU companies with: <ul style="list-style-type: none"> >1000 employees >€450M annual turnover Non-EU firms with other criteria (e.g. >€450M annual EU turnover)	Financial Market Participants (FMPs) & Advisors who operate in, or market their products to clients within, the EU (e.g. insurers, AIFMs, UCITS managers)	FCA authorised AIFMs, UCTIS managers, and portfolio managers including CLO managers with >£5B AUM on an individual levels (calculated on 3-year rolling basis)
Example Provisions	<ul style="list-style-type: none"> Conduct double materiality assessments based on impact to and from ESG factors Provide a sustainability statement covering the general business model and strategy together with sustainability opportunities, risks, targets, governance, and policies (incl. due diligence) Report based on the 12 European Sustainability Reporting Standards (ESRS) containing 10 sector-agnostic topics, 40+ subtopics, 60+ sub-subtopics, and 1k+ possible metrics 	<ul style="list-style-type: none"> Implement policies to ensure cross-value chain due diligence is integrated into risk processes and there is a clear climate transition plan in line with the Paris Agreement Conduct due diligence on certain upstream and downstream activities (e.g. resource extraction, manufacturing, and transport) Monitor the effectiveness of due diligence policies and mitigation of adverse impacts Report on due diligence processes (in-line with CSRD reports) 	<ul style="list-style-type: none"> Provide entity and product ESG disclosures, and categorise financial products based on their level of ESG integration (Article 6, 8, and 9) Publish Principal Adverse Impact (PAI) statements across 18-20 ESG indicators about fund impact Formulate policies on the integration of ESG risks in business decision making Publish a statement on the due diligence policies for adverse sustainability impacts from investment decisions (for FMPs with >500 staff) 	<ul style="list-style-type: none"> Provide entity and product reports on relevant in-scope business lines across 5 core themes (incl. governance, strategy, and risk processes) Disclose quantitative metrics on its in-scope portfolio including on AUM finance emissions (\$M AUM), emissions intensity (MT of CO_{2e}/M USD invested), and temp. rise alignment (°C) Restrict usage of specific sustainability language per specific criteria (see the FCA's SDR PS23/16 for further rules on sustainability labelling)
Deadline	In force with staggered phasing (e.g. NFRD subject companies required to report in 2025 for 2024)	Phased in from 2027 with large companies to comply first (>5000 employees and >€1.5B turnover)	In force with PAIs required by 30 June	In force with entity reports required by 30 June
Opportunities	<ol style="list-style-type: none"> Develop compliance roadmaps that meet multiple ESG regulations within Europe and other geographies in the most efficient way Identify and mitigate wider risks to their operations that could strand assets in the near term or undermine credibility with investors Attract investors by differentiated (and regulated) sustainability labelling, especially those willing to offer premiums, with clear ESG stories Grow top-line revenue through catalysing high-premium demand by aligning to their own ESG risks and sustainability competitive advantage <p>Ultimately, Xynteo welcomes stronger ESG regulation as it gives a clear market signal and levels the playing field for firms wanting to pursue sustainable investments and operations. We have worked with numerous partners to see ESG regulation as value-creation opportunities including with large funds, corporates and in commodity markets (e.g. aluminium, steel, and chemicals). We recommend everyone see it in the same way.</p>			

OUR EXPERTS AND HOW XYNTEO CAN HELP:

- Identify in-scope ESG regulations and develop efficient compliance roadmaps
- Design sustainability operating models than integrate with the wider business
- Establish or refine internal ESG policies (e.g. Board, Due Diligence)
- Conduct double materiality assessments and scope1-3 emissions baselining
- Develop reporting and data management processes
- Craft sustainable value creation opportunities including exploring M&A, supply-chain efficiencies, and premium demand building for green products



Shuayb Ismail
Associate Partner

sai@xynteo.com



Matteo Fetz
Analyst

fem@xynteo.com