FLEXSTONE PARTNERS 20 YEARS

AN AFFILIATE OF NATIXIS INVESTMENT MANAGERS

SUSTAINABILITY

NEWSLETTER –JANUARY 2025

CONTENT

EUROPE SUSTAINABILITY REGULATION
JANUARY UPDATE

01

EU Omnibus ESG Regulation Creates Uncertainty for 2025 Sustainability Reporting

What is the EU's Omnibus ESG Regulation?

- The Omnibus ESG Regulation aims to consolidate multiple sustainability-related requirements into a single framework to reduce the reporting burden for companies under the CSRD, CSDDD, and EU Taxonomy Regulation. The Regulation is scheduled for publication on the 26th of February 2025.
- Key elements of the Omnibus regulation include (i) consolidating the CSRD, CSDDD, and the EU Taxonomy Regulation, (ii) reducing reporting requirements by 25% while preserving the substantive elements of the frameworks, and (iii) promoting consistency across Member States to ensure fair and effective compliance.
- The proposed Regulation aligns with the Budapest Declaration on the New European Competitiveness Deal, which is a 12-point plan adopted by EU Leaders and senior EU Commission representatives in 2024 to boost EU competitiveness. A key objective of the Declaration is to drive a 'simplification revolution' for regulation.
- EFRAG will play a key role continuing to clarify complexities related to EU's sustainability reporting requirements, supporting SMEs, driving global alignment with the ISSB, and developing sector-specific guidance to tailor disclosures to industry-specific risks and opportunities.

Why are major European companies, investors, and industry associations concerned over the Omnibus regulation?

- A group of 11 major European corporations, including Nestlé, Unilever, Primark, and L'Occitane, published an open letter to the European Commission in response to the Omnibus Regulation expressing their concern over potentially weaker laws and business uncertainty.
- Commission President Ursula von der Leyen has pledged to maintain the content of the laws. However, the signatories express concern about the potential of the Omnibus Regulation process to re-open the underlying legislation for renegotiation, noting that 'companies have already invested significant resources in preparing for and meeting the new requirements.
- The letter emphasizes concerns about potentially reopening the CSDDD regulation, which sets mandatory obligations for large companies to address their negative impacts on human rights and the environment across their value chains.
- Moreover, the signatories emphasize the need for consistency, clarity, and confidence in the application of the new laws to drive long-term resilience and value for European businesses.

Source: [ESG Today, 20th of January 2025]

Go to read the full article by Sweep on the Omnibus Regulation

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US SUSTAINABILITY REGULATION
JANUARY UPDATE

02 New York Becomes the Second State to Pass a Law Charging Fossil Fuel Companies for Historic Emissions

New York State Governor Kathy Hochul signed the Climate Change Superfund Act (the Act), a new law requiring fossil fuel companies to pay a share, proportionate to their historic contribution to GHG emissions, of the investments in infrastructure needed to adapt to climate change.

- The text of the legislation anticipates that fossil fuel companies will need to pay an estimated $75 billion by 2050 (~ $3 billion a year).
- According to the Act, New York will be required to make significant investments in new or upgraded infrastructure to adapt to the consequences of climate change, including storm water drainage systems, energy efficient cooling systems, extreme weather response, and coastal wetland restoration.
- The Act also explains that research has made it possible to accurately determine the share of GHG emissions emitted by specific fossil fuel companies over the past few decades, enabling the program to require companies to ‘bear a proportionate share of the cost’ for climate change adaption.

Go to the full article

03 Trump Issues Executive Orders on Climate and Environmental Issues

Since being sworn into office on the 20th of January, Trump has issued over 100 executive orders, introducing significant changes to US policy on climate, energy, the environment, and DEI. Notably:

- Declaring a national energy emergency, allowing the issuing of emergency fuel waivers for gasoline and expediting the delivery of energy infrastructure.
- Elimination of the electric vehicle mandate, removing regulatory barriers to motor vehicle access, and termination of the Green New Deal, which immediately pauses all disbursements under the Inflation Reduction Act of 2022.
- Withdrawing the US from the Paris Agreement, for the second time, and any other agreements under the UNFCCC.
- Ceasing approval for any new onshore and offshore wind projects and suspending the Lava Ridge Wind Project.
- Terminating government DEI programs and preferencing, notably targeting Executive Order 13985, ‘Advancing Racial Equity and Support for Undeserved Communities Through the Federal Government’.

Go to the full article

GLOBAL SUSTAINABILITY REGULATION
KEY THEMES FOR 2025 (1/2)

04

What to Expect in 2025 for Transition Plans, Sustainability Disclosures, and ESG Litigation?

1 Impact of 2024 elections on the global net zero transition

- US - the Trump administration has withdrawn the US from the Paris Agreement and incentivized new fossil fuel extraction, creating uncertainty for clean energy expansion and the energy transition.
- EU - the new European Parliament and Commission have two key trends: (1) the need to boost EU's competitiveness and growth, notably through the European Green Deal and decarbonization (Draghi report), and (2) the need to simplify regulatory burdens. ESG legislation is expected to continue to develop in 2025, including a Clean Industrial Deal and Industrial Decarbonisation Accelerator Act.
- UK – the new Labour government has said that they will prioritize UK's energy transition and net zero policy, with a commitment to delivering clean power by 2030.

2 Evolution of Transition Plans and Transition Finance

- Globally, several countries are considering mandatory transition plans; the UK has said it will consult during the first semester of 2025, while in Europe the CSDDD will require certain large companies (including those doing business in the EU) to develop transition plans by mid-2027.
- The UK has set best practices for credible and robust transition plans through the Transition Plan Taskforce (TPT) which is continues to issue global transition planning frameworks as a part of the ISSB. The UK also carried out a Transition Finance Market Review (TFMR) in 2024 to develop a framework for scaling the market for transition finance globally.

3 Increasing Sustainability Due Diligence Regimes

- Europe is leading on sustainability due diligence requirements with the EU Corporate Sustainability Due Diligence Directive (CSDDD), EU Deforestation Regulation, and EU Forced Labour Ban Regulation.
- The CSDDD will significantly impact companies' approach to identifying and addressing human rights and environmental impacts in their global supply chains. It will also require companies to adopt and implement climate transition plans.
- The EU Deforestation Regulation will come into effect on the 30th of December 2025 for large in-scope companies, seeking to ensure that all products made available and exported from the EU market are deforestation free.

Go to the full report from Linklaters on the ESG Outlook for 2025

GLOBAL SUSTAINABILITY REGULATION
KEY THEMES FOR 2025

04 What to Expect in 2025 for Transition Plans, Sustainability Disclosures, and ESG Litigation? (Cont.)

4 Sustainability Disclosure Regimes

Extra-financial disclosure requirements will present a steep learning curve for companies globally:

- In Europe, the first set of companies (500+ employees) will need to publish their first double materiality reports in alignment with the CSRD for FY24. The European Commission expects the first wave of reporting to be a challenge, notably due to the uncertainty surrounding the Omnibus proposal.
- ISSB sustainability disclosure standards (IFRS 1 and IFRS 2) are in the process of being integrated into national law across 30 jurisdictions, including the UK, Japan, Thailand, and Indonesia.
- In the US, the SEC climate-related disclosure rules are expected to be discontinued or reversed by the Trump administration in 2025. However, companies operating in California may still be subject to the states' climate disclosure rules (reporting due to start in 2026).
- TNFD disclosures are expected to be the next focus for sustainability-related disclosures, although progress remains slow as evidence by the disappointing results of COP16. In Europe, companies under the scope of the CSRD will need to report on nature-related impacts (where material).

5 Continued Evolution of Sustainable Finance Markets

- 2025 will be a pivotal year for transparency and compliance for sustainable investment products. ESMA's guidelines on funds' names using ESG or sustainability-related terms will be mandatory in May 2025, requiring funds to allocate min. 80% of investments to E/S objectives, while avoiding exposure to controversial sectors such as fossil fuels.
- The UK Treasury is consulting on whether a UK Green Taxonomy would be beneficial to mitigate greenwashing, with a response expected in 2025.

6 ESG Litigation and Greenwashing

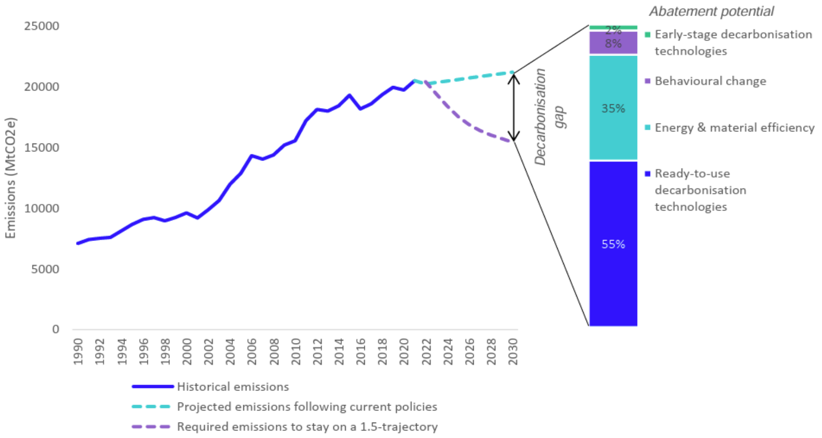
- Legal challenges against governments and corporates on their climate and environmental policies are expected to continue. Successful judgements from 2024 could form the basis for future actions, notably in relation to climate washing and human rights in relation to climate change.
- Plastic pollution and biodiversity loss are an emerging area of focus, with the European Central bank identifying nature degradation as a key litigation risk for financial institutions.
- Regulators will continue to prioritize greenwashing and misleading commercial practices, notably with the EU's new Directive on Empowering Consumers for the Green Transition.

Go to the full report from Linklaters on the ESG Outlook for 2025

ESG MARKET INSIGHTS
FINANCING DECARBONIZATION IN APAC

01 LSEG Report ‘Closing the Decarbonization Gap in APAC’ Highlights the Need for Urgent Financing of Mitigation Solutions & Technologies in the six APAC G20 Countries

Aggregated historical emissions, decarbonisation gap, and abatement potential of APAC(6) countries



Source: LSEG, August 2024

LSEG’s emissions database shows that the six G20 countries from APAC - China, Japan, South Korea, India, Indonesia, and Australia – (the APAC(6)) are responsible for 88% of GHG emissions of the region, and 43% of global emissions. Key findings from the report:

- There is a 61% decarbonization gap that APAC(6) countries need to close for them to remain below a 1.5°C trajectory.
- Solutions and technologies for closing the decarbonization gap already exist; the two categories of solutions which show the greatest abatement potential are ready-to-use decarbonization technologies (35%) and energy & material efficiency technologies (55%). These solutions can be divided into technology-based solutions (e.g., solar and wind energy deployment) or transitioning away from fossil fuels and nature-based solutions, including carbon sequestration.
- LSEG estimates that green revenues, based on the FTSE Russell Green Revenues Classification System, will represent $6.6 trillion in 2030, an increase of 313% from the $1.6 trillion generated in 2023.
- The gap between estimated 2030 emissions from current policies vs. the level needed to remain on a 1.5°C trajectory is the largest for South Korea and Australia (74%) followed by China (69%) and Indonesia (60%)

Go to the full LSEG report

ESG MARKET INSIGHTS
KEY ESG TRENDS IN THE MIDDLE EAST

02 The Middle East 2025 ESG Playbook – 10 Key Sustainability Trends to Watch in 2025

Sustainable Square highlights ten ESG trends reshaping the Middle East corporate landscape in 2025:

1. **Increasing mandatory ESG reporting requirements** – UAE will mandate sector-specific reporting for large enterprises while Oman will require public companies to publish standalone ESG reports aligned with GRI starting in 2025.
2. **Net zero commitments** – governments are increasing pressure on large companies to implement transition plans, with a focus on investing in renewable energy & carbon capture technologies.
3. **Increased allocation to funds with ESG-focused investment criteria** – Sovereign wealth funds such as Saudi Arabia's PIF and the UAE's Mubadala are integrating ESG benchmarks into their portfolios.
4. **Development of regional ESG frameworks** including Saudi Vision 2030, UAE Net Zero by 2050, and Bahrain's Economic Vision 2030.
5. **Spotlight on social impact** – focus on social issues (the 'S' in ESG) continues to gain momentum with companies and governments emphasizing job creation, youth empowerment, inclusion, and employee health & safety initiatives.
6. **Growth of sustainable finance opportunities** – the region is experiencing a surge in sustainable finance instruments, including green bonds, sukuks, and sustainability-linked loans. The UAE, Saudia Arabia, and Qatar are leading the way in launching ESG-focused financial markets.
7. **Digital transformation as an enabler for ESG integration** – companies continue to adopt AI-powered tools to manage ESG and carbon data and to leverage blockchain technologies for supply chain transparency.
8. **Corporate governance transformation** – introduction of independent board members, ESG committees, and improved risk management practices will continue to reform governance practices across GCC's member states.
9. **Water scarcity and climate resilience remain key issues** – governments are prioritizing desalination plants, wastewater recycling, and advanced irrigation technologies to address growing demand, while businesses are adopting water-efficient technologies and adapting to extreme temperatures to build climate-resilience.
10. **Cross-border collaboration on sustainability** – programs like the Middle East Green Initiative are promoting collaboration on reforestation, renewable energy, and emissions reduction. GCC countries continue to invest in large-scale projects, such as interconnected renewable energy grids and regional carbon markets.

Go to the Middle East ESG Playbook from Sustainable Square

ESG MARKET INSIGHTS
CITIZENS, EMPLOYEES, AND CONSUMERS ON CLIMATE

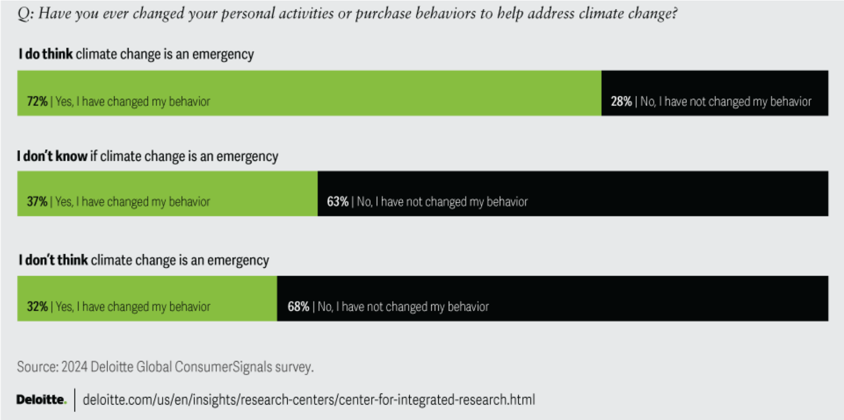
03 Deloitte's latest Consumer Signals Survey finds that a Stable Segment of the Global Population Considers Climate Change to be an Emergency and is Changing Their Behaviors to Address it

Key findings from the Consumer Signal's survey*:

- 56% of the respondents have personally experienced at least one climate-linked extreme weather event within the last six month, particularly in South Africa, Brazil, Mexico, and India.
- 63% of respondents do not think that their employers are doing enough to address climate change and sustainability, but are hesitant to change jobs because of it, while 21% report considering switching jobs to work for a more sustainable company.
- 67% of the respondents see climate change as an emergency of whom 72% have changed their behavior to help address climate change.
- Across all age groups, respondents say they have changed their personal activities or purchase behaviors to help fight climate change, with 62% for respondents between ages 18 – 34 responding 'yes' to changing their behaviors, 59% for ages 35 – 54, and 58% for ages 55 and older, respectively.
- 37% of respondents report paying more for a sustainably produced good or service, accepting the tradeoff for sustainability.

Deloitte surveyed 20,000 respondents across 20 countries in January 2024

Respondents are changing their behaviours to reduce climate impacts



Go to the full article from Deloitte

NEW IN RESEARCH
EVALUATING CORPORATE TRANSITION PLANS

01 The European Platform on Sustainable Finance publishes their report : ‘Building trust in the transition: core elements for assessing corporate transition plans’

In 2024, the Draghi report highlighted the urgent need for finance and investment to align European businesses with the EU’s environmental and social objectives; the report estimated the investment gap needed to maintain the competitiveness and sustainability of the European industry at $750 – $800 billion annually. Transition plans are a key tool for raising and granting transition finance.

The report provides advice to the European Commission on the development and assessment of corporate transition plans aligned with the EU’s environmental and social objectives in alignment with the Paris Agreement. The report provides four core elements for transition plans, in alignment with CSDD and CSRD:

I. Science-based and time-bound targets
II. Key levers and actions to achieve these targets
III. Financial planning (investments and funding supporting the plan)
IV. Governance and oversight of the plan and its implementation

The EU taxonomy, along with other tools such as disclosures from the EU legislative framework, can be particularly useful for assessing the robustness and consistency of transition plans (i.e., financial planning).

Simplified overview of EU Transition Plan Requirements

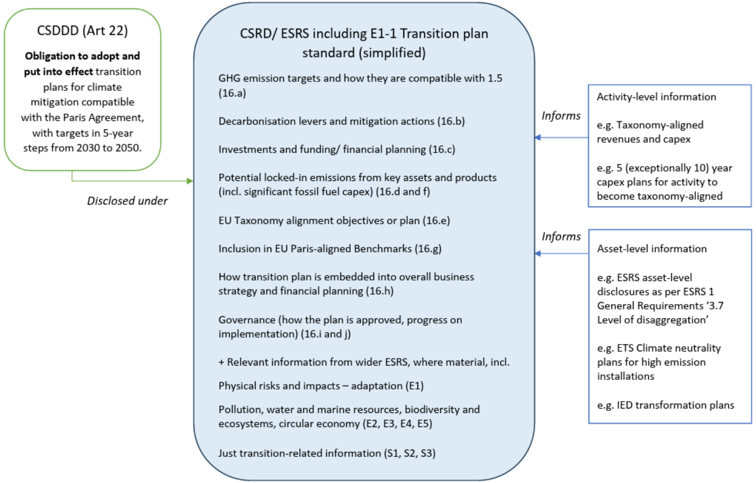


Diagram Source: European Platform on Sustainable Finance. Building Trust in the Transition Report (2025)

Go to the full report from the EU Platform on Sustainable Finance

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NEW IN RESEARCH
THE SUSTAINABILITY RETURN ON INVESTMENT

02 The Sustainability ROI: Capturing Long-Term Financial, Environmental, and Social Value

Key Building Blocks for Sustainability ROI

1. Position sustainability as a core part of the business & strengthen collaboration with corporate finance	• Integrate sustainability into your core strategy, not just department-specific. • Establish internal cross-functional collaboration, including finance, to ensure sustainability initiatives are considered from a financial perspective.
2. Measure the full value of sustainability	• Start with easy, quantifiable, tangible benefits such as energy savings to build credibility. • Broaden sustainability ROI to include hidden value and intangible benefits (e.g., brand reputation, employee retention, risk mitigation)
3. Communicate authentically and effectively	• Maintain a consistent sustainability ROI message, but tailor it to each audience (financial metrics for CFOs, such as cost savings)

Source: The Sustainability Dividend: a Primer on Sustainability ROI, The Conference Board, December 2024

- Sustainability ROI is more challenging to measure than traditional ROI due to its multidimensional nature and intangible benefits; 41% of executives polled by the Conference Board believe that their companies are underperforming or uncertain when it comes to assessing the ROI of their sustainability initiatives.
- To maximize Sustainability ROI, companies should embed sustainability into their core strategy and align it with the CFO's financial ROI definition to prevent missed opportunities for long-term value creation. This is crucial because many leaders still see sustainability as separate from the core business strategy.
- In addition to the tangible, easy to measure benefits of sustainability initiatives, such as energy savings, companies should assess the full scope of the value created from sustainability initiatives (intangible and submerged value), such as customer retention and talent attraction.
- Sustainability ROI is also key to gaining buy-in internally from skeptics about the value of sustainability investments. Current frameworks for measuring Sustainability ROI include the ROSITM Methodology developed by NYU Stern Center for Sustainable Business and the Impact-Weighted Accounts Framework.

Go to the full article from Harvard

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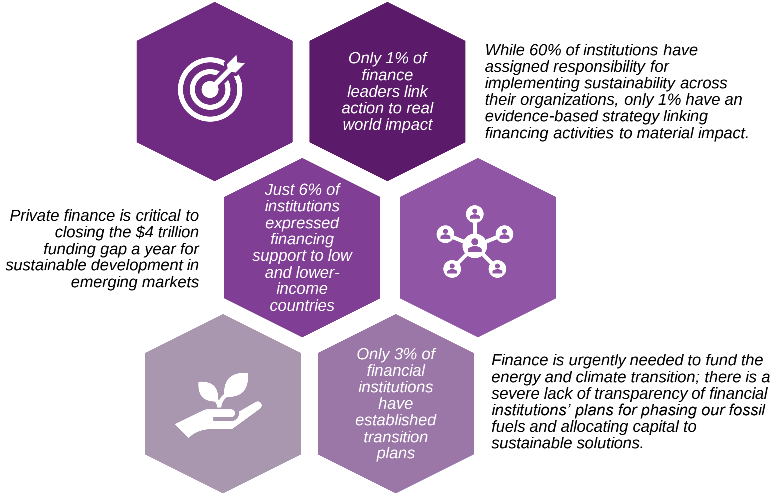
NEW IN RESEARCH
2025 BENCHMARK FOR FINANCIAL INSTITUTIONS

03 The World Benchmarking Alliance Publishes Their Latest Assessment of the Global Financial System, Revealing That Many Are Still Continuing Business as Usual

The World Benchmarking Alliance (WBA) assessed 400 influential banks, insurers, asset managers, and asset owners globally, including sovereign wealth funds, pension funds, and development finance institution, on their approach to sustainability governance, climate, nature, and social issues.

Financial institutions play a key role in leading and accelerating positive change. The 2025 benchmark shows that while financial institutions have made some progress, the impact remains in the real world remains limited.

- Visibility on SDG-related finance remains low across globally agree environmental and social objectives; a global norm is required on the financial system's responsibility to invest in emerging economies and drive innovation so that capital reaches under-represented and vulnerable groups.
- Only 1 in 10 institutions globally are identifying their impact on nature although 50% of the global GDP relies on it.
- 6% of financial institutions disclose having a process for identifying risks to workers' rights in financing activities, reflecting the need for mandatory due diligence to protect employee well-being.



Source: World Benchmarking Alliance, Financial System Benchmark (2025)

Go to the WBA Financial System Benchmark for 2025

IN FOCUS: FOREVER CHEMICALS
PFAS 101

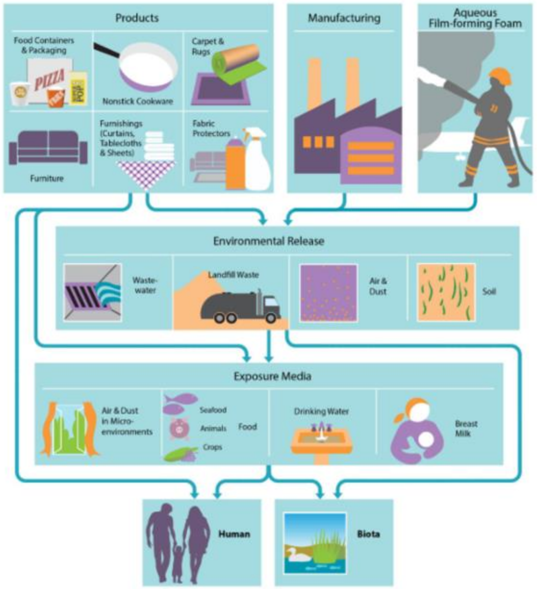
01 What Are ‘PFAS’ and How Do They Impact Human Health and the Environment?

PFAS (per- and polyfluoroalkylated substances), also known as ‘forever chemicals’, are a family of **+10,000 synthetic chemicals** used in industry and consumer products since the late 1940s.

- These chemicals are non-stick, water-repellent, stain-proof, and resistant to very high temperatures and extreme physical conditions, making them a valuable ingredient in thousands of applications.
- PFAS can be found across all industries, including consumer products such as Teflon-coated non-stick frying pans and food packaging, pesticides, medical implants, paints, and fire-fighting foams.
- A study published by a team of researchers in the peer-reviewed journal Environmental Science: Processes & Impacts identified over 200 use categories and sub-categories for more than 1,400 individual PFAS.
- Only recently, PFAS become considered one of the most serious pollution crisis globally. The name ‘forever chemicals’ reflects the most significant problem with these chemicals – they are extremely persistent in the environment. Their chemical structure, being the strongest bond in organic chemistry, means that they don’t breakdown naturally.
- In addition, PFAS are mobile, spreading through rivers, soil, groundwater, and food.

As a result of decades of widespread use and their high persistence, PFAS are found in nearly every living organism, including humans. People are exposed to PFAS through contaminated drinking water & food, PFAS-containing products, contaminated air, dust, and soil, and in utero.

PFAS Contamination in the Environment



Source: *California Environmental Protection Agency*, April 2023.

Go to read more about PFAS

IN FOCUS: FOREVER CHEMICALS (CONT.)
THE COST OF PFAS

02 The Socioeconomic Costs of PFAS & Cleaning up Forever Chemicals

- Exposure to PFAS has been linked to significant health issues, including kidney and testicular cancer, high blood pressure, liver damage, lower birth weight and size, immune effects, and hormone disruption. The landmark study ‘The Cost of Inaction’ published by the Nordic Council of Ministers in 2019 estimated the impact of the annual health costs related to PFAS to range between €52 - €84 billion for Europe alone.
- The Forever Pollution Project worked with 46 journalists and 18 experts across 16 countries to estimate the cost of cleaning up forever chemicals in Europe. The investigation found that if emissions remain unrestricted, the cost of cleaning up PFAS could be up to €100 billion per year (€2 trillion over the next 20 years). This includes short-chain and ultrashort-chain PFAS, which were created after the first generation of PFAS were banned.
- The financial cost of cleaning legacy PFAS, the big ‘long-chain’ molecules which are restricted or banned but remain in the environment, were estimated at €95 billion alone over the next 20 years (€4.8 billion per year).

Cost of cleaning up PFAS pollution could reach

€2 trillion

across UK and Europe over the next 20 years if PFAS are not restricted.

PFAS detected in

99%

*of bottled water sourced from 15 countries**

**Based on a study by researchers from the University of Birmingham, Southern University of Science and Technology, Shenzhen, and Hainan University, Haikou, published in ACS ES&T Water.*

Go to the full article on the cost of cleaning up PFAS

IN FOCUS: FOREVER CHEMICALS (CONT.)
REGULATORY PROPOSALS & BANS ON PFAS

03 Global Bans on PFAS in 2025 – How Are Governments and Businesses Responding to the Crisis?

Regulations to restrict the use of PFAS across the value chain are being proposed globally to address the pollution crisis, with some focusing on PFAS collectively while other are restricting individual chemicals (the most prevalent being PFOA and PFOS). However, very few countries have introduced comprehensive plans to ban PFAS.

- The European Commission intends to propose a ban on the use of PFAS in consumer products, with exemptions for essential industrial uses. Germany, Denmark, Norway, Sweden, and the Netherlands submitted a proposal for PFAS regulation to the European Chemicals Agency on ~10,000 PFAS. The following new law is expected to be published in 2026.
- The US has not proposed plans to implement a federal ban on PFAS. At state level, governments have established their own PFAS regulations, with three additional states proposing total-bans on PFAS containing products.
- In the APAC region, countries appear to be aligning with the specific PFAS restrictions outlined by the Stockholm Convention but have not moved towards broader PFAS bans. Most recently, Japanese authorities proposed a ban on 138 PFOA-related substances effective as of January 10th, 2025.

PFAS Litigation

- Regulatory action on PFAS continues to increase exposing companies to risk of litigation. In the US, water contamination claims have yielded settlements worth billions of dollars (i.e., Chemours' PFAS plant lawsuit). It is estimated that about 30 state attorneys have filed lawsuits against chemical companies producing PFAS, with a few reaching settlements.
- Europe has also seen multiple major PFAS lawsuits, including the 2022 lawsuit against 3M which led to a €571 million settlement with the Belgian government. Since litigation costs are lower in Europe, the lawsuits are more likely to go all the way to trial, rather than reaching settlement.

Corporate Lobbying Against EU PFAS Restrictions

The Forever Pollution Project stress tested the key arguments used by the plastic industry to lobby against Europe's proposed ban on PFAS:

- The project found that most of the arguments presented by industry lobbyists in the public-decision making process are misleading, spreading scientific misinformation on the health and environmental impacts of PFAS.

Go to the full article on global approaches to PFAS restrictions and bans

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