FLEXSTONE PARTNERS

SUSTAINABILITY

NEWSLETTER –DECEMBER 2024

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EUROPE SUSTAINABILITY REGULATION
DECEMBER UPDATE

01 EU Adopts New Rules Requiring 100% Recyclable Packaging by 2030

On the 16th of December, **EU member states announced that they have adopted new rules aimed at reducing packaging waste in the EU:**

- The new regulation was initially proposed by the European Commission in 2022 to reduce the environmental impacts of packaging; the EU generates approximately 186kg of packaging waste per person per year, including 36kg of plastic packaging.
- The regulation introduces requirements for EU member states to reduce the amount of plastic packaging waste by 5% in 2030, 10% by 2035, and 15% by 2040.
- The rules also ban certain types of single-use plastic packaging by 2030, including packaging for fresh fruits and vegetables, food, and beverages filled and consumed in hotels, bars, and restaurants.
- Additional rules include a requirement for takeaway businesses to offer customers the ability to bring their own container for beverages or prepared food at no additional charge and the banning of the use of PFAS above certain thresholds in plastic packaging.

Go to the full article

02 The European Commission Publishes a New Set of FAQs for the EU Taxonomy

The new set of Frequently Asked Questions (FAQs) aims to support investors with the implementation of the EU Taxonomy, the European classification system for defining sustainable economic activities.

- The Taxonomy came into effect in 2022 with disclosure requirements for the first two objectives, climate change mitigation and adaption, with the other four objectives applying as of 2024 (circular economy, pollution prevention & control, biodiversity, etc.).
- Key topics covered by the FAQ include clarifications to general Taxonomy requirements, interoperability of the Taxonomy with the CSRD's ESRS, verification & assurance requirements, technical screening criteria, and clarifications for reporting obligations under the Climate and Environmental Delegated Acts.
- The FAQ also includes a section dedicated to covering questions related to Do No Significant Harm (DNSH) criteria.

Go to the full article

EUROPE SUSTAINABILITY REGULATION
DECEMBER UPDATE

03 Categorization of Products Under the SFDR: New Proposal from the Platform on Sustainable Finance

Following the European Commission's public consultation, **the Platform on Sustainable Finance has published a briefing note for the Commission outlining how a categorization system for sustainable finance could be set up and calibrated.** The Platform recommends categorizing products with the following sustainability strategies:

- Sustainable: contributions through taxonomy-aligned investments or sustainable investments
- Transition: investments supporting the transition to net zero and a sustainable economy, avoiding carbon lock-ins
- ESG collection: excluding significantly harmful investments / activities, investing in assets with better environmental and/or social criteria.
- Unclassified: all other products.

The briefing note is accompanied by an annex with guidance on setting thresholds and supporting data.

Go to read the full report

04 Switzerland to Require Reporting on 2050-Aligned Net Zero Roadmaps

The Swiss government has launched a consultation on a series of new proposals for company sustainability disclosures, **including mandatory disclosure of plans to align with Switzerland's net zero target by 2050.**

- The Swiss government seeks to align climate-related reporting with standards such as the ISSB and the EU ESRS.
- The proposal would amend the current Ordinance on Climate Disclosures, which came into force earlier in 2024, with initial reporting required from Large companies beginning in 2025. Under the initial law, large Swiss companies and financial institutions are required to report on climate-related KPIs in alignment with the TCFD guidance (GHG emissions, climate risk exposure, etc.).
- The new proposal would require companies to report on their net-zero roadmaps to achieve the goals of Switzerland's recently passed Climate and Innovation Act.
- The net zero roadmap requirement includes additional obligations for companies in the financial sector with sector-specific science-based interim targets and expansion of climate-friendly technologies.

Go to the full article

GLOBAL SUSTAINABILITY REGULATION
DECEMBER UPDATE

05

Hong Kong Announces Plan to Require IFRS-Aligned Sustainability Reporting Starting 2025

The Hong Kong government announced the release of their Roadmap on Sustainability Disclosure in Hong Kong, **with a plan to require companies to report on sustainability and climate-related issues in alignment with the ISSB standards.**

- The disclosures will be applicable to some listed companies on a comply-or-explain basis starting in 2025, followed by mandatory requirements for large-cap companies starting in 2026.
- The Hong Kong Institute of Certified Public Accountants (HKICPA) will issue the final ISSB-aligned standards by the end of the year, which will go into effect August 1st, 2025.
- The roadmap also highlights Hong Kong's plans to support the implementation of the new reporting requirements, including working to develop a regulatory regime for sustainability assurance, promote the development of green fintech, roll out free data tools, and expand the Hong Kong Taxonomy for Sustainable Finance.

Go to the full article

06

California Eases Emissions Reporting Requirements

The California Air Resources Board (CARB) announced that it will ease the emissions reporting requirements and not pursue enforcing action in the first year of reporting, to give companies more time to comply with the rules.

- The 'Climate Corporate Data Accountability Act' effectively introduces climate reporting obligations for most large businesses in the U.S. The new law requires companies with revenues greater than $1 billion that do business in California to report annually on their GHG emissions from all scopes, including supply chains, procurement, waste, and water usage.
- Under the law, companies will be required to report on Scope 1 and 2 GHG emissions in 2026, on the FY2025, and on broader scope 3 GHG emissions in 2027.
- In the new enforcement notice, CARB added that it won't take enforcement action for incomplete reporting in the first year, while encouraging companies to move toward full compliance as

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SUSTAINABILITY REGULATION TRENDS
WHAT TO EXPECT FOR 2025

06

Sustainable Finance Regulation – Key Topics for 2025

1. Navigating the SFDR and CSRD

- In 2025, over 10,000 businesses will be subject to the CSRD to report on material environmental, social, and governance issues in alignment with the ESRS.
- The reporting framework requires companies to conduct a double materiality assessment across their operations & value chain.
- This will drive increased transparency, while also exposing companies and investors to additional compliance and reputational risk.

2. ISSB-Based Climate Disclosures

- The International Sustainability Standards Board's (ISSB) climate-related disclosure standards have been widely accepted; over 25 jurisdictions are in the process of making it a legal requirement (representing 40% of global market cap).
- EFRAG and ISSB published an Interoperability Guidance earlier in 2024 describing the alignment of the two disclosure requirements.
- For companies with global operations, it is increasingly challenging to navigate different disclosure standards.

3. ESG-Fund Naming Rules and Greenwashing Litigation

- ESMA released guidelines on funds' names using ESG- or sustainability-related terms earlier this year to combat greenwashing, with specific requirements (e.g., exclusion aligned with Paris-aligned Benchmarks and Climate Transition Benchmarks).
- Greenwashing litigation continues to evolve, with companies and financial institutions facing increased scrutiny and legal risks. Key issues identified by Reuters include lawsuits related to product names, modern slavery, consumer product contaminants, and carbon neutrality claims.

4. Global Convergence Between Sustainable Investment Taxonomies

- Views on what is defined as sustainable are still diverging. Globally, there are over 50 classifications and taxonomies on sustainable activities.
- The EU was the first to define a taxonomy of 'green' economic activities across six environmental objectives; however, companies and investors in the EU continue to struggle with the adoption of the EU taxonomy due to low data availability & quality and the complex disclosure requirements (i.e., when communicating with retail investors).

Go to the full article by MSCI

ESG MARKET INSIGHTS
WHAT TO EXPECT IN 2025 (1/2)

01

1. Resilience of Climate Policy Amid Geopolitical Uncertainties

Political disruptions and ongoing conflicts will continue to reshape international priorities, which could hinder multilateral cooperation to address the climate crisis:

- Europe's major economies are facing political uncertainty, which could impact the bloc's climate unity.
- The UK has set in place an ambitious industrial policy, with a focus on hydrogen as a cornerstone for decarbonization. However, UK's public continues to struggle under the cost-of-living crisis, potentially limiting the new government's climate agenda.
- With the re-election of Donald Trump, the US may withdraw from the Paris Agreement for the second time, although most Americans support US participation in the agreement and Republican-led states continue to benefit from IRA investments.

2. Just Transition

Developing economies bear a significant burden of climate impacts through extreme weather events and sea level rise, having contributed very little to the accumulation of GHG emissions over the last two centuries.

- The legal implications of this inequity will be decided by the International Court of Justice (ICJ) in 2025. Several vulnerable nations are arguing that historically high-emitting nations have a legal obligation to ensure the protection of the climate system for present and future generations.
- This inequality was also highlighted during COP29; while high-income economies can capitalize on green technologies, developing nations have limited access to funding, technology, and infrastructure.

3. Opportunities & Risks of AI for Sustainability

- Opportunities to deploy AI include improving energy grid efficiency, optimizing transport networks & supply chains, and monitoring conservation efforts. AI can also serve as a powerful tool for climate modelling and frontier research.
- However, these opportunities are still theoretical and have drawbacks; training large AI models requires a significant amount of resources, including electricity, water, and critical minerals. The 'rebound effect' where efficiency gains lead to increased resource use may also limit the long-term benefits of AI-driven solutions.

Go to the full article by Oxford Economics

ESG MARKET INSIGHTS
WHAT TO EXPECT IN 2025 (2/2)

01

4. Climate Finance and the Loss & Damage Fund

- **The New Collective Quantified Goal (NCQG) on Climate Finance** agreed at COP29 this year aims to distribute $300 billion in climate funding from high-income to developing countries to help them adapt to and mitigate climate change.
- Although the commitment falls significantly below the US$1.3 trillion required, it signals a growing attention on the need to finance a just transition and support emerging economies.
- **The Loss and Damage Fund (LDF)** aims to establish financial assistance to nations most vulnerable and impacted by climate change. The Fund is set to become operational in 2025. There is an urgent need for such funds, but without new financial commitments, its potential impact may be limited.
- Inefficiencies in funding mechanisms and the need to align private investments with equitable decarbonization trajectories remains a significant hurdle. The private nature finance market is growing, but not at the scale needed.

5. Growing Market Expectations for Corporate Sustainability

Globally, we are seeing an increase in meaningful sustainability initiatives across companies, including internal carbon pricing, sustainable procurement programs, and investment in nature-based solutions.

- Voluntary reporting frameworks on climate- and nature-related risks continue to expand under the TCFD, TNFD, and SBTi.
- We have also seen an increase in private market specific frameworks for setting decarbonization targets and integrating climate risk into company valuations, including the Private Markets Decarbonization Roadmap developed by the iCI and Bain & Company.
- The standardization in corporate sustainability disclosures is further driven by disclosure requirements globally, notably the European Sustainability Reporting Standards (ESRS) which will be compulsory for all large companies from the 2025 financial year. As a result of the CSRD, an increasing number of companies are conducting double materiality analysis and developing transition plans.

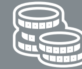
Go to the full article by Oxford Economics

ESG MARKET INSIGHTS
TRANSPORT INDUSTRY LOW-CARBON TRANSITION

02 The World Benchmarking Alliance Publishes Their Analysis for 44 of the World's Most Influential Automotive & Transportation Manufacturers on their Alignment to a Low-Carbon World

The World Benchmarking Alliance published their 2024 Climate and Energy Benchmark for 44 automotive and transportation manufacturers:

- Although EV sales have doubled from **7% in 2021 to 14% in 2023**, the transition fall short of the investment to achieve the electrification of the transport industry at scale.
- No automotive manufacturer is determined to phase out fossil fuel vehicles from their production lines by 2035.
- Only **~ 40% of vehicles in 2035** are expected to be fully electric, far from the 100% required for a 1.5°C scenario.
- Only 7 auto manufacturers, representing **28% of total vehicle production**, have committed to increasing low carbon investments by 2025, with only 2 of the 7 disclosing financial commitments at the level needed for a low-carbon transition.
- **Only two companies** - representing 6% of the EV market - **require suppliers to meet 1.5°C-aligned emissions** goals, and none have specific targets for battery suppliers.
- Only four **(13%)** companies are committed to **reskilling their existing workforce**, risking leaving 1.3 million workers behind.



Only 2 companies plan investments at the level needed for a low carbon-transition

EV plans fall short of the full electrification needed by 2035 by 60%

Only 6% of current EV production requires suppliers to set 1.5°C aligned targets

Only 5% of research spending is going towards low-carbon R&D

Go to the full World Benchmarking Alliance Report

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ESG MARKET INSIGHTS
THE EUROPEAN IMPACT INVESTING MARKET IN 2024

03

Impact Europe Publishes 'The Size of Impact Report' on the European Impact Investing Market

Impact Europe completed the second European impact market sizing exercise to measure progress and hold the sector accountable to its transformational ambition. Key findings:

- European private impact market is estimated to represent €190 billion of the total €7.6 trillion AUM eligible for impact investing in Europe.
- The growth of ESG investing is slower (17%) compared to the expansion of impact investing in Europe (20%) although impact investments still represent a smaller amount in absolute terms.
- In unlisted markets, investors have greater influence, and therefore investor additionality is easier to measure (*positive contribution that would not have happened without the investment itself*). In 2024, 62% of unlisted direct impact investors having some element of additionality, compared to 48% in 2022.
- The impact investing market in Europe is led by the UK (29%), the Netherlands (25%), and France (22%), with well-established impact investing ecosystems supported by a robust regulatory environment and active investor communities, notably with a high degree of institutional engagement.

Impact Europe Calls to Action

A. Impact investors should act as influencers and leaders in the market & use their experience to provide the market with innovative investment products, data, and new financial models.

B. Mainstream, responsible & sustainable investors should integrate impact investing in their ESG strategies, going beyond compliance to focus on value creation.

C. Policy makers should build on the current evidence to scale the market and facilitate the allocation of more capital towards impact. Regulators should work closely with impact investors and put impact at the center of the EU financial framework negotiations.

D. Market Builders should push for a complete harmonization at European level and for global action by aligning standards, definitions, and timelines. Another key barrier is capacity building for policy makers and finance actors – shared tools and data can provide essential skills to market participants.

Go to the full Size of Impact report from Impact Europe

NEW IN RESEARCH
2024 COMPETITIVE SUSTAINABILITY INDEX FOR EU

01 Cambridge Institute for Sustainability Leadership Publishes the 2024 Competitive Sustainability Index for European Competitiveness 'Beyond Draghi'

The index has not dramatically changed over the last two years, but **reflects weaker performance overall,** particularly in the economic and social dimensions in Europe, **consistent with Draghi's findings that EU is declining in competitiveness.** The key findings include:

- The EU's main weakness when it comes to taxonomy-related research & innovation performance is in the final stages of the process, notably commercialization and scaling (the 'innovation paradox').
- There is a significant decrease in investment in education (measured as % of GDP) across EU countries.
- Across 15 CSI indicators, EU's worst performer underperforms all its non-EU competitors; reflecting uneven competitive sustainability performance across member states. This could lead to significant fragmentation, highlighting the need for collective improvement in the EU.
- The CSI data indicates that renewable energy deployment capacity, climate action commitment, and protection of natural resources are positively related to positive economic outcomes.

Key characteristics of the Competitive Sustainability Index

- Embeds **purposeful innovation-related indicators** and latest thinking in economic development at the core of the approach to properly reflect the wider sustainability transition dynamic.
- Applies **a holistic industrial economic ecosystem** approach such that overlap and double-counting is avoided, while being relevant to the overall economy and key areas most relevant to climate neutrality.
- **Incorporates EU Taxonomy** to ensure economic ecosystem boundaries, and tracking of value-add reflects transition to climate neutrality – and helps avoid economic progress at expense of other priorities.
- Considers the economic dimension within a whole economy framework that **recognises known planetary boundaries, and incorporates governance and social dimensions**, which mirrors the Commission's own approach to competitive sustainability and is also **similar to ESG sustainable investment** approaches.
- **Uses an input–output–outcome** logic relevant for decision-makers at policy level and key for identifying potential opportunities for collaboration between EU countries.
- **Resulting competitive sustainability indicators and index** therefore reflect wider competitive context of sustainable development, and agreed medium and longer-term transition goals, international collaborative frameworks for these, and core investor needs and incentives in these.
- **The approach, data and resulting Index have also been statistically assessed and approved by the JRC.**

Source: University of Cambridge Institute for Sustainability Leadership (CISL). (2024). 2024 Competitive Sustainability Index Shaping a new model of European competitiveness 'beyond Draghi'. Cambridge, UK: Cambridge Institute for Sustainability Leadership.

Go to the full report from CISL on the 2024 European Competitivity Index

ERM SUSTAINABLE TRANSFORMATION SURVEY (1/2)

02 ERM's Transformation Survey Highlights the Challenges of Operationalizing Corporate Sustainability Goals & How to Overcome Them

ERM examined companies' progress in operationalizing broad sustainability goals and strategies by surveying 1,475 global respondents, including 390 C-suite and board members and 1,085 managers across sectors.

Key insights:

- Companies report making more progress on social issues than on decarbonization and lowering impact on nature.
- The lack of financial incentives tied to sustainability performance is the top barrier to action. Other barriers include costs associated with implementing sustainability strategies, lack of technologies, and lack of forceful regulation.
- Respondents rate the widespread introduction of sustainability-tied financial incentives and better staff training as having the highest potential to boost progress.
- Managers are less involved and more pessimistic than C-suite on sustainability performance. Respondents in manager positions see a lack of executive support and insufficient operational plans as internal barriers to internal operationalization.

Solutions to addressing key external and internal barriers

Respondents rank **better training, sustainability-tied incentives, and ESG data infrastructure** as the most underutilized high-potential solutions. Specifically, respondents recommend:

- Introducing **widespread financial incentives** tied to sustainability performance to accelerate progress (a solution that ranks as a top solution to overcome barriers, but also ranks as the solution most underutilized by companies)
- Financial incentives should be **tied to both C-suite and operational managers**, be tied to **transparent**, **measurable** metrics, and **be tailored to individual responsibilities** and functions.
- Sustainability training and education for C-suite, the Board, and managers is a high-potential, cost-effective solution to unlock operational progress on sustainability. Companies should conduct a gap analysis of board and leadership awareness gaps.
- Equip managers with operational tools to implement sustainability goals; companies need to invest in a granular ecosystem of specific targets, detailed data, and hands-on monitoring.

Go to the full report on Corporate Sustainability Transformation from ERM

NEW IN RESEARCH
ERM SUSTAINABLE TRANSFORMATION SURVEY (2/2)

02

Question: How much of a barrier are each of the following for your company to making greater progress on ESG and sustainability overall?

	Climate/ESG/gov't affairs	Supply chain/ procurement	Human resources	Operations/ infrastructure	Marketing/ communication	Strategy	Finance/legal/ investor relations
Highest perceived barrier	Limited shareholder interest Lack of financial incentives for leadership /employees 50% each	Insufficient market and commercial returns 55%	Lack of financial incentives for leadership /employees 53%	Required technologies too expensive or not available 46%	Lack of financial incentives for leadership /employees 58%	Lack of financial incentives for leadership / employees 52%	Lack of financial incentives for leadership /employees 48%
2nd highest perceived barrier	Required technologies too expensive or not available Insufficient internal funding 49% each	Required technologies too expensive or not available 45%	Insufficient market and commercial returns 46%	Lack of forceful regulations (e.g., fuel efficiency standards) 45%	Required technologies too expensive or not available Lack of forceful regulations (e.g., fuel efficiency standards) 44% each	Insufficient commercial and marketing returns 43%	Limited shareholder interest 38%
3rd highest perceived barrier	Lack of data to monitor progress 47%	Lack of necessary policy incentives (e.g., tax breaks) 44%	Limited shareholder interest 45%	Lack of financial incentives for leadership /employees 44%	Lack of necessary policy incentives (e.g., tax breaks) 42%	Lack of necessary policy incentives (e.g., tax breaks) 40%	Required technologies too expensive or not available Lack of motivation and knowhow of staff 36%

Source: ERM, Transformation Survey: Tracking the transformation, J. Kroon, A. Brackley, et al. December 2024.

Go to the full report on Corporate Sustainability Transformation from ERM

IN FOCUS: THE LEGACY OF THE 2024 PARIS OLYMPICS
WHAT CAN WE LEARN ABOUT SUSTAINABLE DESIGN?

How the Paris Olympics achieved a GHG emissions reduction of 54.6% compared to the previous games

The Paris 2024 Organizing Committee ('Paris 2024') designed the Sustainability Management System to systematically integrate environmental and social considerations into all activities, in alignment with ISO 20121:

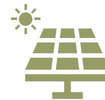
- The Responsible Procurement Strategy was focused around five priority commitments: circular economy, reduction of carbon footprint & environmental preservation, social innovation, inclusion of people, workers & users with disabilities, and creating value in local areas.
- The Games focused on mobilizing local suppliers, with 88% French suppliers, 83% VSEs/SMEs and 10% social economy structures.
- Paris 2024 rolled out a communications campaign to encourage everyone to adopt 5 eco-reflexes (using water bottles, recycling trash, eating responsibly).
- In addition to reducing GHG emissions by 54.6%, Paris 2024 financed carbon sequestration or avoidance projects equal to 1.59mtCO_2e, the amount of GHG emissions that could not be avoided.
- Reduction of operational GHG emissions through renewable energy use via the grid and use of rented technology equipment.

-54.6% of GHG emissions (1.59 mtCO_2e) compared to the average of London & Rio Editions (3.5 mtCO_2e)

90% circularity rate, with 100% second life for digital equipment and 75% of sports equipment rented or donated.

87% of spectators used public transport (62%) or other means of active mobility to get to the events

80% of spectators brought water bottles to the venue with 52% less single-use plastic used in the supply of drinks



100% of renewable energy to power the games via the electricity grid, with 98.4% of electricity needs covered by the grid.

Go to the full Report from Paris Olympics 2024

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