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**Green Horizons: Navigating
the EU's Sustainable
Finance Terrain**

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EU TAXONOMY

A common classification of economic activities contributing to climate and environmental objectives.

DISCLOSURES

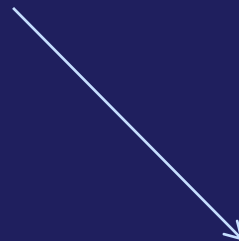
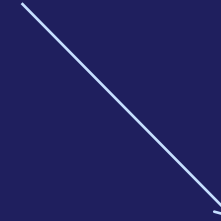
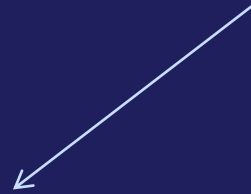
Disclosure regime for both non-financial and financial institutions to provide investors with the information necessary to make sustainable investment choices.

TOOLS

Toolbox for market participants to develop sustainable investment solutions, while preventing greenwashing.

ESG RATINGS

Assessment about the ESG characteristics, exposures to ESG risks and impacts of an entity, a financial instrument or a financial product.



What is
sustainable?

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Defining sustainability

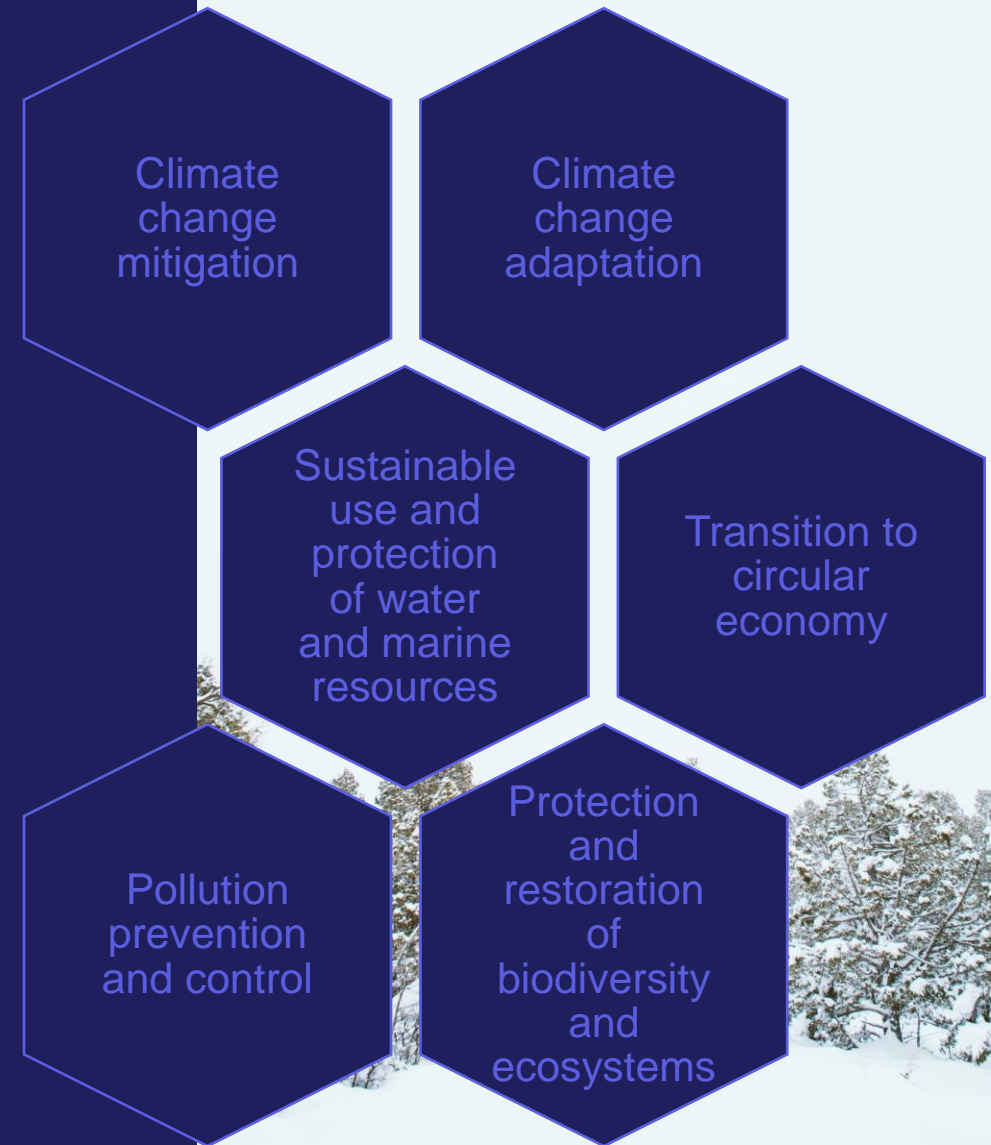
- Taxonomy Regulation – classification, measurement, transition.
- Provides clarity what is an environmentally sustainable activity under which circumstances.
- Measures degree of sustainability of an investment and the degree of green activities of companies.
- Helps investors and companies to plan and report on the transition.

What kind of investment is sustainable?

Sustainable investment means an investment:

- i. in an economic activity that contributes to an **environmental objective**;
- ii. provided that such investments **do not significantly harm** any of those objectives; and
- iii. that the investee companies **follow good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Rather broad definition that will be substantiated by the market participants.



Disclosures

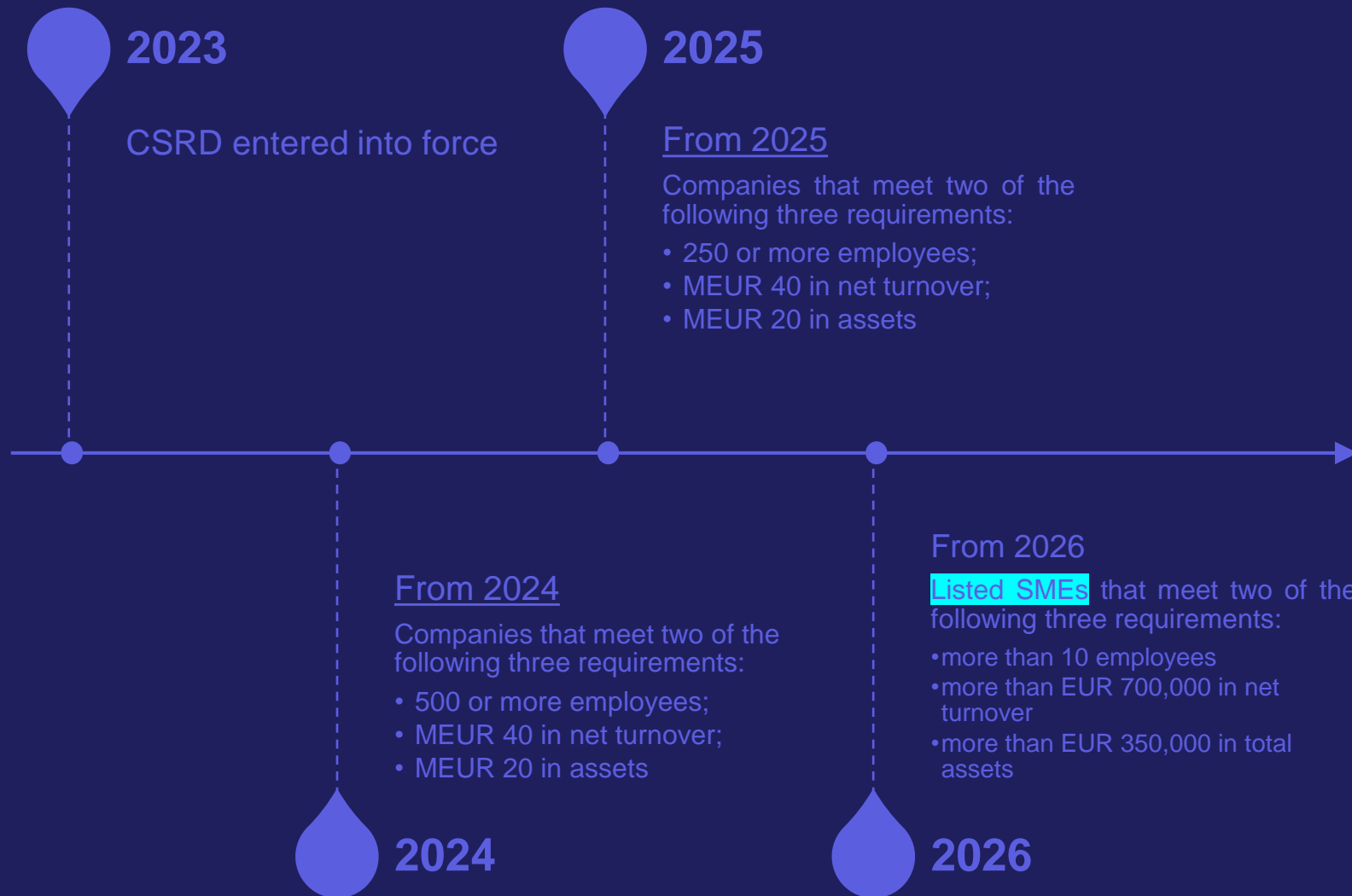
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Two major disclosure regimes:

- **SFDR** – mandatory reporting requirements for financial markets participants.
 - Pre-contractual disclosures for the investors + periodic reports.
- **CSRD** – mandatory EU sustainability reporting standards for all large and/or listed companies.
 - First companies report under CSRD for financial year 2024.
- Double materiality.





Interrelated regulations



- The EU Taxonomy provides a classification system for sustainable economic activities that is applied within the CSRD and SFDR.
- The CSRD is relevant for the SFDR, as it provides part of the information to be disclosed for the SFDR report.
- Companies affected by the SFDR, in turn, need the EU Taxonomy metrics from the CSRD report of their investment objects to fulfill their reporting obligations.

Other initiatives

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Recommendations under MiFID II and IDD

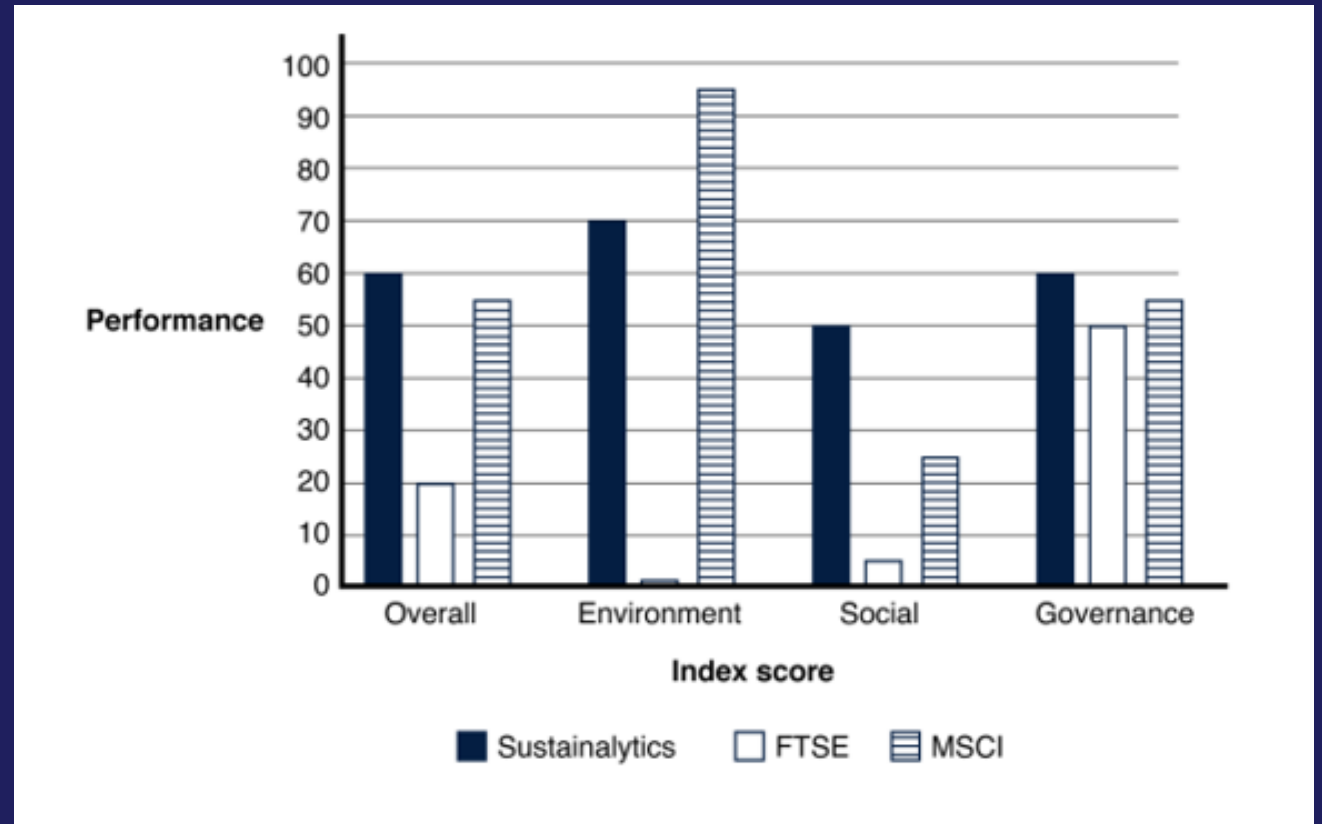
- The EU MiFID II and IDD require advisers to address two components of investing – clients and products.
- On the former, advisers are required to seek their clients' preferences on sustainability, based on which they can recommend “suitable” sustainable financial products and insurance-based investment products.
- On the latter(products), the sustainable products should be in line with the Taxonomy Regulations and SFDR.

ESG ratings

- Commission published on 14 June 2023 its proposal for a Regulation on the transparency and integrity ESG rating activities.
- ESG rating is defined as „an opinion, a score or a combination of both, regarding an entity, a financial instrument, a financial product, or an undertaking's ESG profile or characteristics or exposure to ESG risks“.
- Proposal promotes transparency, independence and accountability in relation to rating agencies:
 - authorisation requirements:
 - organisational and transparency guidelines;
 - disclosure and record-keeping;
 - operational limitations



Problems with ratings



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