

# Datafication of Sustainable Finance

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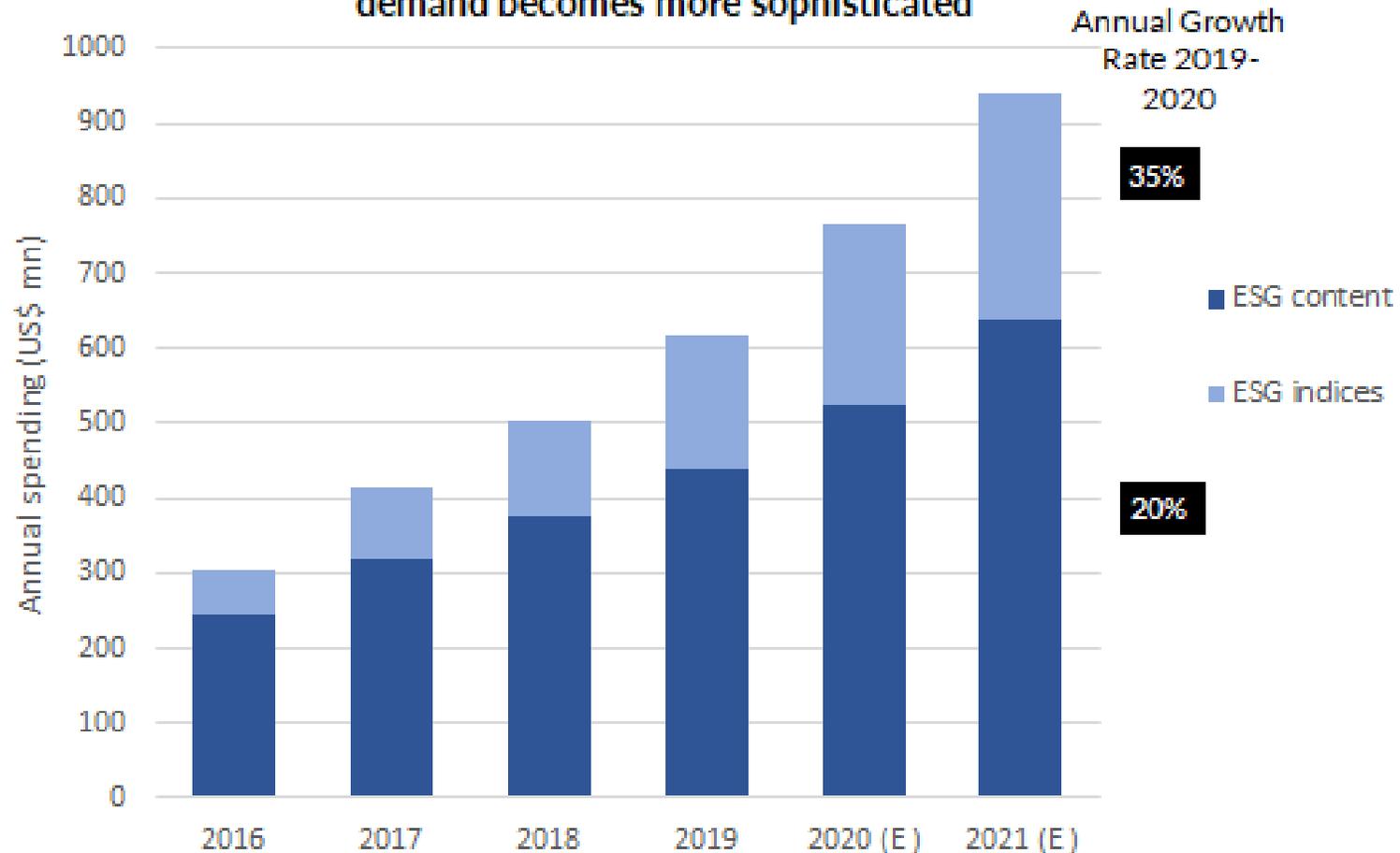


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- I. Introduction
- II. The Need for Data in the EU Sustainable Finance Framework
- III. Lessons learned from other datafication projects
- IV. Policy considerations
- V. Conclusion

# I. Introduction – ESG Data

Spending on ESG data continues to increase rapidly, as customer demand becomes more sophisticated



## 1. Market Demand

- Investors → seek sustainable investments
- Market Participants → seek identification of Sustainability Risks and Opportunities

## 2. Demand by Regulation → EU Sustainable Finance Framework

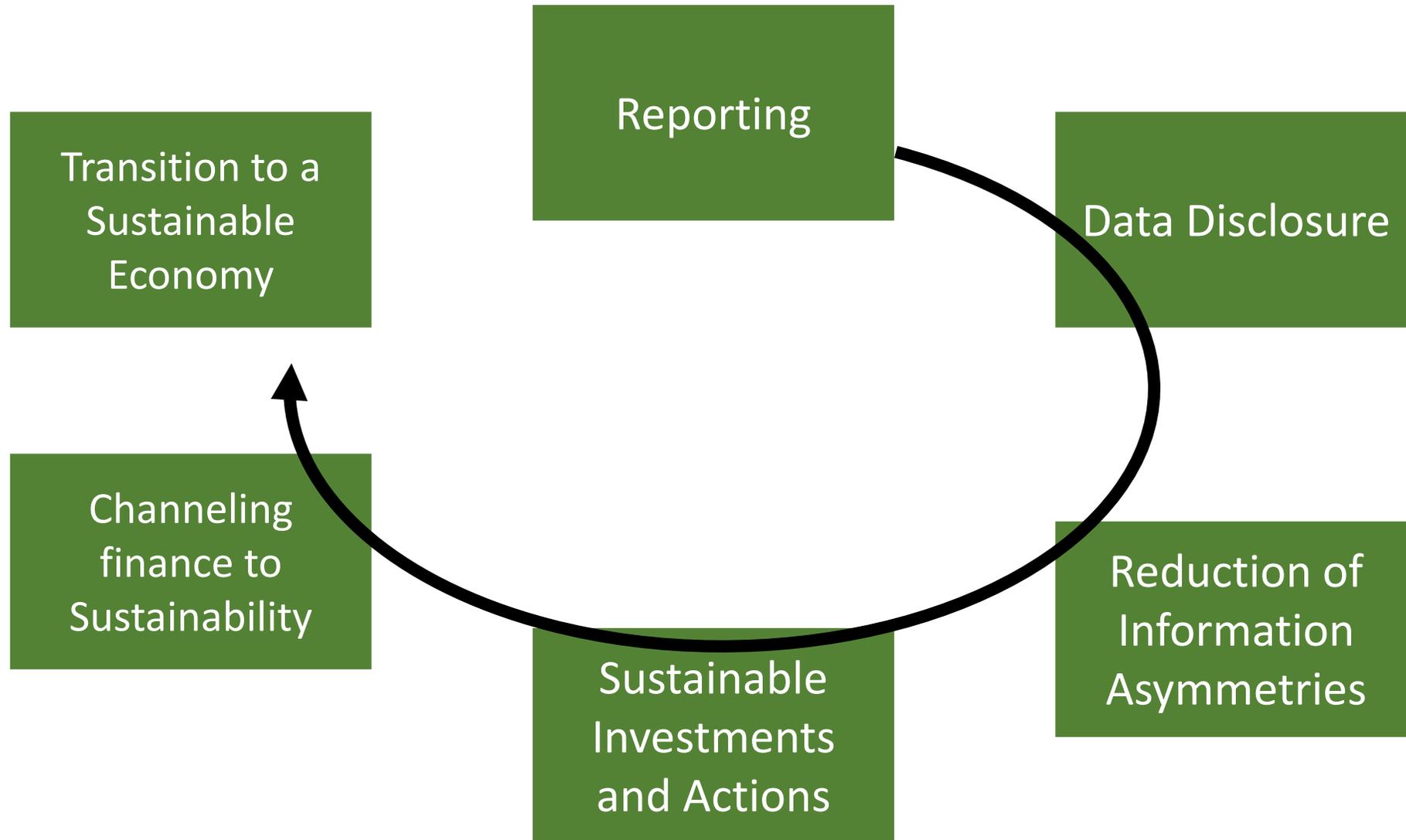
- NFRD/CSRD
- SFDR
- Taxonomy Regulation
- Benchmark Regulation
- Green Bond Regulation

→ **Reporting Requirements**



## II. The Need for Data – SF Reporting Strategy

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### Non-Financial Reporting Directive (NFRD)

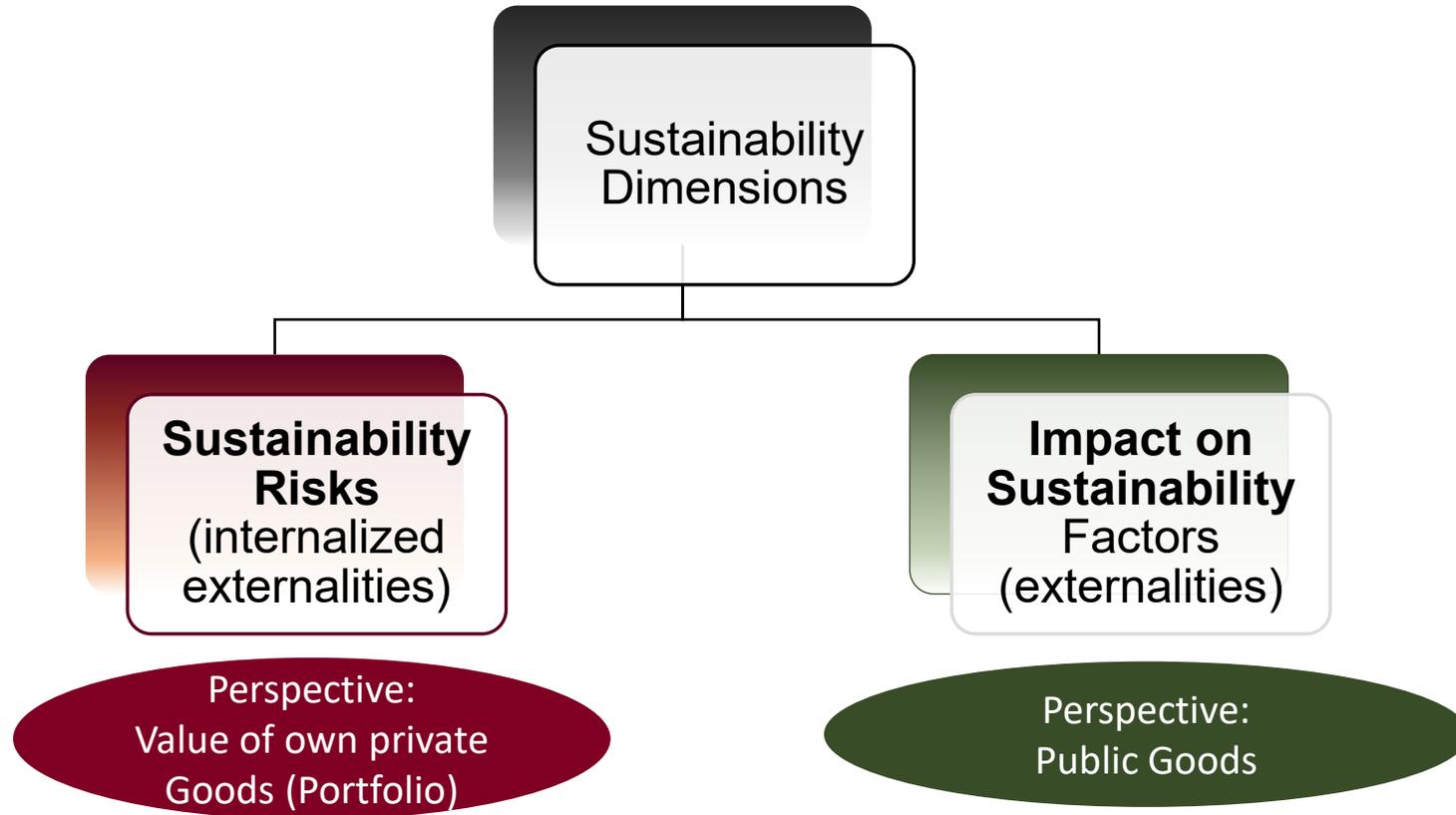
- **When?** Since 2014, Reporting since 2018
- **Who?** Large public-interest entities, more than 500 employees → 11,000 companies
- **What?** Non-Financial Statement
- **A Failure:**
  - Small Scope → Insufficient data
  - Single Materiality Approach → Insufficient data
  - Lack of standards → Lack of Comparability
  - Comply-and-explain approach → Lack of Comparability
- → **Introduction of the CSRD**

### Corporate Sustainability Reporting Directive (CSRD)

- **Progressive introduction (2024-2029)**
  
- **Major Changes**
  - Wider Scope → 50,000 companies
  - Harmonized European Sustainability Reporting Standards (ESRS)
  - Level of Detail
  - Principle of Double Materiality
  - Assurance Requirements
  
- **More Data, Higher Quality, Better Comparability**
- **Basis for Sustainability Information Ecosystem**

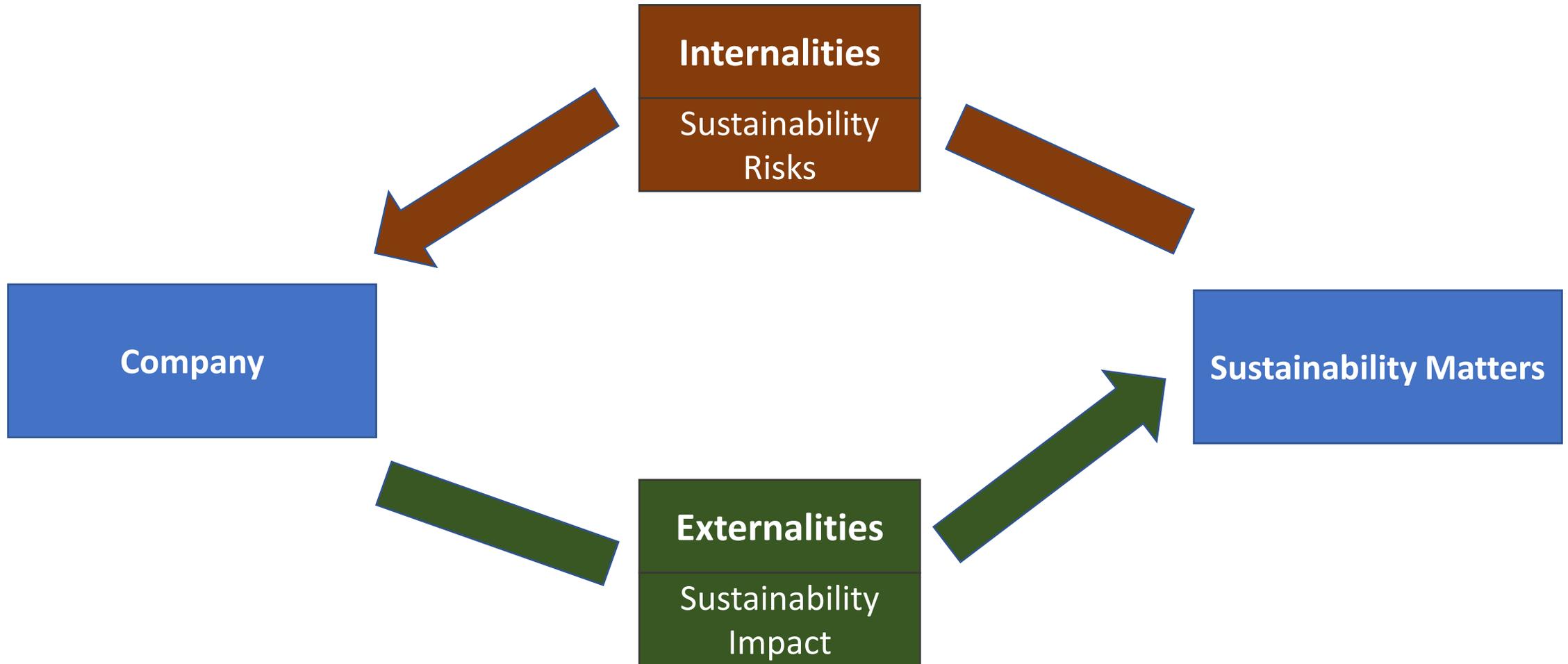
## II. The Need for Data – Corporate Reporting, CSRD, Double Materiality

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## II. The Need for Data – Corporate Reporting, CSRD, Double Materiality

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### Taxonomy Regulation (TR)

- Definition of **Environmentally Sustainable**:
  - **Substantial contribution** to one environmental objective
  - **Do not significant harm** any other objective
  - Compliance with **minimal Safeguards**
  - Compliance with **technical screening criteria**
- **Corporate Reporting**:
  - Turnover, CapEx and OpEX
  - That can be environmentally sustainable (**TR eligibility**)
  - That are environmentally sustainable (**TR alignement**)

### Sustainable Financial Disclosure Regulation (SFDR)

- **Who?:** Financial Market Participants and Financial Advisors
- **What?: Integration of sustainability risks and adverse sustainability impacts in**
  - In their processes (Entity level)
  - Financial products (Product level)
- **Reporting based on principle of double materiality:**
  - Entity level
  - Product level
    - Light Green
    - Dark Green

→ Interlinkage with Taxonomy Regulation

### Benchmark Regulation

#### 1. Introduction of **two ESG Benchmarks**

- EU Climate Transition Benchmark (CTB)
- the EU Paris-aligned Benchmark (PAB)

#### 2. Reporting Requirements

##### a) For all benchmark Administrators:

- How does the Methodology reflect ESG Factors
- How does the Benchmark reflect ESG Factors

##### b) For ESG Benchmark Administrators:

- Decarbonisation Trajectory (Reduction of GHG Emissions)
- Do not significant harm – ESG Factors

### Proposal for a Green Bond Regulation

- **European Green Bond** → “Gold standard” for ESG bonds
- **Requirements**
  - **Taxonomy-Alignment**
  - **Full transparency** on the allocation of the bond
  - Organizational Requirements
  - External review (supervised by ESMA)

## II. The need for Data – Effect of Reporting

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### Reporting Requirements

#### Obligated Entities

1. Reporting of ESG Data  
→ RegTech
2. Building of internal infrastructure  
→ RegTech

Requires Data

Update

Data

#### Regulators

1. Monitoring  
→ RegTech
2. Regulation based on Information  
→ RegTech

### III. Lessons learned – Financial Reporting

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1. Comprehensive scope
2. Use of detailed reporting standards, IFRS
3. Mandatory Reporting
4. Full validation by Auditors
5. → Use of FinTech and RegTech

### III. Lessons learned – Know Your Customer (KYC)

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1. KYC = Identification and Verification of individuals or entities involved in financial transactions
2. Requires Data Collection and Verification
3. Issue: Protection of Personal Data  
→ context of SF reporting: protection of intellectual capital, property and trade secrets
4. Use of FinTech and RegTech

### III. Lessons learned – The Use-Case of RegTech

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## RegTech

### Market Participants

- Higher level of compliance
- Cost reduction

### Regulators

- Improve monitoring and supervision
- Analyze and Access Data
- Build Regulation on Information

## 1. Data Measurement

### a) Temporal Gap

- CSRD data is supposed to be the building block of SF Data Ecosystem
- CSRD will not apply before 2025

### b) Regulatory Gap

- No Regulation regarding the measurement of data prior to reporting

## 2. Gap in Data Validation

### a) Temporal Gap:

- CSRD Data assurance will not apply before 2026

### b) Regulatory Gap:

- No validation possible without a uniform measurement approach  
→ Lack in delegation and third-party audit

## Proposal for an ESG Rating Regulation

- Ratings are used to cover the CSRD gap
  - Central aspects to improve quality and comparability of Ratings:
    - Authorization regime for Providers
    - Organizational Requirements
    - Disclosure of Methodology used
  - What is missing?
    - Harmonization of the Data Collection Process
- **Will therefore not result in better quality and comparability of ratings**

### 1. The Use of RegTech

- By regulators
- By market Participants

### 2. Focus on Data Measurement and Data Validation

- Data quality and comparability are crucial
- Establishment of best practices
- Use of RegTech

### 3. Ensure Proportionality for SMEs

- Data costs are absolute
- SMEs need protection
- Use of Estimates

### **1. Datafication**

→ The EU Sustainable Framework = Datafication project

- By market participants
- By regulators

### **2. Regulatory Gap**

→ Data measurement and data validation

### **3. Regulatory Answer**

→ A proportional focus on data measurement and data validation

- Use of industry standards and best practices
- A special set of rules for SME's

# Thank you!