

Datafication of Sustainable Finance

University of Luxembourg – 8th Inclusive and Sustainable Finance Research Conference, 23 November 2023

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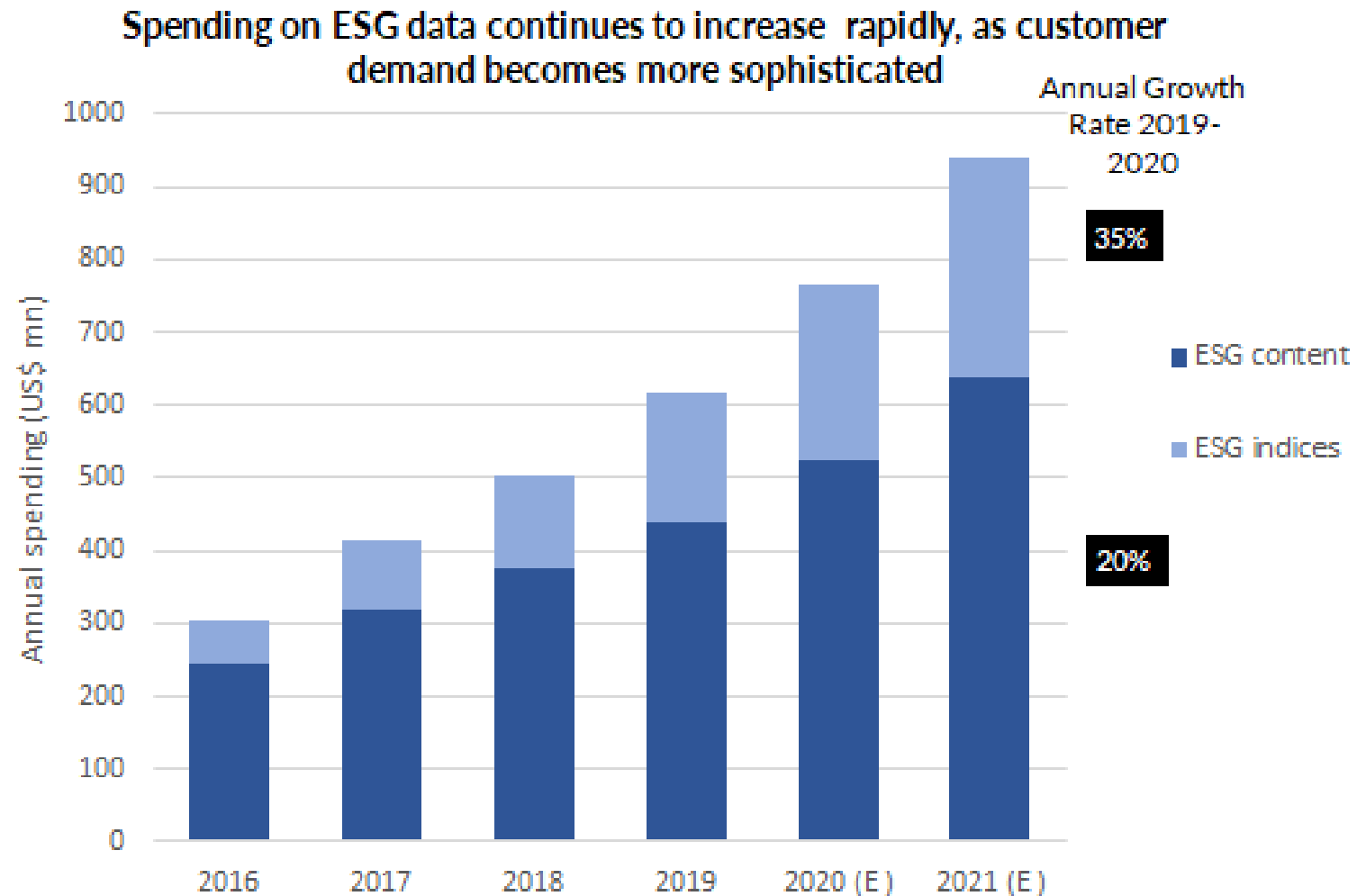


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- I. Introduction
- II. The Need for Data in the EU Sustainable Finance Framework
- III. Lessons learned from other datafication projects
- IV. Policy considerations
- V. Conclusion

I. Introduction – ESG Data

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1. Market Demand

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

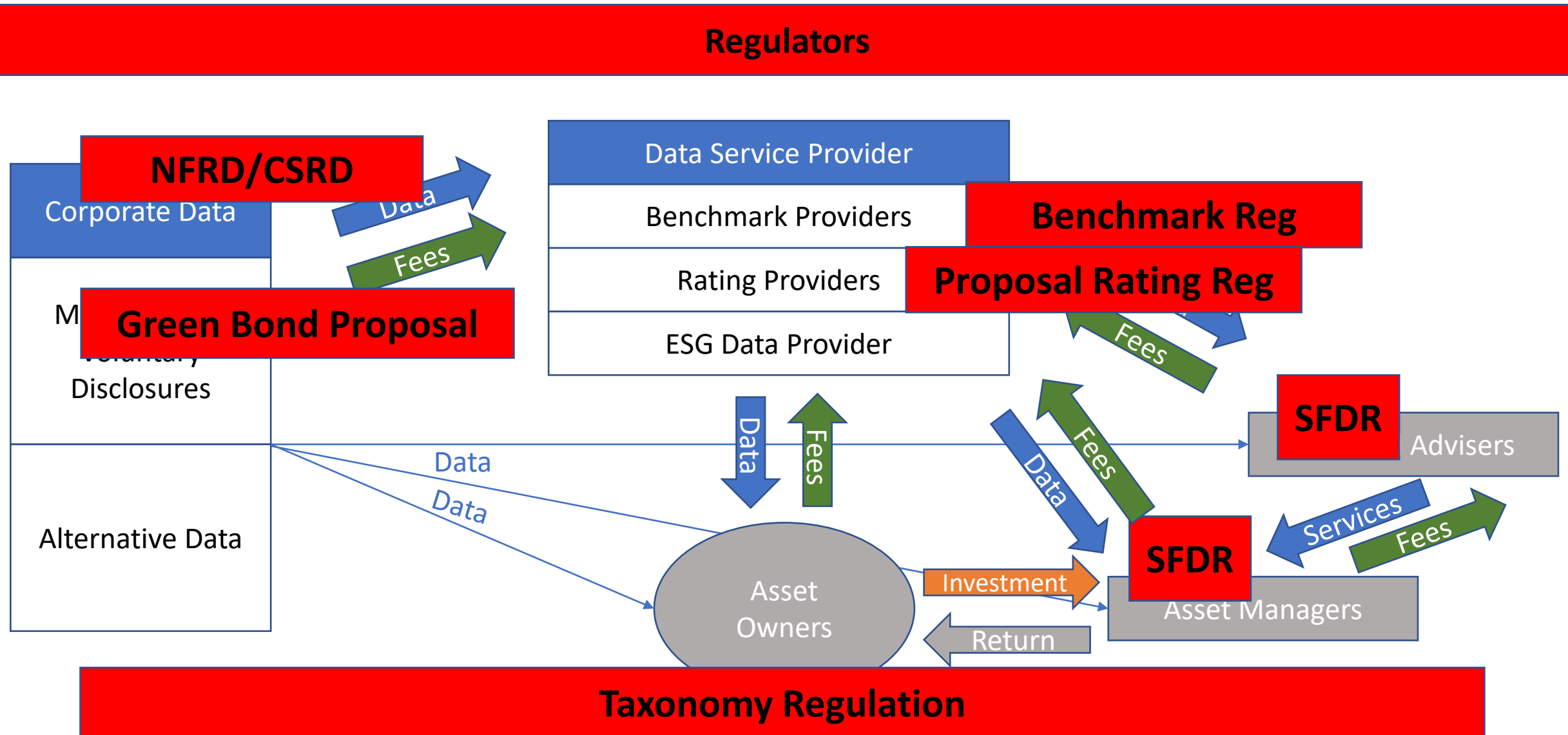
2. Demand by Regulation → EU Sustainable Finance Framework

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

→ **Reporting Requirements**

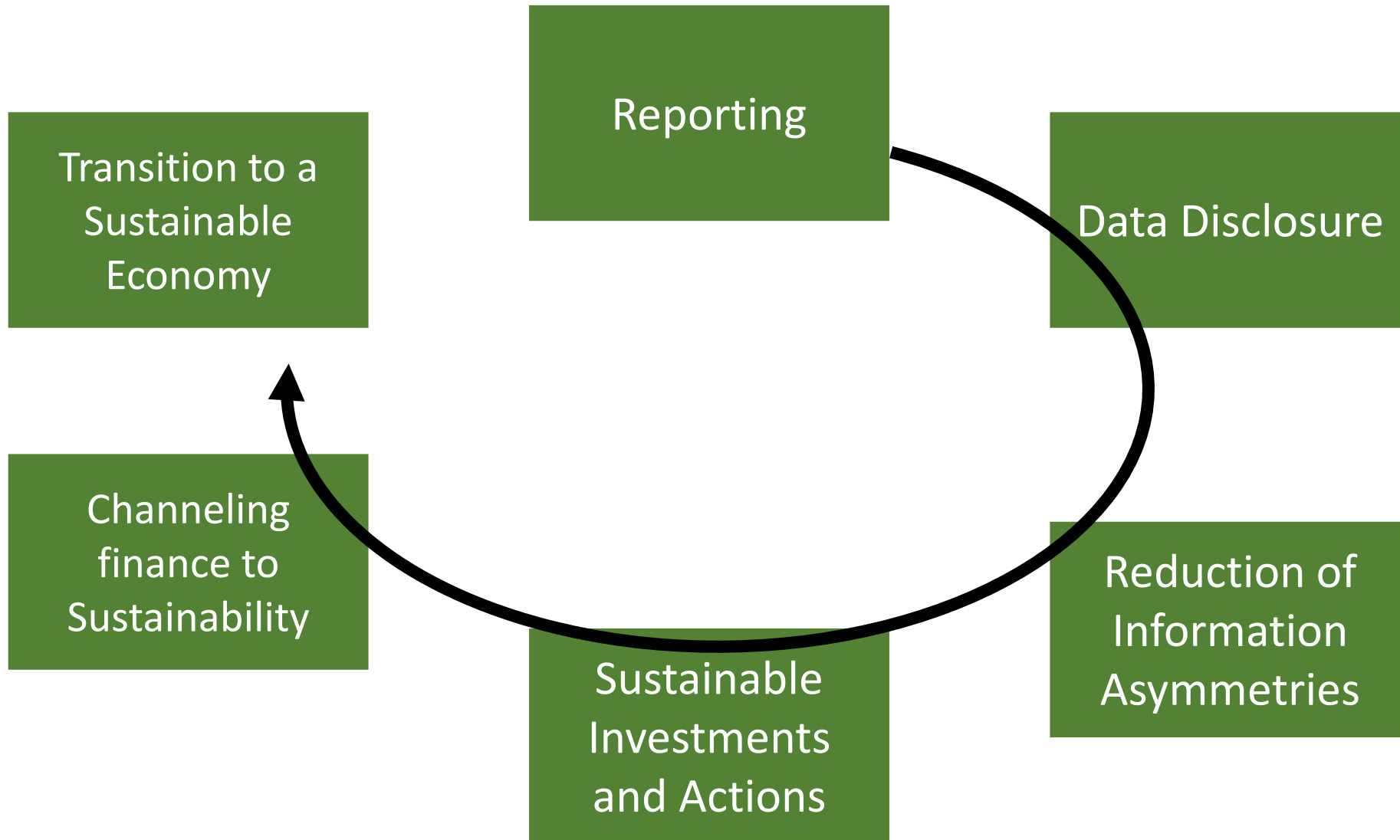
II. The Need for Data – Information Ecosystem

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II. The Need for Data – SF Reporting Strategy

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Non-Financial Reporting Directive (NFRD)

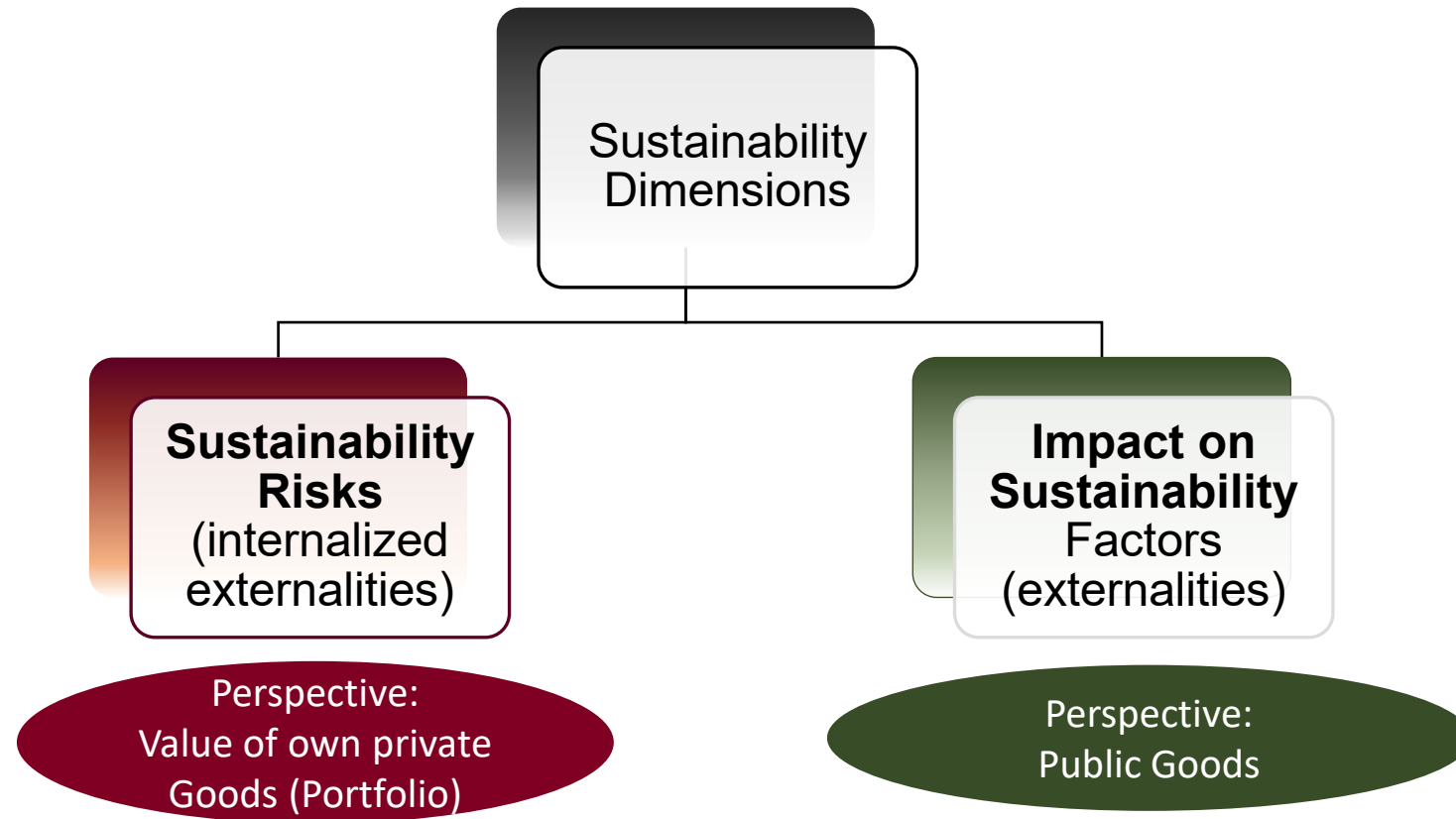
- **When?** Since 2014, Reporting since 2018
- **Who?** Large public-interest entities, more than 500 employees → 11,000 companies
- **What?** Non-Financial Statement
- **A Failure:**
 - Small Scope → Insufficient data
 - Single Materiality Approach → Insufficient data
 - Lack of standards → Lack of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

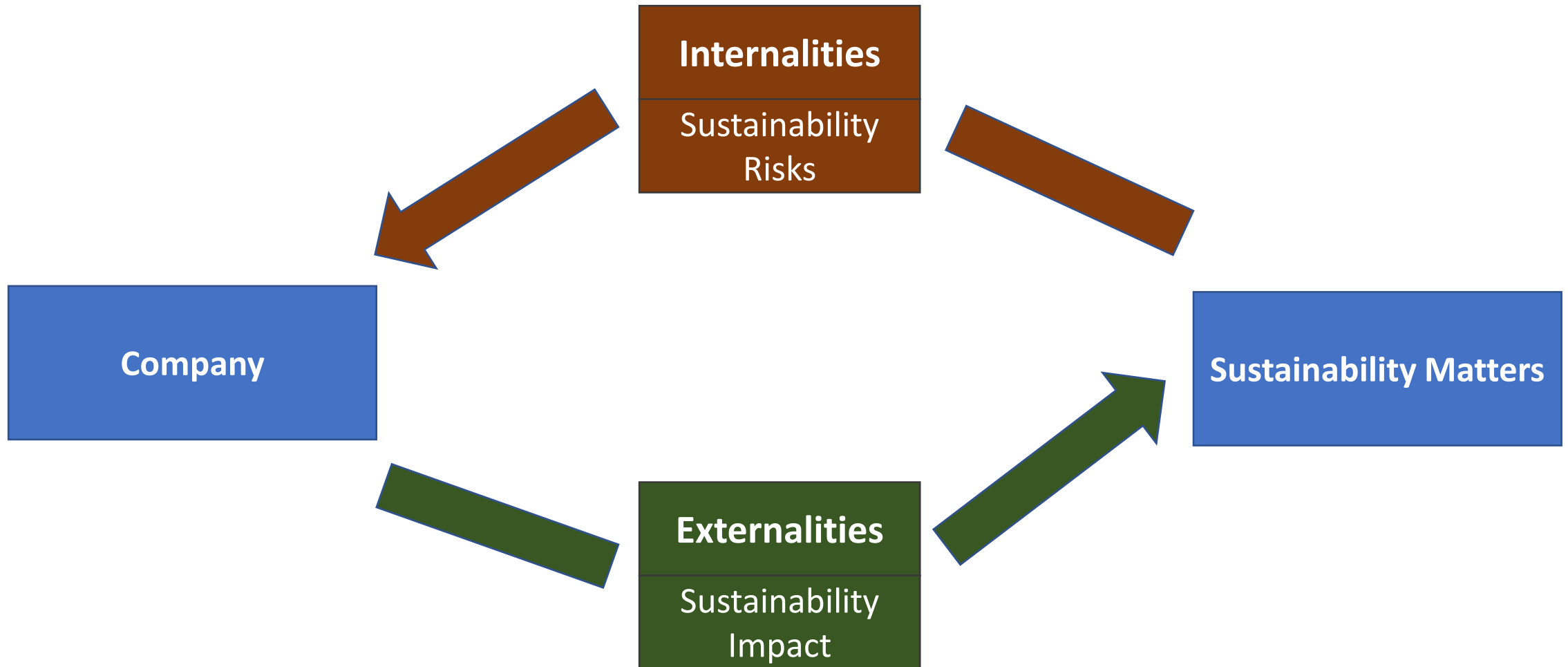
II. The Need for Data – Corporate Reporting, CSRD, Double Materiality

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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

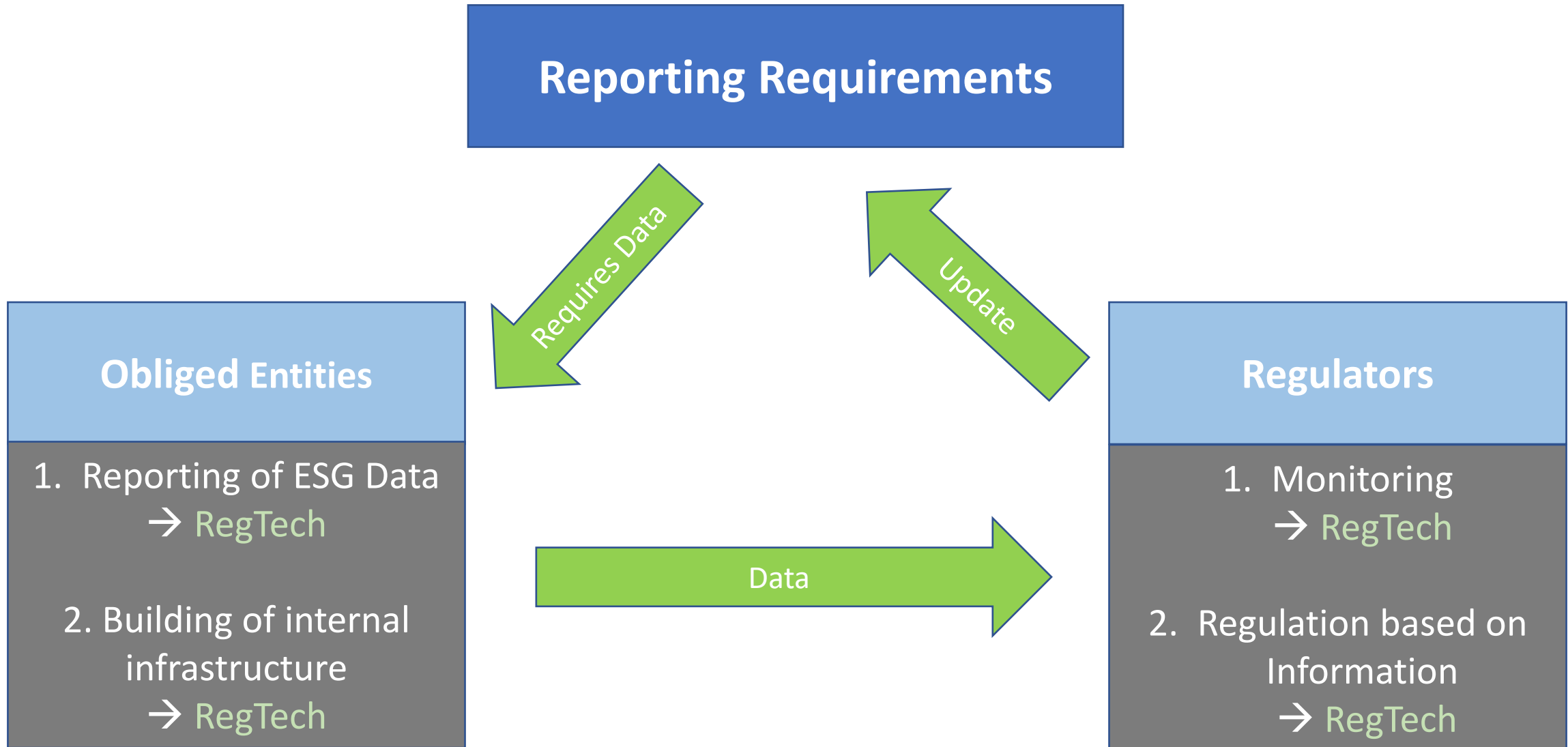
Proposal for a Green Bond Regulation

- **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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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!