



Monthly ESG Newsletter

January 2025

**ARWIN &
PARTNERS**

Sustainability matters!

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December 2024



EU Regulation (EU) 2024/3005 on ESG Ratings

- Adopted in November and published in December 2024, this Regulation sets consistent rules for ESG rating providers across the EU, aiming to enhance the quality and transparency of ESG ratings used by investors.
- The regulation requires providers to disclose methodologies, including criteria and weightings, ensuring ratings are consistent and comparable across the market. It also mandates the implementation of internal governance frameworks to avoid conflicts of interest.
- Supervisory authorities are tasked with overseeing rating providers to ensure compliance and accountability, reducing greenwashing.
- Timing: The regulation became effective on January 1, 2025, with mandatory full compliance by July 2, 2026.

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ESMA Q&A on Fund Names with ESG Terms

- On December 13, 2024, ESMA published the Q&A related to the guidelines on fund names.
- Funds using "sustainable" terms in their names should invest meaningfully in sustainable investments, generally understood as at least 50% of their portfolio, though higher thresholds may apply depending on the case.
- Exclusions related to controversial weapons, as outlined in Commission Delegated Regulation (EU) 2020/1818, should be interpreted based on the weapon types listed in Annex I of Regulation (EU) 2022/1288.
- Regarding European Green Bonds issued under Regulation (EU) 2023/2631, fund managers do not need to apply exclusions from the guidelines due to the high protection standard provided by the EU legal framework.

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ICMA Guidance Handbook on Sustainable Bonds

- In November 2024, ICMA released an updated Guidance Handbook for green, social, sustainable, and sustainability-linked bonds, offering practical guidelines for structuring, evaluating, and reporting such bonds.
- Issuers must conduct pre-issuance assessments of project impacts and are encouraged to obtain third-party evaluations; post-issuance, they must report on proceeds allocation and outcomes to ensure transparency.
- For sustainability-linked bonds, the handbook emphasizes setting measurable performance targets tied to sustainability goals, such as carbon reduction or social impact.
- This update addresses increasing demand for credible sustainable bonds, aims to prevent greenwashing.
- Timing: Effective from January 2025 for all new bond issuances.

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Q&A Platform – Compilation of Explanations – December 2024

- In December 2024, EFRAG published a compilation of explanations to aid the application of the European Sustainability Reporting Standards (ESRS).
- The document provides non-binding guidance to clarify existing standards without introducing new obligations.
- It addresses technical issues related to environmental aspects, particularly climate change and biodiversity, with references to specific ESRS sections for detailed insights.
- Transitional measures are allowed during the first three years of reporting, recognizing challenges in collecting value chain data.
- The guidance targets large listed and unlisted companies subject to ESRS requirements, excluding non-listed SMEs, which may follow future voluntary standards.

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EFRAG: Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME)

- On December 17, 2024, EFRAG published the Voluntary Sustainability Reporting Standard (VSME), designed for non-listed micro, small, and medium-sized enterprises.
- The VSME provides a simplified and standardized framework for SMEs to report sustainability-related information, promoting consistency and reducing the burden of multiple ESG data requests from stakeholders.
- The standard is divided into two modules:
 - Basic Module: Essential disclosures for all SMEs, offering a straightforward approach
 - Comprehensive Module: Additional disclosures for SMEs with more complex information needs.
- To encourage adoption, EFRAG will provide digital tools, training materials, and outreach initiatives throughout 2025. This initiative aims to enhance sustainability reporting practices across Europe, focusing on the unique needs of smaller enterprises.

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Attention Call of December 20, 2024, regarding climate-related disclosures to be included in financial statements

- On 20 December 2024, CONSOB issued a notice highlighting the importance of climate-related financial disclosures in annual reports.
- Companies are encouraged to provide detailed information on how climate factors affect financial statements, ensuring alignment with international standards.
- The notice aims to promote accurate reporting, ensuring that climate-related information reflects real financial impacts, thereby preventing greenwashing.
- Firms should report how climate factors affect asset lifespan, credit losses, and insurance contracts, including insights into uncertainties and estimations.
- By integrating climate-related information into financial statements, companies can help investors better assess the financial impact of climate risks.

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The Push for the 'Green' Data Center'

- First published in November and restated in December 2024, Goldman Sachs released a report titled "The Push for the 'Green' Data Center," highlighting some key points.
- Surge in Power Demand:** Data center power consumption is expected to grow by 165% by 2030, driven by artificial intelligence and data-heavy applications.
- Big Tech's Commitment:** Leading tech firms are adopting low-carbon solutions, investing in renewables and innovative power procurement to meet growing demand.
- Renewable Energy Limitations:** Despite efforts, renewables are projected to meet only 40% of increased power demand through 2030, requiring additional sustainable energy sources.
- Potential Role of Nuclear Energy:** The report anticipates a rise in nuclear power during the 2030s as a viable solution to meet rising energy needs with low emissions.
- Investment Implications:** The "Green Reliability Premium"—the cost of reliable low-carbon power—is seen as modest, with under 5% EBITDA impact and a 1-point return effect.

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Six Sustainable Investing Trends to Watch in 2025

- The report highlights six key trends in sustainable investing for 2025, focusing on ESG regulation, biodiversity finance, artificial intelligence adoption, and sustainable bond issuance.
- Regional differences in ESG regulations are expected to grow, with the EU implementing the CSRD and the UK adopting ISSB standards.
- The ESG fund landscape will undergo significant changes, with 30-50% of European ESG funds potentially being renamed or closed due to new anti-greenwashing rules.
- There is increasing interest in biodiversity finance, but regulatory uncertainties and barriers for investors remain, requiring coordinated global action.
- The adoption of artificial intelligence in ESG investment processes presents opportunities but also raises significant ethical, environmental, and social risks.
- A rebound in the issuance of green and sustainable bonds is expected, driven by lower interest rates and increased demand for financial instruments tied to the energy transition.

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The Road(Block) to Paris: How Accounting Rules Can Impact Climate Change Mitigation Through Corporate Investment Behaviour

- The study examines how financial accounting rules influence corporate investment behavior and climate change mitigation, focusing on the European Union.
- A key finding is that the mandatory adoption of International Financial Reporting Standards (IFRS), which prioritize fair value accounting, has led to lower corporate investment and slower greenhouse gas (GHG) emissions reduction compared to Domestic Generally Accepted Accounting Principles (DGAAP) based on historical cost accounting.
- Data from 239 listed EU companies (representing 62.9% of sector emissions) between 2016 and 2019 show that firms using IFRS invested significantly less in green initiatives, resulting in a 19.5% lower GHG reduction compared to what could have been achieved under DGAAP.
- The report highlights IFRS-induced short-termism, where firms prioritize short-term financial gains over long-term sustainable investments, as a barrier to achieving the Paris Agreement targets.

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ESG, what will remain?

- The European regulatory landscape is evolving, with the SFDR under review to simplify sustainability disclosures and ensure capital effectively supports the green transition, emphasizing clearer information for investors.
- Regulators propose classifying financial products into "sustainable" and "in transition" categories to prevent misleading ESG labeling and help investors better identify truly sustainable investments.
- The green bond market has surpassed \$5 trillion in cumulative issuances, with the EU introducing stricter Green Bond Standards (GBS) to ensure transparency and genuine sustainability impact.
- Despite market fluctuations, ESG investing is increasingly seen as a structural component in portfolio management, emphasizing long-term value rather than short-term trends.
- While overall greenwashing incidents have decreased, high-risk cases persist. The EU's SFDR and Greenwashing Directive aim to strengthen transparency and credibility in sustainability claims.

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EU advisers pitch overhaul of sustainable finance fund rules

An advisory panel to the European Commission has proposed reforms to the EU's sustainable finance rules, claiming clearer fund classifications to prevent "greenwashing" and ensure transparency. The proposed changes include redefining fund categories based on sustainability performance and setting stricter criteria for the labeling of financial products.

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FINANCIAL TIMES

Data shortfall undermines ESG investment, asset managers warn

Asset managers face criticism for their handling of ESG investing, with accusations of both insufficient efforts to address climate change and overstating their funds' sustainability credentials. They defend themselves by pointing to a lack of reliable, comprehensive ESG data, which complicates identifying genuinely sustainable companies.

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Sharp Decline in ESG Fund Inflows Reflects Investor Caution

According to Morningstar Sustainalytics, global inflows into ESG funds and ETFs dropped significantly in Q3 2024, totaling \$10.3 billion compared to \$160 billion in Q4 2021. This decline reflects growing skepticism around the financial performance of ESG funds, regulatory uncertainties, and concerns over greenwashing.

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EU ESG Compliance Directive Drives Surge in Consulting Demand

The implementation of the EU's Corporate Sustainability Reporting Directive (CSRD) has resulted in a surge in demand for consulting services, as companies face new obligations to report their environmental, social, and governance performance.

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Société Générale Expands ESG Investment Offerings with New Certificates

Société Générale has issued 10 new discount certificates focused on ESG-oriented stock indices, including the Eurostoxx 50 ESG and DAX 50 ESG. These products offer investors exposure to sustainable indices while incorporating a downside buffer, making them suitable for investors seeking ESG exposure.

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Growing Divide Between EU and U.S. on ESG Policy

The gap between the European Union's strict ESG regulations and the more politically polarized approach in the U.S. continues to widen. While the EU enforces comprehensive sustainability reporting and emissions reduction targets, some U.S. states and political figures have opposed ESG standards, claiming they interfere with business freedom.

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Italian Companies Show Progress but Struggle with Circular Economy Goals

A sustainability performance assessment of Italian companies showed a generally positive trend in ESG compliance, with sectors like transportation, construction, and manufacturing leading in sustainability metrics. However, the report highlighted declining progress in circular economy practices.

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FINANCIAL TIMES

US finance navigates Trump 'anti-woke' era but staying open for green business

Amid rising political tensions in the U.S., major banks like Citigroup, Bank of America, and Morgan Stanley have distanced themselves from the Net-Zero Banking Alliance. The move reflects pressures from anti-ESG rhetoric linked to the Trump election while banks continue to offer green products in response to rising sustainable investment demand.

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ESG & Sustainability upcoming events

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IFRS Update 2024 - Hot Topics: 9 January 2025

The workshop will cover key accounting topics for the 2024 financial statements, including climate risk impacts and sustainability reporting priorities

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Online



World Future Energy Summit: 14-16 January 2025

The World Future Energy Summit is a global think tank, powered by global innovation, pioneering minds and groundbreaking insights

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Abu Dhabi



COP29 outcomes and 2025 ESG trends: 15 January 2025

This webinar will focus on the outcomes from COP29 / COP16, and trends for the year ahead in ESG

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Online



Cleantech Forum North America: 27-29 January 2025

Cleantech Forum North America is the premier event in sustainable innovation connecting investors, corporates and innovators to fuel business growth, climate solutions, and impact

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San Diego



Leaders in Sustainable Finance Event 2025: 30 January 2025

What is the state of Sustainable Finance, and how can the financial sector accelerate progress together amid global turmoil and (legal/political) push back on transitions?

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ESG Conferences organized by Investment Banks and Brokers

Annual list

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
	The Central & Eastern European Forum 2025	In-person	Vienna	14-15 January 2025	The Central & Eastern European Forum 2025
	World Economic Forum Annual Meeting	In-person	Davos	20-24 January 2025	WEF
	Shaping the Future of EU Capital Markets	In-person	Paris, France	5 February 2025	ESMA Conference 2025
	Impact Investment Banking ESG Conference 2025	In-person	London, UK	19-20 May 2025	ESG Conference
	ESG Conference	Virtual	Virtual	29-30 May 2025	ESG Conference
	Responsible Investor Europe 2025	In-person	London, UK	11-12 June 2025	Responsible Investor Europe

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