Sustainable Finance Legal and Regulatory Study 2024

Commissioned by:

INTERNATIONAL SUSTAINABLE FINANCE CENTRE OF EXCELLENCE

In partnership with:

Skillnet IRELAND

Prepared by:

Matheson

This report is commissioned by the International Sustainable Finance Centre of Excellence (ISFCOE) and supported by Skillnet Ireland. The report is authored by Matheson LLP and the team includes, Garret Farrelly, Tara Doyle, Susanne McMenamin, Kevin Smith, Richard Kelly, David O'Mahony, Brónagh Maher.

CONTENTS

CONTENTS

LIST OF FIGURES

1. Executive Summary

This legal and regulatory study was commissioned by the International Sustainable Finance Centre of Excellence ("**ISFCOE**") to assist in the update of the National Sustainable Finance Roadmap (the "**Roadmap**") in 2023. The content of this study was a critical input in the updated Roadmap. This study is an update and progress report on the report titled "Ireland as a Global Centre of Excellence for Sustainable Finance – Legal and Regulatory Report" produced in 2021 (the "**2021 Report**").[1]

We provide an overview of the global legal and regulatory landscape (Section 3), an update on European and Irish legal and regulatory developments since the 2021 Report (Sections 4 and 5 respectively) and outline pending and possible future developments with respect to sustainable finance (Section 6). Sections 7 and 8 examine the opportunities and challenges for Ireland as a centre of excellence for sustainable finance. In Section 9, we comment on the progress made with respect to the recommendations made in the 2021 Report and we identify next steps and further implementation efforts to advance the progress made in building Ireland's reputation as a leader in sustainable finance.

The sustainable finance legal and regulatory framework is evolving at pace, with all stakeholders being required to adapt quickly to new rules, often in the absence of finalised legal requirements and regulatory guidance at European Union ("**EU**") or national level to assist with compliance. The EU's highly ambitious legislative programme in this area, combined with delays in the legislative process, has presented challenges to stakeholders, who must contend with a complicated matrix of requirements. There is an ongoing lack of clarity in relation to key concepts such as the definition of "sustainable investments". Many of the interpretation issues arise at EU level, making engagement at EU level essential to ensure that the issues are identified and adequately addressed. There may also be scope for further guidance and clarity from the Central Bank of Ireland ("**Central Bank**") relating to its expectations on implementing the various legislative requirements. It is necessary to understand the overall legal and regulatory context and the challenges facing market participants in order to identify measures that can be taken to maintain Ireland's position as a centre of excellence for sustainable finance.

Underlining the constantly evolving nature of the sustainable finance framework, we have outlined in the table in Figure 1 some key upcoming legal and regulatory developments. These developments are examined in further detail in section 6 (Horizon Scanning).

Figure 1 Summary of upcoming legislative and regulatory developments

Legislation / Initiative	Summary	Updates
Sustainable Finance Disclosure Regulation – Level 1	The European Commission ("**Commission**") is conducting a comprehensive assessment of the implementation of the Sustainable Finance Disclosure Regulation ("**SFDR**") with the review to focus on how the regulation ensures legal certainty, its usability and its role in mitigating greenwashing.	A targeted consultation and a public consultation on the review of the SFDR was published on 14 September 2023, with the review to continue into 2024.
Sustainable Finance Disclosure Regulation – Level 2	Pursuant to a mandate from the Commission, the European Supervisory Authorities ("**ESAs**") have published a consultation proposing significant changes to the existing disclosure requirements under SFDR Level 2.	The consultation closed on 4 July 2023. The ESAs transmitted their final report to the Commission on 4 December 2023.
ESMA Guidelines on Fund Names using ESG or Sustainability-related terms	On 18 November 2022, the European Securities and Markets Authority ("**ESMA**") published this consultation proposing the introduction of quantitative thresholds for the minimum proportion of sustainable investments to support the use of ESG or sustainability-related terms in funds' names. The consultation closed on 20 February 2023.	On 14 May 204, ESMA published its final report on the guidelines. The guidelines will apply three months after the publication of translations in the official languages of the EU on the ESMA website. Existing funds must comply with the guidelines six months after the application date.
European Green Bond Standard	Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds was published in the Official Journal of the European Union on 30 November 2023.	The majority of the provisions of the regulation on European Green Bonds apply from 21 December 2024.
Regulation of ESG Rating Providers	On 13 June 2023, the Commission published a proposed regulation intended to improve the reliability and transparency of ESG ratings activities.	The Regulation on ESG Ratings Providers is expected to be published in the Official Journal of the EU in 2024. The regulation will apply six months after its entry into force, subject to the transitional provisions set out in the regulation.
EU Ecolabel	The Commission has been exploring the possibility of applying the EU ecolabel to certain retail financial products including UCITS.	Work on the EU Ecolabel has been on hold since March 2022 and it is unclear whether and when it will resume
Corporate Sustainability Due Diligence Directive	The Corporate Sustainability Due Diligence Directive ("**CS3D**") will require in-scope companies to conduct risk-based human rights and environmental due diligence in respect of their operations, the operations of their subsidiaries and their chains of activities.	CS3D is expected to be published in the Official Journal of the EU in 2024.

Legislation / Initiative	Summary	Updates
European Long-Term Investment Funds Directive	The aim of the ELTIF Regulation is to raise and channel capital towards European long-term investments and to stimulate the real economy. It is expected to encourage private capital flows toward more environmentally sustainable investments.	Amendments to the ELTIF Regulation apply from 10 January 2024.

The inter-relationship between the various legislative initiatives must also be understood, as the disclosure requirements applicable to many financial market participants, for example, cannot be viewed in isolation from the reporting requirements of their underlying investee companies. The misalignment between the timing of the application of disclosure and reporting requirements, as well as a lack of consistency and coherency between third-party data providers, has led to significant data gaps and data challenges for market participants.

Continued government impetus to build on the outstanding success of financial services in Ireland to date has sustained the focus on innovation in the international financial services sector, backed by sound and prudent regulation. Ireland's coherent, consistent and reliable policy and regulatory framework means that Ireland is well-positioned to take advantage of opportunities presented by sustainable finance and to maintain and develop its reputation as a location of choice for domiciling and distributing sustainable financial products that meet growing investor demand for sustainable solutions. Ireland is internationally recognised as one of the world's most advantageous jurisdictions in which to establish international investment funds and is the jurisdiction of choice for the establishment of special purpose vehicles for a variety of debt issuance transactions.

In light of the inter-relationship between sustainable finance legislative initiatives and the impact of the sustainable finance agenda across various government departments, a holistic, multi-disciplinary, cross-governmental approach best utilises the opportunities and addresses the challenges presented by the sustainable finance agenda. Ensuring that our regulators and representatives have a prominent place in international fora discussing sustainable finance matters will afford an opportunity to input on and shape the agenda and ensure that Ireland has a leadership role in the development of legal and policy initiatives.

Ongoing constructive engagement with stakeholders' systemic knowledge development and addressing the evolving competencies required of regulators, senior managers, those making investment decisions and giving financial advice and service providers, including legal professionals, will also play a role in developing Ireland's leadership status in relation to sustainable finance.

2. Introduction

This study is one of a number of studies commissioned by the ISFCOE to assist in the update of the Roadmap. The Roadmap, first published in October 2021[2] sets out targeted measures with a view to Ireland being a leading sustainable finance centre, informed by extensive research and stakeholder engagement. The 2021 Roadmap outlined how public-private sector collaboration can develop talent, prepare industry, leverage digital solutions, enhance the enabling environment, and promote and communicate Ireland's sustainable finance priorities and capabilities.

We will examine the legal and regulatory landscape, opportunities and challenges in sustainable finance and how Irish laws, regulations, guidance and policies might exploit those opportunities and address those challenges and successfully and efficiently implement EU level initiatives. This study builds upon the 2021 Report. An overview of the legislative and regulatory changes since the publication of the 2021 Report is included in Section 4 (Update on European Developments).

Impetus for financial services markets to help combat climate change has come from a series of global and EU initiatives derived principally from the United Nations Sustainable Development Goals ("**SDGs**")[3] and the 2015 Paris Agreement (the "**Paris Agreement**")[4] which indicated that the ability to meet the targets set out in those initiatives was dependent on *"making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".*

The EU has outlined that it will need additional investments of around €700 billion every year to meet the objectives of the European Green Deal. The objective of the European Green Deal is to transform the EU into a modern, resource-efficient and competitive economy, ensuring no net emissions of greenhouse gases by 2050, economic growth decoupled from resource use and no person and no place left behind. The bulk of the required investment will have to come from private funding.[5] Sustainable development is a core principle of the Treaty of the European Union and a priority objective for the EU's internal and external policies.

In light of these objectives and the EU's international commitments, the EU published a Sustainable Finance Action Plan in March 2018[6] and a Renewed Sustainable Finance Action Plan in 2021[7] (the "**Action Plan**") with a view to reorienting capital flows towards a more sustainable economy. Various legislative initiatives have been adopted under the Action Plan, including the SFDR,[8] the EU Taxonomy[9] Regulation and the EU Green Bond Standard ("**EUGBS**").[10]

Investor preferences are also changing in line with increased public awareness of the climate crisis. Morgan Stanley's 2020 Sustainable Signals survey[11] found that around 95% of institutional asset owners are integrating or considering integrating sustainable and impact investing in all or part of their portfolios. Indeed, many customers of corporates and financial institutions are demanding that they establish and pursue binding sustainability targets.

Market indications are that sustainability will feature heavily in the recovery from the COVID-19 pandemic. The Commission has attached "green strings" to the agreed "Next Generation EU" €750 billion post-pandemic recovery plan.

Very detailed and ambitious legislative requirements have therefore been set out in EU law, many of which take the form of EU regulations which have direct effect in Ireland and are not required to be transposed into Irish law. There is therefore limited scope, from a legal and regulatory point of view, for Ireland to devise a framework that differs to other EU member states and that would render Ireland a more attractive centre for sustainable investment products. Gold-plating, ie, imposing additional legal requirements to supplement the framework established at EU level, would present challenges to financial market participants ("**FMPs**")[12] who operate on a cross-border basis. Divergences in approach at national level create operational and compliance challenges for these FMPs.

Due to the fact that many aspects of the sustainable finance agenda are dictated by EU law, together with the Commission harmonisation objective and aim of achieving a "level playing field", the opportunities for individual member states to differentiate themselves are limited from a legal point of view, but significant opportunities lie in areas where Ireland has already established a strong reputation eg, a knowledgeable and prudent financial regulator and a skilled, highly-educated talent pool supported by a well-established financial services infrastructure.

Ireland's coherent, consistent and reliable policy and regulatory framework means that Ireland is well positioned to take advantage of opportunities presented by sustainable finance and to maintain and develop its reputation as a location of choice for domiciling and distributing sustainable financial products that meet growing investor demand for sustainable solutions. Consideration must also be given to how the legal and regulatory environment can operate to incentivise and promote sustainable investment in Ireland so that sustainable projects such as renewable energy infrastructure can be financed to facilitate the transition to net zero.

To ensure that Ireland can maintain and develop its reputation as a centre of excellence for sustainable finance, a holistic, multi-disciplinary, cross-governmental approach best utilises the opportunities and addresses the challenges presented by the sustainable finance agenda. Ireland, as a small, open economy has the benefit of being capable of a nimble, flexible approach, drawing on input across the many governmental departments and economic sectors impacted by sustainable finance.

Ensuring that our regulators and representatives have a prominent place in international fora discussing sustainable finance matters affords an opportunity to input on and shape the agenda and positions Ireland to take a leadership role in the development of legal and policy initiatives.

Furthermore, our continued focus on systemic knowledge development and addressing the evolving competencies required of regulators, senior managers, those making investment decisions and giving financial advice and service providers, including legal professionals, contributes towards building Ireland's reputation as a centre of excellence for sustainable finance.

Ireland's coherent, consistent and reliable policy and regulatory framework means that Ireland is well positioned to take advantage of opportunities presented by sustainable finance and to maintain and develop its reputation as a location of choice for domiciling and distributing sustainable financial products that meet growing investor demand for sustainable solutions.

3. Overview of Global Legal and Regulatory Landscape

As more data has become available on the financial impacts of climate change, international regulators and supervisors have increasingly focused on how the legislative and regulatory framework can be adapted to respond to those impacts and make a positive contribution in the transition to net zero. The EU has sought to be a global leader in this regard and to put in place a legislative framework to further global initiatives such as the SDGs and the Paris Agreement. The ambitious nature of the EU measures and the pace at which they have been adopted has presented significant implementation challenges, including challenges arising from the misalignment in the timing of the introduction of obligations. For example, the EU has sought to impose detailed disclosure requirements on FMPs under the SFDR at a time when there are no corresponding reporting obligations on investee companies, creating significant data gaps and resulting in less comparable, comprehensible disclosures for investors, undermining the purpose of the EU disclosure regime. The pace of change also presents challenges, with disclosure requirements introduced in 2021 (SFDR Level 1) and early 2023 (SFDR Level 2) already under review by the Commission, leaving little time for market participants to become familiar with the requirements and for the framework to bed in.

The tables below provide an at-a-glance overview of the various initiatives adopted at global[13] and European level in relation to sustainable finance. National measures have not been set out in this section, as the legislative landscape in Ireland is dictated by European developments, many of which are of direct effect and allow for no member state discretion in their implementation. Ireland's response to the evolving sustainable finance framework is, however, addressed in Section 5 (Update on Irish Developments). The European initiatives referred to in the table below are addressed in more detail in Section 4 (Update on European Developments) and a more complete list of relevant European legislation is set out in the appendix to this report.

Global Initiatives

UNPRI	UNSDG	Financial Stability Board's Task Force on Climate-related Financial Disclosures
Founded in 2005, the Principles for Responsible Investment is a United Nations supported international network of financial institutions working together to implement the six principles for responsible investment, which offer a menu of possible actions for incorporating environmental, social and governance ("**ESG**") issues into investment practice.	In 2015, all United Nations Member States adopted the 2030 Agenda for Sustainable Development, at the heart of which are the 17 Sustainable Development Goals ("**SDG**").	The Financial Stability Board ("**FSB**") created the Task Force on Climate-related Financial Disclosures ("**TCFD**") to improve and increase reporting of climate-related financial information. In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. The TCFD is tasked with providing further guidance, supporting educational efforts and preparing annual status reports.
Basel Committee on Banking Supervision Principles for the Effective Management and Supervision of Climate-related Financial Risks	**International Sustainability Standards Board**	**Network for Greening the Financial System Climate Risk Scenarios**
In 2022, the Basel Committee on Banking Supervision published principles for the effective management and supervision of climate-related financial risks. The document forms part of the Committee's holistic approach to addressing climate-related financial risks to the global banking system and seeks to improve banks' risk management and supervisors' practices in this area.	The formation of the International Sustainability Standards Board ("**ISSB**") was announced at COP26[14] in Glasgow in November 2021. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.	The Network for Greening the Financial System ("**NGFS**") partnered with an expert group of climate scientists and economists to design a set of hypothetical scenarios in 2020, now available in the expanded 2022 version. They provide a common and up-to-date reference point for understanding how climate change (physical risk) and climate policy and technology trends (transition risk) could evolve in different futures. Each scenario was chosen to show a range of higher and lower risk outcomes.

IOSCO Good Sustainable Finance Practices
In November 2022, the International Organisation of Securities Commissions ("**IOSCO**") published a call for action calling upon all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and ESG rating and data providers.

European Initiatives

Components of the European Green Deal -
making Europe the first carbon-neutral continent by 2050

EU Taxonomy Regulation	Sustainable Finance Disclosures Regulation	EU Climate Benchmarks Regulation	Corporate Sustainability Reporting Directive
Regulation 2020/852/ EU A common classification of economic activities substantially contributing to environmental objectives, using science-based criteria.	**Regulation (EU) 2019/2088** A comprehensive disclosure regime for both non-financial and financial institutions to provide investors with the information necessary to make sustainable investment choices.	**Regulation (EU) 2019/2089** The Low Carbon Benchmark Regulation provides for greater sustainability disclosure for existing benchmarks and introduces two new EU Benchmarks: (i) the EU Climate Transition Benchmark and (ii) the EU Paris-aligned Benchmark.	**Directive (EU) 2022/2624** CSRD significantly expands the scope of companies that will be required to publicly disclose information on how they engage with environmental and social issues, human rights and governance factors.
Integration of Sustainability Risks	**EU Green Bond Standard**	**Corporate Sustainability Due Diligence Directive**	**ECB Guide on Climate Related and Environmental Risks**
Commission Delegated Regulation (EU) 2021/1253 **Commission Delegated Directive (EU) 2021/1269** **Commission Delegated Regulation (EU) 2021/1255** **Commission Delegated Directive (EU) 2021/1270** **Commission Delegated Regulation (EU) 2021/1256** Amendments to Level 2 measures under the UCITS Directive, AIFMD, MiFID II, Solvency II and Insurance Distribution Directive focused on the integration of sustainability risks and factors into existing organisational rules and conduct of business rules.	**Regulation (EU) 2023/2631** The Regulation on European Green Bonds creates a high-quality voluntary standard for bonds financing sustainable investment. Issuers now have a recognised way of demonstrating that they are funding green projects aligned with the EU Taxonomy.	**Pending** The CS3D provides for a substantive duty on in-scope companies to identify, assess, prevent and bring to an end or mitigate adverse impacts on human rights and the environment.	A guide explaining how the ECB expects banks to prudently manage and transparently disclose climate and environmental risks under current prudential rules set out in the Capital Requirements Directive and Capital Requirements Regulation.

European Initiatives	
EU Ecolabel	**ESG Ratings Providers Regulation**
Pending The Ecolabel will define the minimum environmental performance of retail financial products and will be based on the requirements of the EU Ecolabel Regulation 66/2010 with the objective of awarding the best environmentally performing financial products.	**Pending** Proposed rules which would require ESG ratings providers to be supervised by ESMA.

4. Update on European Developments

The section outlines the key legal developments at EU level in the area of sustainable finance since the publication of the 2021 Report. We focus on the legislation stemming from the Action Plan and related developments that may impact on the sustainable finance agenda.

Figure 2 At-a-glance – legislative changes since the 2021 Report

December 2021	Climate Delegated Act establishing technical screening for economic activities contributing substantially to climate change mitigation or climate change adaptation under the EU Taxonomy Regulation published.[15]
December 2021	Delegated Act on Article 8 Disclosure Obligations under the EU Taxonomy Regulation published.
January 2022	The EU Taxonomy Regulation applies from this date with respect to the first two climate-related environmental objectives.
July 2022	Detailed Level 2 measures under the SFDR and the EU Taxonomy Regulation, including mandatory disclosure templates, published.
July 2022	Complementary Climate Delegated Act under the EU Taxonomy Regulation published.
August 2022	Level 2 Measures on the integration of sustainability risks under the UCITS Directive, AIFMD, Solvency II, MiFID II and the Insurance Distribution Directive published.
December 2022	Corporate Sustainability Reporting Directive published.
December 2022	Implementing technical standards on Pillar 3 Disclosures on ESG risks under the Capital Requirements Regulation published.
January 2023	Detailed Level 2 measures under the SFDR and the EU Taxonomy Regulation, including mandatory disclosure templates, apply from 1 January 2023.
January 2023	The EU Taxonomy Regulation applies from this date with respect to the last four environmental objectives. The related Level 2 measures apply from 1 January 2024.
February 2023	Commission Delegated Regulation (EU) 2023/363 amending the Level 2 measures under the SFDR and the EU Taxonomy Regulation to include disclosures relating to Taxonomy-aligned investments in nuclear energy and gas published.
November 2023	Regulation on European Green Bond Standard published.

4.1 The Sustainable Finance Disclosure Regulation

The disclosure requirements introduced under the SFDR were introduced on a phased basis, due to delays in finalising the detailed regulatory technical standards ("**RTS**") or Level 2 requirements to be adopted under the Level 1 regulation. This meant that FMPs had two significant compliance deadlines under the SFDR:[16] 10 March 2021 in respect of the Level 1 requirements and 1 January 2023 in respect of the Level 2 requirements. A summary of the Level 1 requirements that FMPs had to comply with is set out at *Figure 3* below.

On 25 July 2022, the SFDR Level 2 requirements[17] were published in the Official Journal of the EU, to apply from 1 January 2023. A key element of the SFDR RTS is the publication of standardised templates for the PAIS, pre-contractual and periodic disclosures. A summary of the SFDR Level 2 requirements that FMPs had to comply with is set out in *Figure 4* below.

Figure 3 SFDR Level 1 Requirements

10 March 2021

Website Disclosures

FMPs had to make the following website disclosures by 10 March 2021:

- Sustainability risk policy
- Updated remuneration policy
- Principal adverse impact statement ("**PAIS**") for those FMPs opting to consider principal adverse impacts ("**PAIs**") of investment decisions on sustainability factors or required to consider PAIs due to the size of the FMP

Pre-contractual Disclosures

Pre-contractual disclosures for financial products had to be updated to include:

- How sustainability risks are integrated into investment decisions and the results of the assessment of the likely impacts of sustainability risks on the returns of the fund or clear and concise reasons why sustainability risks are not relevant for returns of the financial product
- Where FMPs opted out of publishing a PAIS on their website, prospectuses were updated to include a statement to that effect
- Additional disclosures for Article 8 SFDR Funds (funds promoting environmental or social characteristics) and Article 9 Funds (funds with a sustainable investment objective)

Figure 4 SFDR Level 2 Requirements

1 January 2023	
	Website Disclosures ▪ The SFDR RTS set out the detailed website disclosures to be made by Article 8 SFDR and Article 9 SFDR products in a "Sustainability-related disclosures" section of the website under Article 10 SFDR.[18] ▪ Where an FMP considers PAIs of investment decisions on sustainability factors, from 1 January 2023, it must publish on its website a PAIS using the mandatory template set out in Annex I to the SFDR RTS. This means that, by 30 June of each year, FMPs must publish certain information on a separate section on their websites titled "Principal adverse sustainability impacts statement". Where a PAIS is being published for the first time, there is no need to disclose information relating to a previous reference period.
	Prospectus Disclosures ▪ Article 6 SFDR products (that is, those products that do not promote environmental or social characteristics and do not have a sustainable investment objective) must state in the prospectus: *"The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities."* ▪ Article 8 SFDR and Article 9 SFDR products will be required to make detailed pre-contractual disclosures using the mandatory templates set out in the SFDR RTS.
	Periodic Reports ▪ Fund annual reports must comply with the SFDR from 1 January 2023, irrespective of reference periods (see the ESAs' Joint Supervisory Statement[19] issued on 25 February 2021). The SFDR RTS provide mandatory templates for periodic reporting. ▪ Article 6 SFDR products must state in the annual report: *"The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities."*

Further changes to the SFDR RTS were published on 17 February 2023, which amended the standardised templates to include EU Taxonomy-aligned investments in activities involving gas and nuclear energy.[20]

Acknowledging the significant challenges presented by the introduction of this ambitious and detailed legislation and recognising some of the interpretation and implementation challenges arising, in part from the phased introduction of the requirements, both the Commission and the ESAs have published a number of documents intended to assist FMPs in complying with the SFDR. These include the following publications:

- ESAs' Updated Supervisory Statement on the Application of the SFDR;[21]
- The ESMA Supervisory Briefing Sustainable Risks and Disclosures in the Area of Investment Management;[22] and
- Consolidated questions and answers on the SFDR.[23]

ESMA has stated that ensuring greater convergence in the supervision of risks stemming from incorrect and misleading disclosures is central to the effort to foster transparency and is identified as one of the Union Strategic Supervisory Priorities for NCAs national competent authorities ("**NCAs**").[24]

4.2 The EU Taxonomy Regulation

Overview

The EU Taxonomy Regulation was devised to provide market clarity on what economic activities should be considered "sustainable". Prior to the introduction of the regulation, a fragmented approach has been adopted by EU member states to this issue, giving rise to a range of interpretations as to what may be considered to be a sustainable investment. The EU Taxonomy was designed to prevent "greenwashing", or the marketing of financial products as "green" which do not in fact meet basic environmental or sustainability standards in order to garner a competitive advantage over other products.

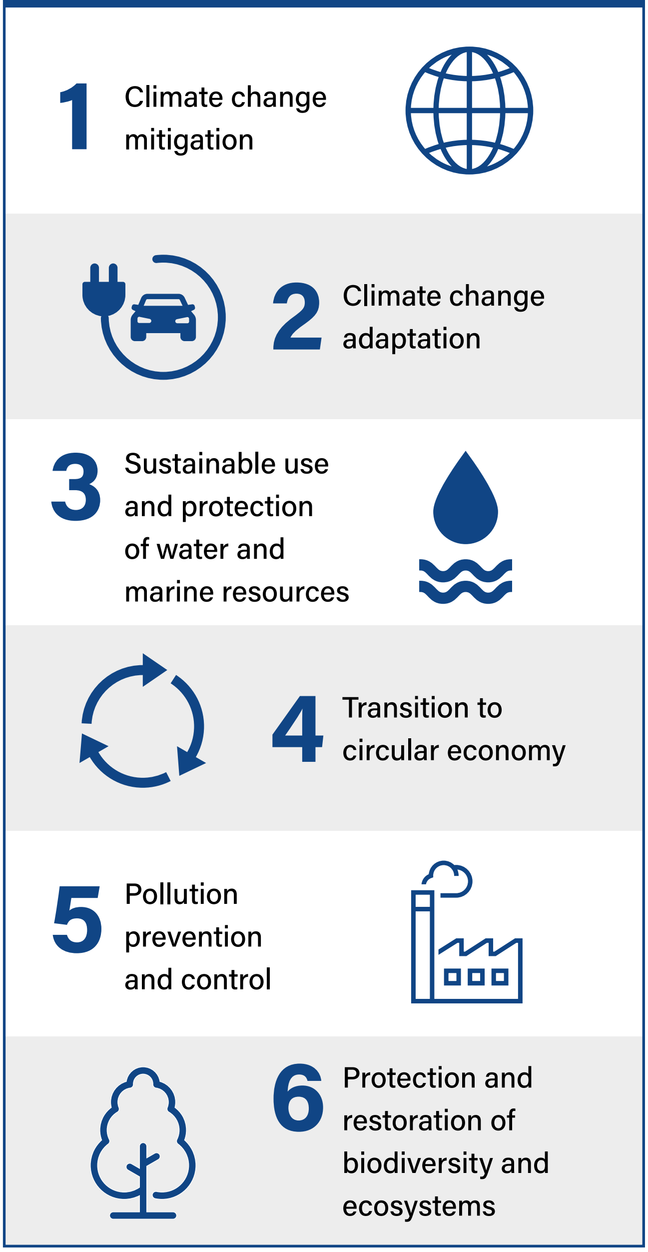
The EU Taxonomy Regulation aims to develop a taxonomy for climate change and environmentally sustainable activities so that the classification system can be used with respect to labels, standards and benchmarks recognising compliance with environmental standards across the EU. Standardising the concept of environmentally sustainable investment across the EU is expected to facilitate investment in environmentally sustainable economic activities, both nationally and in more than one EU country, and enable economic operators to attract investment from abroad more easily. The regulation translates the European Green Deal objectives by defining and classifying economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate.

Importantly, the Taxonomy Regulation does not establish a label for sustainable financial products. It sets out criteria for determining if an activity (not a company or asset) is environmentally sustainable, including whether the activity contributes to, or does not significantly harm, one or more specified environmental objectives.

The EU Taxonomy Regulation supplements the disclosure obligations under the SFDR with a requirement for FMPs to disclose whether and to what extent their investments are aligned with the six environmentally objectives *(see Figure 5)* set out in the EU Taxonomy Regulation. It also imposes obligations on financial and non-financial undertakings to disclose how and to what extent their activities are associated with environmentally sustainable economic activities that are aligned with the EU Taxonomy Regulation.

The EU Taxonomy Regulation applies with respect to the first two climate-related environmental objectives from 1 January 2022, and with respect to the last four environmental objectives from 1 January 2023.

Figure 5 EU Taxonomy Environmental Objectives



Level 2 Measures

The Commission has the power to adopt delegated acts to specify the nature of Taxonomy-alignment disclosures and to determine the technical screening criteria for determining conditions under which a financial product might be considered to contribute to the six environmental objectives (see Figure 5). The publication of these Level 2 measures has been subject to delays, partly due to debates relating to whether investments in nuclear energy and gas should be included in the EU Taxonomy. The following delegated acts have been adopted to date under the EU Taxonomy Regulation:

- Commission Delegated Regulation (EU) 2021/2139 – Climate Delegated Act establishing Technical Screening Criteria for economic activities contributing substantially to climate change mitigation or climate change adaptation (Published 9 December 2021)
- Commission Delegated Regulation (EU) 2021/2178 - Delegated Act on Article 8 Disclosure Obligations (Published 10 December 2021)
- Commission Delegated Regulation (EU) 2022/1288 with regard to regulatory technical standards under the SFDR and the Taxonomy Regulation (Published 25 July 2022)
- Commission Delegated Regulation (EU) 2022/1214 – known as the EU Taxonomy Complementary Climate Delegated Act – setting out the conditions under which nuclear and gas energy activities can be included in the list of economic activities covered by the Taxonomy Regulation (Published 15 July 2022)
- Commission Delegated Regulation 2023/2486 – establishing Technical Screening Criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (Published 21 November 2023).

Impact of the EU Taxonomy on the Financial Market

The Commission has found that initial corporate reporting shows encouraging signs that the EU Taxonomy is increasingly being used by undertakings to signal their sustainability performance efforts. As of 17 May 2023, 63% of companies from the STOXX Europe 600 have already disclosed their taxonomy figures. Among these, 30% (178 companies) reported some levels of alignment with the EU Taxonomy. On average, the Taxonomy alignment of these companies is around 17% for revenue, 23% for CapEx and 24% for OpEx.[25]

4.3 Corporate Sustainability Reporting Directive

The ability to comply with the detailed disclosure obligations imposed on FMPs under the SFDR and the EU Taxonomy Regulation is heavily dependent on the availability of data from underlying investee companies. The disclosures made to date in order to comply with the various deadlines that have already passed have been hampered by the lack of available data from investee companies. The Corporate Sustainability Reporting Directive ("**CSRD**"),[26] which came into force on 5 January 2023, is therefore a welcome development, although the phased introduction of the reporting obligations under the CSRD means that it will be some time before comprehensive data is available to FMPs with respect to their investments in corporates.

CSRD must be transposed into national laws by 6 July 2024. The reporting obligations will be introduced on a phased basis, as summarised in *Figure 6*.

Figure 6 Scope / Timeline of the CSRD

Entities	Reporting in respect of
Large[27] **public interest entities** (ie, companies with EU-listed securities (no matter where incorporated) or which are EU-incorporated and regulated credit institutions or insurance undertakings) with more than 500 employees (including on a consolidated group basis)	Financial years commencing on or **after 1 January 2024** (ie, reporting for FY 2024 in 2025)
All other EU-incorporated **large** undertakings or parent undertakings of a **large group** (whether listed or not)	Financial years commencing on or after **1 January 2025** (ie, reporting for FY 2025 in 2026)
SME public interest entities (but not micro-undertakings),[28] as well as certain captive insurance and reinsurance undertakings	Financial years commencing on or after **1 January 2026** (ie, reporting for FY 2026 in 2027) with some opt-outs until 2028
Subsidiaries (either (i) "large" or (ii) SMEs that are public interest entities) of **non-EU parent companies**, where the non-EU parent company generates on a consolidated basis at **least €150m turnover in the EU**	Financial years commencing on or after **1 January 2028** (ie, reporting for FY 2028 in 2029), including information on a group level for the non-EU company.
Branches of **non-EU undertakings** that generate **turnover of €40m** in the EU and the non-EU company generates on a consolidated basis at **least €150m turnover in the EU.**	

The CSRD replaces the Non-Financial Reporting Directive ("**NFRD**"),[29] expanding both the scope of application of the EU's disclosure requirements and the extent of the disclosures required. It applies to a far wider range of companies than the NFRD, including many non-EU companies. At the time of adoption by the Commission, it indicated that the CSRD was expected to cover almost 50,000 companies compared to the approximately 11,000 companies that fell within the scope of the NFRD.

In-scope companies are required to report on a full range of sustainability matters, which are defined as environmental, social and human rights and governance factors, including sustainability factors under the SFDR. This information will need to be included in a dedicated section in the company's management report. The CSRD endorses the concept of "double materiality" in the EU's sustainability reporting regime, which requires in-scope companies to disclose information concerning a company's impacts on sustainability matters ('impact materiality') and the impact of sustainability matters on the company's development, performance and position ('financial materiality').[30] The information required to be reported under the CSRD is outlined in Figure 7 below.

Figure 7 Information to be reported under the Corporate Sustainability Reporting Directive
Business model and strategy (including resilience of the business model and strategy in relation to risks, opportunities for the company, plans (including implementing actions and related financial and investment plans), how the business model takes into account the interests of stakeholders and the impact of the company on sustainability matters)
Targets, including where appropriate greenhouse gas emissions reduction targets and a description of progress towards those targets
Role, skills and expertise of the company's management with regard to sustainability matters
Policies on sustainability matters
Incentive schemes linked to sustainability matters
Actual or potential impacts of the company's operations, products and services, **due diligence** on sustainability matters and **actions** to identify and address adverse impacts
Principal risks to the company relating to sustainability matters and how those are managed

Companies will be required to report according to mandatory EU Sustainability Reporting Standards ("**ESRS**"). Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023, setting out the first set of ESRS, was published in the Official Journal of the EU on 22 December 2023. The first in-scope companies will apply the ESRS for periods beginning on or after 1 January 2024.

On 22 January 2024, the European Financial and Reporting Advisory Group ("**EFRAG**") published a consultation on its exposure drafts of EU ESRS for listed small and medium sized enterprises and for non-listed SMEs. The consultation closed on 21 May 2024. These standards will be effective from 1 January 2026 with an optional additional two-year opt out. The Council and the European Parliament have also reached provisional agreement on a directive to postpone the deadline for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings until 2026.

The CSRD introduces a requirement for limited assurance of sustainability information so that the statutory auditor or audit firm is required to express an opinion about the compliance of the company's sustainability reporting with EU requirements, based on a limited assurance engagement. It is expected that limited assurance audit will move to reasonable assurance standard at a later date.

4.4 Delegated Legislation Integrating Sustainability into UCITS Directive, AIFMD, MiFID II, Solvency II and IDD

Six delegated regulations and directives integrating sustainability into the UCITS Directive,[31] the AIFMD,[32] MiFID II,[33] Solvency II[34] and the Insurance Distribution Directive ("**IDD**")[35] were published in the Official Journal of the EU in August 2021.

Figure 8 Delegated Acts on Integration of Sustainability Factors		
Legislation	**Amendments**	**Application Date**
MiFID II Commission Delegated Regulation (EU) 2021/1253	Provides for the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms. Investment firms providing financial advice and portfolio management need to carry out a mandatory assessment of sustainable preferences of clients. Investment firms are required to prepare client reports that explain how the recommendation meets a client's investment objectives, risk profile, capacity for loss bearing and sustainability preferences.	2 August 2022
MiFID II Commission Delegated Directive (EU) 2021/1269	Provides for the integration of sustainability factors into the product governance obligations. Investment firms must consider sustainability factors in the product approval process.	22 November 2022
AIFMD Commission Delegated Regulation (EU) 2021/1255	Provides for sustainability risks and sustainability factors to be taken into account by alternative investment fund managers. Sets out operating conditions, including rules on due diligence and identification of types of conflicts of interest.	1 August 2022
UCITS Commission Delegated Directive (EU) 2021/1270	Provides for the integration of sustainability risks in the governance of insurance and reinsurance undertakings. Sets out requirements on governance, conflicts of interest and risk management for insurance and reinsurance undertakings.	1 August 2022
Solvency II Directive Commission Delegated Regulation (EU) 2021/1256	Provides for the integration of sustainability risks in the governance of insurance and reinsurance undertakings. Sets out requirements on governance, conflicts of interest and risk management for insurance and reinsurance undertakings.	2 August 2022
IDD Commission Delegated Regulation (EU) 2021/1257	Provides for the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance based investment products (IBIPs).	2 August 2022

4.5 Pillar 3 Disclosures on ESG Risks

Implementing technical standards applicable to large institutions which have issued securities that are admitted to trading on a regulated market of any member state and setting out binding standards on Pillar 3 disclosures on ESG risks under the Capital Requirements Regulation were published in the Official Journal of the EU on 19 December 2022.[36] The technical standards aim to ensure that stakeholders are well informed about institutions' ESG exposures, risks and strategies and can make informed decisions and exercise market discipline. The standards set out comparable disclosures and KPIs, including a green asset ratio ("**GAR**") and a banking book taxonomy alignment ratio ("**BTAR**") as tools to show how institutions are embedding sustainability considerations in their risk management, business models and strategy. In developing the standards, the European Banking Authority ("**EBA**") built upon the TCFD recommendations, the Commission's non-binding guidelines on climate change reporting and the EU Taxonomy.

4.6 European Green Bonds

The European Green Deal investment plan published in January 2020 announced that the Commission would establish an EUGBS. A legislative proposal for the European Green Bond Regulation[37] ("**EuGB Regulation**") was published on 6 July 2021 and the final regulation was published in the Official Journal of the EU on 30 November 2023. The EuGB Regulation applies from 21 December 2024. It is intended that the EUGBS will be a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance ambitious large scale investments while meeting stringent sustainability requirements and protecting investors. The four key requirements under the framework are summarised in Figure 9 below.

Figure 9 Key Requirements of EUGBS Framework European Commission webpage
Taxonomy-alignment: The funds raised by the bond should be allocated fully to projects that are aligned with the EU Taxonomy
Transparency: Full transparency on how the bond proceeds are allocated through detailed reporting requirements
External review: All European green bonds must be checked by an external reviewer to ensure compliance with the regulation and taxonomy alignment of the funded projects
Supervision by the European Securities Markets Authority (ESMA) of reviewers: External reviewers providing services to issuers of European green bonds must be registered with and supervised by the ESMA. This will ensure the quality of their services and the reliability of their reviews to protect investors and ensure market integrity

The EUGBS will be a voluntary standard allowing issuers based in or outside of the EU, and who meet certain requirements, to issue certain debt securities using the label "European Green Bond" or "EuGB". Financial and non-financial undertakings as well as sovereigns will be at liberty to align with the EUGBS and apply the EuGB label.

Existing initiatives for characterising bonds as environmentally friendly do not contain common definitions of sustainable activities, which prevents investors from easily differentiating bonds aligned with the widely accepted environmental objectives detailed in the Paris Agreement, from those that are not. The aim of the EUGBS is to leverage the certainty that a single EU-sponsored benchmark will create, increase transparency in the green bonds market, prevent greenwashing and avoid arbitrage among different categories of non-equity securities.

The development of the EUGBS under the EuGB Regulation is relevant not just to corporate bond issuers but also to issuers, sponsors and originators of securitisations. In 2022, both the EBA and the Commission expressed the view that, rather than developing a specific framework for sustainable securitisations in the EU, legislators should ensure that the EUGBS is appropriate for use by securitisations. The final text of the regulation includes scope for certain securitisations to apply the EuGB label.

4.6.1 Proposed Requirements for EuGB Designation

For a bond to qualify as an EuGB, its proceeds must, before maturity, be allocated in full, in accordance with the requirements set out in the EU Taxonomy Regulation, to one or more of the following:

(a) fixed assets that are not financial assets (debt or equities);

(b) certain capital expenditures;

(c) certain operating expenditures;

(d) financial assets that created no more than five years after the issuance of the bond; and

(e) assets and expenditures of households.

The EuGB Regulation allows a degree of flexibility (known as the 'flexibility pocket'), whereby 15% of the proceeds of an EuGB may be allocated to certain very specific activities and economic activities not yet screened by the EU Taxonomy Regulation. This will allow the EuGB to be used by a wider array of issuers from the outset than might otherwise be the case.

4.6.2 Transparency and Monitoring

Issuers wishing to attach the EuGB label to their securities will be required to furnish "regulated information" in the form of European Green Bond Factsheets, which will be subject to the scrutiny of independent external reviewers. Factsheets will be incorporated by reference into prospectuses, together with environmental impact reports (produced once over the life of each deal) and annual allocation reports prepared by issuers. Once produced, such information, must be published on issuers' websites, and made publicly available free of charge, until at least 12 months after the maturity of each EuGB.

Notably, the EUGBS will not be available to issuers unless they publish prospectuses compliant with the Prospectus Regulation. This requirement may prove a stumbling block for some EU markets. Ireland, however, has a strong track record for transactions which comply with the Prospectus Regulation. As such, Ireland will be well positioned should the EUGBS find favour with EU and third-country issuers who would have previously opted to offer their bonds in offerings not in-scope of the Prospectus Regulation.

Oversight of prospectus marketing, securitisations and corporate bonds will, in Ireland's case, rest with the Central Bank. Under the new regime, it will supervise issuers with registered offices in Ireland, EU issuers submitting their prospectuses for approval in Ireland and third country issuers seeking to list their securities in Ireland. The Central Bank will have the power to request that issuers furnish certain documents for examination and conduct inspections of issuers' premises. It will also be entitled to notification by issuers of disclosure documents published in respect of

Notably, the EUGBS will not be available to issuers unless they publish prospectuses compliant with the Prospectus Regulation. This requirement may prove a stumbling block for some EU markets. Ireland, however, has a strong track record for transactions which comply with the Prospectus Regulation. As such, Ireland will be well positioned should the EUGBS find favour with EU and third-country issuers who would have previously opted to offer their bonds in offerings not in-scope of the Prospectus Regulation.

EuGBs, such as factsheets, allocation reports and impact reports.

Failure by issuers to comply with their EUGBS obligations may cause the Central Bank to publicise breaches and, if necessary, restrict the advertisement, issuance and / or listing of EuGBs. In appropriate cases, the Central Bank may decide to sanction issuers with administrative penalties or bring criminal proceedings against them.

4.6.3 Securitisations

Certain securitisations are not eligible for the EuGB designation under the EuBG Regulation. These include synthetic securitisations and securitised exposures which finance fossil fuel-related activities. The final text does, however, facilitate green securitisation where the 'use of proceeds' method of funds allocation is followed and recognise the concepts of sponsor / originator and "securitisation special purpose entity" or SSPE, which are central to a majority of securitisations.

4.6.4 Comment on the EUGBS

The EUGBS is a welcome introduction of a market standard green bond and is a move in the right direction for ESG commitments. This highly marketable instrument could increase activity in the green bonds sector and accelerate progress on EU commitments under the EU Sustainable Finance Framework and the Paris Agreement.

On the other hand, the optional nature of the EUGBS could weaken the effectiveness of the legislation. The ability of issuers who cannot meet the EUGBS to offer and market another 'brand' of green bond without similar oversight or disclosure requirements could lead to concerns over greenwashing.

4.7 European Green Deal and NextGenerationEU Green Bonds

On 17 December 2020, in response to the unprecedented economic disruption caused by the COVID-19 pandemic, the EU adopted an €800 billion temporary recovery instrument, known as NextGenerationEU ("**NGEU**"). It is expected that one third of all funds under the NGEU and the EU's long-term budget 2021-2027 will finance the European Green Deal.

The Commission's aim is for 30% or up to €250 billion of the funds raised for NGEU to stem from the issuance of NGEU green bonds under its programme. If this is achieved, the Commission is set to become the world's largest green bonds issuer. The Commission's inaugural issuance took place in October 2021 and was the largest green bond transaction in the world at that time, sized at €12 billion with a term of 15 years.

NGEU green bonds are aligned with the market-based Green Bond Principles published by the International Capital Markets Association ("**ICMA**"), which include the following four core components:

- **use of proceeds:** categories which can benefit from expenditure include biodiversity, energy efficiency, clean energy, water and waste management and climate change adaptation;
- **process for project evaluation and selection:** NGEU green bonds finance sustainable investments set out in the Recovery and Resilience Plans of EU member states wishing to utilise the NGEU facility. To be eligible for funding under the facility, member states are required to devote a minimum of 37% of their respective Recovery Resilience Plans to sustainability-related investments and legal reforms;
- **management of proceeds:** the Commission's green bond dashboard, launched in March 2022, allows transparent tracking of member state expenditure financed by NGEU green bonds; and
- **reporting:** allocation reporting and impact reporting.

The first NGEU green bonds allocation report published on 16 December 2022 notes that €28 billion of NGEU green bonds were issued up to 19 October 2022, with Italy, France, Greece, Portugal, *A 2023 report of the Central Bank has found that the domestic Irish green bonds market remains relatively small but that recent growth in sentiment has seen Irish residents hold €28.8 billion of green bonds as of end of September 2022. This accounts for a 59% increase on the figure obtained in December 2020 and highlights the effect that the growth in prominence of the EU green bond market is having on domestic Irish investors*

Spain, Croatia and Cyprus reporting €13.5 billion in total allocations of NGEU green bond proceeds to eligible investment categories.[39] The Commission published its first comprehensive allocation and impact report on 1 December 2023[40] and an EU Investor Presentation dated 9 April 2024[41], where it states that approximately €55.91 billion or 22% of the €250 billion total NGEU green bond funding target has been reached.

The Commission's commitment to its NGEU green bonds framework will boost the wider market for green investments and accelerate the proliferation of high-quality, liquid green investment assets. To date, over 800 investors from 45 countries have received NGEU green bonds and it is anticipated that momentum will continue to ramp up as the climate-friendly credentials of the NGEU green bonds are more widely publicised around the world.

4.7.1 Capital Markets Union and Green Bonds

On 9 June 2021, the Commission published its first annual report setting out a list of indicators tracking the advances made by the EU capital markets toward achieving the objectives under the 2020 CMU Action Plan.[42] Green bonds were included in the set of 34 indicators, as they were seen as a robust gauge of sustainable investment levels in the EU. Data was sourced from Bloomberg Finance to illustrate the volumes of green bonds issued by the private and public sector as a proportion of the total private and public sector bond issuance. It revealed that European issuers issued €140 billion of green bonds or 2.6% of the total amount raised through bond issuances in 2020. This is a significant increase from a low of €25 billion, or 0.5% of the total amount raised in 2015, at the outset of the CMU project. An update to the list of indicators issued on 14 July 2022 did not include further analysis of EU green bond data.[43]

A 2023 report[44] of the Central Bank has found that the domestic Irish green bonds market remains relatively small but that recent growth in sentiment has seen Irish residents hold €28.8 billion of green bonds as of end of September 2022. This accounts for a 59% increase on the figure obtained in December 2020 and highlights the effect that the growth in prominence of the EU green bond market is having on domestic Irish investors.[45]

4.8 Securitisation Regulation

In the 2014 investment plan for Europe, the creation of a flourishing market of high-quality securitisations in the EU was identified by the Commission as one of the five areas where immediate action was needed and this action was included in the list of building blocks for a CMU, leading to the adoption of the Securitisation Regulation.[46] The importance of a well-functioning securitisation market to provide sufficient credit to the real economy was once again underlined in the Capital Markets Recovery Package[47] to help the EU economy to recover from the COVID-19 pandemic. The package included an amendment to the Securitisation Regulation (the "**Amendment**") mandating the EBA to prepare a report on developing a framework for sustainable securitisation and for the Commission to present a report to the European Parliament and Council on the functioning of the Securitisation Regulation.

4.8.1 European Banking Authority Report

The Amendment[48] to the Securitisation Regulation introduced in 2021 required the EBA to publish a report on developing a framework for sustainable securitisation. The report was published in March 2022.[49]

The following were the key findings and recommendations in the report:

- A small number of securitisations labelled as sustainable have been seen in the EU, when compared to the US and the Chinese green securitisation markets. The limited development of the EU sustainable securitisation market is caused by a lack of available sustainable assets, the absence of clarity regarding definitions, standards, and data to foster transparency and credibility, and the general limited attractiveness of securitisation products.
- The establishment of a standalone framework, as proposed, would not be appropriate until the economy has further transitioned and more green assets become available. The report deemed it premature to establish a framework for either green synthetic securitisation or social securitisation, as these markets are still in their infancy and there is no generally acknowledged methodology in place to measure whether capital redeployed by such transactions would in fact be applied to fund green or social projects. The absence of such an accepted metric is also cited by the report as a strong ground for omitting synthetic securitisation from the scope of a EuGB label. Notably, this omission was made in the EuGB Regulation.

4.8.2 Commission Report

The Amendment also provided that the Commission be required to report to the European Parliament and the Council of the EU on the functioning of the Securitisation Regulation, with an accompanying legislative proposal, if appropriate.

This report was published on 10 October 2022[50] and was informed, in part, by a targeted public consultation with market participants, from both the buy-side and the sell-side of the market, as well as from public authorities and academics. The report considered that the Securitisation Regulation currently imposes only a limited obligation to make sustainability disclosures, but that establishing a dedicated framework to enhance the levels of disclosure would not be appropriate on the basis that so few assets available for securitisation could be considered 'green'. This echoed the EBA's earlier findings, referred to at 4.8.1 above.

The majority of respondents to the public consultation in principle supported the extension of the existing disclosure requirements for residential loans, auto loans and leases to other asset classes. Whilst agreeing that the availability of such information would allow them to measure their share of ESG investment, respondents acknowledged that the current dearth of clear parameters for categorising the environmental performance of certain assets classes would limit the usefulness of an extension of the disclosure requirements in many circumstances.

4.9 EBA Final Templates and Guidance to Support Climate Risk Scenario Analysis

On 17 November 2023, the EBA published the final templates[51] for collecting climate-relateddata from EU banks, together with guidance[52] (dated 15 November 2023) on completing the templates for collecting climate related data from European banks as part of the one-off Fit-for-55 climate risk scenario analysis, which the EBA is carrying out in conjunction with the other ESAs.

This exercise is part of the Commission's Strategy for Financing the Transition to a Sustainable Economy and aims to:

- assess the resilience of the financial sector in line with the Fit-for-55 package; and
- gain insights into the capacity of the financial system to support the transition to a lower carbon economy even under conditions of stress.

The exercise is supported by the European Central Bank ("**ECB**") and the European Systemic Risk Board ("**ESRB**") and requires the ESAs to separately produce sector-specific results, based on three ad-hoc climate scenarios implemented by the ESRB. The results from these exercises will then be used by the ECB to produce cross-sectoral results and to model second round effects.

The EBA notes that the templates are designed to collect climate-related and financial information on credit risk, market and real estate risks and the aggregated and counterparty level data is to be provided as of December 2022. The data collection started on 1 December 2023 and finished on 12 March 2024. The results of the one-off Fit-for-55 climate risk scenario analysis are expected to be published by Q1 2025.

4.10 Green Loans and Sustainability Linked Loans

A key development in the loan market has been the provision of so called "Green Loans" and "Sustainability Linked Loans". In broad terms, a Green Loan is a loan made available for specific green projects. A Sustainability Linked Loan is a loan made available to a borrower which incentivises that borrower, through interest rate reductions, to achieve ambitious, pre-determined key performance indicators and targets, eg a reduction in carbon emissions, water usage or waste to landfill. We have outlined below the main principles underpinning the provision of these types of loan instruments.

4.10.1 Green Loan Principles

On 23 February 2023, a joint working group comprising of the Loan Market Association (the "**LMA**"), the Loan Syndications and Trading Association and the Asia Pacific Loan Market Association published updated principles and guidelines on the Green Loan Principles (the "**GLPs**"),[53] which were last updated in February 2021.

The GLPs aim to promote the development of the green loan product by providing a recommended framework of market standards and guidelines whilst allowing the loan product to retain flexibility.

Green loans are defined by the GLPs as any type of loan instruments and / or contingent facilities made available exclusively to finance, re-finance or guarantee, in whole or in part, new and / or existing eligible green projects.

The GLPs recognise non-exhaustive categories of eligibility for green projects such as: climate change mitigation and adaptation, natural resource conservation, pollution prevention and control, renewable energy, clean transportation and green buildings.

The GLPs provide a framework to assist in the understanding and application of green loans based on four core components:

Application Of Green Loans	
1. Use of proceeds ▪ The proceeds of such loan must be applied to a Green Project. In addition, all designated "Green Projects" should provide clear environmental benefits, which will be assessed, and where feasible, quantified, measured and reported by the borrower.	**2. Process for project evaluation and selection** ▪ In order to obtain "green" financing, a borrower must convey to its lender (i) the environmental sustainability of a project (ii) the process by which a project satisfies the eligibility criteria laid down by the Principles and (iii) the relevant processes used to manage environmental risks associated with a project. ▪ Under the updated GLPs, borrowers are encouraged to: (i) provide information, if relevant, on the alignment of projects with official or market-based taxonomies and also disclose any green standards or certifications referenced in project selection; and (ii) have a process in place to identify mitigating factors to known or potential material risks of negative social and / or environmental impacts from the relevant project.
3. Management of proceeds ▪ Funds allocated pursuant to a green loan should be assigned to a specific bank account or tracked in some other manner which ensures that funds are readily identifiable. Where a green loan takes the form of one or more tranches of a loan facility, each "green tranche" must be clearly designated, with proceeds of the green tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.	**4. Reporting** ▪ The LMA have stated that borrowers should ensure that all information relating to the use of proceeds of the loan is readily available and kept up to date and should be reported at least annually until funds have been fully drawn down, and thereafter in the event of any material developments. ▪ This should include a list of the green projects to which the proceeds of the green loan have been allocated, including a brief description of the projects, the amounts allocated and their expected impact.

4.10.2 Sustainability-Linked Loan Principles

In broad terms, in the Irish market, these loans were originally the preserve of large, well known public limited companies. Financial institutions are now promoting the availability of sustainability linked loans and we are increasingly seeing such instrument being availed of by large and mid-sized corporates.

- Sustainability linked loans ("**SLLs**") are any type of instrument designed to incentivise the borrower to achieve ambitious, predetermined sustainability performance objectives. They aim to facilitate and bolster environmentally and socially sustainable economic activity and growth.
- In recent years, the LMA have published guidelines in relation to SLLs and we are seeing an increase in these types of loans in the Irish market, supported by the Irish Government and the Central Bank's commitment to sustainable finance.
- The use of proceeds in relation to SLLs is not a determinant in its categorisation. Rather, the SLL must comply with five core components:

Application Of Green Loans

1. Selection of Key Performance Indicators	**2. Calibration of Specific Performance Targets**
▪ Key performance indicators ("KPIs") must be relevant, core and material to the borrower's overall business, have strategic significance to its business strategy and address relevant ESG challenges of the borrower's industry sector. The guidance notes that best practice is for a borrower to seek to benchmark its KPIs by undertaking a materiality assessment of itself and its industry.	▪ Specific performance targets ("**SPTs**") must be set in good faith and remain relevant (so long as they apply) and ambitious throughout the life of the loan ▪ SPTs must not only be set beyond a "business as usual" trajectory, but also beyond "regulatory required targets" ie, that they must not be set lower than the performance historically achieved by the borrower or what is required by law.
3. Loan characteristics ▪ A key characteristic of a SLL is that an economic outcome is linked to whether the selected SPTs are met – for example, a reduction of the margin where the SPTs are achieved and vice versa.	**4. Reporting** ▪ Borrowers should provide the lenders participating in the loan with up-to-date information sufficient to allow them to monitor the performance of the SPTs and to determine that the SPTs remain ambitious.
5. Verification ▪ Borrowers must obtain independent and external verification of the borrower's performance level against each SPT for each KPI, at least once a year. The updated SLLP now state that borrowers should provide the lenders with a sustainability confirmation statement annually with a verification report attached, outlining the performance against the SPTs for the relevant year and the related impact, and timing of such impact, on the margin.	

On 4 May 2023, the LMA published a rider containing draft provisions for SLLs for insertion into LMA form facility agreements (the "**SLL Rider**").

The suggested wording is broadly in line with how we have seen the SLL market develop in Ireland over the past number of years in relation to margin adjustments based on a borrower's performance against KPIs and SPTs, information undertakings and events of default.

There are certain new concepts in the SLL Rider that have only recently appeared in the Irish market, such as references to declassification events and sustainability amendment events.

The SLL Rider notes that the SLL provisions are intended to provide a starting point for a SLL based on market practice at the time of publication. The SLL Rider also notes that the provisions are not intended to be a comprehensive analysis of SLL transactions and certain provisions which are commonly negotiated between parties have been intentionally omitted from the SLL Rider (for example sustainability-linked conditions precedent which will be for the parties to negotiate on a transaction-specific basis).

4.11 EIOPA Opinion on the Supervision of the Use of Climate Change Risk Scenarios in Own Risk and Solvency Assessment

On 19 April 2021, the European Insurance and Occupational Pensions Authority ("**EIOPA**") published an opinion on the supervision of the use of climate change scenarios in the Own Risk and Solvency Assessment ("**ORSA**") addressed to national supervisory authorities.

EIOPA noted that the (re)insurance industry will be impacted by climate change-related physical and transition risks. However, only a minority of insurers assess climate change risks in the ORSA using scenario analysis, usually limited to a short-term time horizon. Therefore, EIOPA considers it essential to foster a forward-looking management of these risks to ensure the long-term solvency and viability of the industry. In the opinion, EIOPA sets out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSA. These include:

- national supervisory authorities should expect insurers to integrate climate change risks in their system of governance, risk-management system and ORSA, similar to all risks undertakings are or could be exposed to;
- insurers should do an assessment to identify material climate change risk exposures and subject the material exposures to a risk assessment;
- climate change risks should be assessed not only in the short term but also in the long term, using scenario analysis to inform the strategic planning and business strategy. Insurers should subject material climate change risks to at least two long-term climate scenarios, where appropriate:
    - a climate change risk scenario where the global temperature increase remains below 2°C, preferably no more than 1.5°C, in line with the EU commitments; and
    - a climate change risk scenario where the global temperature increase exceeds 2°C; and
- insurers are expected to evolve the sophistication of the scenario analyses, taking into account the size, nature and complexity of their climate change risk exposures. The opinion provides practical guidance on how to select and use climate change scenarios.

On 2 August 2022, building on this opinion, EIOPA published application guidance[55] on running climate change materiality assessment and using climate change scenarios in the ORSA. EIOPA stresses that the guidance is designed as an initial aid for firms to carry out analysis on climate change in the ORSA but that, should a firm have specific portfolios which fall outside the guidance, they may wish to explore other alternatives to assess climate change risks.

4.12 EIOPA Staff Paper on Nature-related Risks and Impacts for Insurance

On 29 March 2023, EIOPA published a staff paper[56] exploring how nature-related risks can affect re(insurers) and examining ways in which the insurance sector can meaningfully contribute to the conservation and restoration of nature through investments and underwriting activity. EIOPA proposes to establish supervisory expectations for the management of nature-related risks and impacts for the insurance industry. The paper notes that, as part of their mandates to protect consumers and preserve financial stability, supervisors and regulators will increasingly have to assess nature-related physical and transition risks transmitted to the (re) insurance industry's investment and underwriting portfolios. This will require, as a first step:

- integrating the consideration of nature-related risks in the prudential and conduct supervisory frameworks; and
- contributing to the establishment of methodologies and provide guidance eon the macro / micro-prudential risk assessment of nature-related risks.

The staff paper examines the transmission of nature-related risks into society and the economy, approaches to managing nature-related risks and the role of supervisors and regulators.[57]

4.13 European Long-Term Investment Funds

A significant development that will facilitate the transition to net zero under the European Green Deal is the publication of the revised European Long-Term Investment Funds ("**ELTIF**") Regulation[58] in the Official Journal of the EU on 20 March 2023. The aim of the ELTIF Regulation is to raise and channel capital towards European long-term investments and to stimulate the real economy. It is expected to encourage private capital flows toward more environmentally sustainable investments. The regulation specifies eligible long term investment assets and provides for an EU passport similar to that provided for under the UCITS Directive and AIFMD) allowing for distribution to professional and certain retail investors. However, since the publication of the original regulation in 2015, only 89 ELTIFs have been registered to date in four EU member states.[59]

A number of enhancements have been made to the ELTIF framework, which is now attracting a lot of interest from asset managers. The reforms to the framework include providing for a wider range of eligible assets and permissible investments (including products that have EU Taxonomy aligned sustainable investments as their objective and green bonds), less prescriptive diversification and investment rules and removing the €10,000 minimum investment requirement, as well as the 10% cap on financial instrument portfolios not exceeding €500,000 for retail investors. ELTIFs may also be structured as open-ended funds with enhanced redemption rules.

The amended ELTIF Regulation applies from 10 January 2024. Draft Level 2 measures have been prepared by ESMA and the Commission has proposed amendments to those draft measures.

4.14 Interaction of Sustainable Finance with Other EU Initiatives

4.14.1 Capital Markets Union

The Capital Markets Union ("**CMU**") is the EU's plan to create a single market for capital. The aim of the CMU is to get money – investments and savings – flowing across the EU so that it can benefit consumers, investors and companies, regardless of where they are located. It is envisaged that the initiatives adopted under the CMU will help Europe deliver is Green Deal and Digital Agenda. The CMU action plan adopted on 24 September 2020 sets out 16 legislative and non-legislative measures to deliver on three main objectives, one of which is to support a green, inclusive and resilient economic recovery.[60]

4.14.2 Retail Investment Strategy

The retail investment strategy ("**RIS**") aims to make the EU an even safer place for citizens to invest in the long term – one of the three key objectives of the CMU. The strategy is intended to encourage participation in EU capital markets with a view to channelling private funding into the EU economy and funding the green and digital transitions.[61]

4.14.3 Digital Finance Strategy

In September 2020, the Commission adopted a digital finance package, including a digital finance strategy and legislative proposals on crypto-assets and digital resilience. The Commission's view is that boosting digital finance would open up new channels to mobilise funding in support of the European Green Deal.[62]

5. Update on Irish Developments

At-a-glance – legislative and regulatory updates since the 2021 Report:

November 2021	Central Bank Letter on supervisory expectations related to climate and broader ESG issues
July 2022	MiFID II Commission Delegated Directive (EU) 2021/1269 transposed
September 2022	UCITS Commission Delegated Directive (EU) 2021/1270 transposed
November 2022	Central Bank Information Note Sustainable finance and the asset management sector: Disclosures, investment processes and risk management
March 2023	Central Bank Guidance for (Re)Insurance Undertakings on Climate Change Risk

As noted in the introduction to this study, many elements of the sustainable finance agenda originate and are dictated at EU level, with many of the legislative initiatives taking the form of regulations with direct effect and therefore not requiring transposition into Irish law or the exercise of any national discretions. The potential for domestic legislative measures to enhance the sustainable finance framework is therefore limited, and gold-plating of EU measures is not considered a practical or efficient approach in a sector where the majority of market participants operate on a cross border basis and divergent national approaches present operational and compliance challenges.

The principal methods by which Ireland can seek to differentiate itself and establish its reputation as a centre of excellence for sustainable finance, therefore, relate to our regulatory response to the legislative initiatives, ensuring Irish representatives have a seat at the table of international fora discussing sustainable finance and ensuring that regulators and service providers in the financial services sector have the requisite skills, knowledge and experience to understand and effectively implement sustainable finance initiatives.

The pragmatic approach of the Central Bank to implementation of the SFDR and EU Taxonomy Regulation by Irish investment funds and their managers to date and the constructive engagement with industry to achieve efficient and effective outcomes are examples of good practice that should continue to be observed with respect to further initiatives.

5.1 Central Bank Approach to SFDR / EU Taxonomy Implementation

The phased timeline for the introduction of the various requirements under the SFDR and the Taxonomy Regulation has presented challenges for FMPs and for their supervisors. The various deadlines for compliance with the detailed measures have meant that FMPs have had to revisit their pre-contractual and website disclosures on multiple occasions since the initial application date of the SFDR on 10 March 2021. Throughout this period, the Central Bank has engaged with industry in order to fully understand the implementation challenges and has adapted its processes to ensure effective and efficient implementation without compromising investor protection. The Central Bank has stated that it is particularly concerned to ensure that investors are fully informed when making their investment decisions, especially where financial products are described as green or sustainable. The Central Bank is keen to ensure that products are not mislabelled and that the flow of capital from investors is channelled towards genuinely sustainable activities. Investment funds and bonds labelled as green are particularly important in this regard.[63]

In order to facilitate the orderly implementation of the various requirements while ensuring that high standards of disclosure are maintained, the Central Bank established a streamlined filing process for pre-contractual updates.[64] Fund managers were required to certify compliance with a number of requirements and the Central Bank carried out a review of a sample of the submissions received. The Central Bank engaged with selected funds on a bilateral basis where queries arose.

In November 2022, the Central Bank published an Information Note[65] which helpfully set out its findings from its gatekeeper review of the submissions received in the streamlined filing process, highlighted expectations around the implementation of SFDR and the EU Taxonomy Regulation and provided a roadmap for how the Central Bank will supervise these requirements in the future. The paper is intended to assist market participants by informing them of the main disclosure issues encountered and to outline the risks that the Central Bank observed in terms of potential greenwashing or areas where there has been a lack of transparency or clarity. The paper also outlines good practice identified.

5.2 Central Bank Letter on Climate, Environment and ESG Issues

On 3 November 2021, the Central Bank issued a letter[66] to regulated firms setting out supervisory expectations related to climate and broader ESG issues. The supervisory expectations focused on five key areas including governance, risk management framework, scenario analysis, strategy and business model risk and disclosures.

The Central Bank noted in its letter that the expectations should be applied in a proportionate manner aligned to the nature, scale and complexity of the individual firm, so firms may take differing approaches to embedding the Central Bank's expectations. To meet the Central Bank's expectations, boards must demonstrate clear ownership of climate risks affecting the firm and promote a culture within the firm that places emphasis on climate and other ESG issues. Risk management frameworks should be enhanced to ensure that climate change risk can be robustly identified, measured, monitored and mitigated. Firms must devise appropriate scenario analysis and stress testing to assess the impact of potential future climate outcomes. Firms must be in a position to determine the impacts of climate risks (and opportunities) on the firm's overall risk profile, business strategy and sustainability through business model analysis. This business model analysis must also inform strategic planning. The Central Bank has also underlined the importance of transparent disclosure to investors to protect their interests and wider market integrity.

5.3 Transposition of Delegated Acts on Integration of Sustainability Factors

Many of the delegated acts relating to the integration of sustainability factors (see full list at Figure 8 above) took the form of regulations and therefore did not have to be transposed into national law. In relation to the two delegated directives, Ireland implemented these directives in a timely manner[67] *(see Figure 10 below)*.

Figure 10 Irish Transposition of Delegated Acts on Integration of Sustainability Factors

EU Legislation	Irish Legislation
MiFID II Commission Delegated Directive (EU) 2021/1269	Transposed by the European Union (Markets in Financial Instruments) (Amendment) (No.3) Regulations 2022 [SI 363 of 2022]
UCITS Commission Delegated Directive (EU) 2021/1270	European Union (Undertakings for Collective Investment in Transferable Securities) (Amendment) (No.2) Regulations 2022 [SI 442 of 2022]

5.4 Central Bank Guidance for (Re)Insurance Undertakings on Climate Change Risk

In March 2023, the Central Bank published its Final Guidance for (Re)Insurance Undertakings on Climate Change Risk ("**Guidance**").[68] The Guidance is addressed to (re)insurance undertakings authorised by the Central Bank and includes captive (re)insurers and branches of third-country insurance undertakings authorised by the Central Bank. It clarifies the Central Bank's expectations on how (re)insurers address climate change risks in their business and aims to assist them in developing their governance and risk management frameworks to do this. The Guidance confirms that it does not introduce new requirements on (re)insurers in relation to climate change risk. Rather, the Central Bank is clarifying its expectations on compliance with the existing Solvency II prudential requirements relevant to climate change risk. Recognising that individual (re)insurers may be at different stages of maturity in their approach to managing climate change risk, the Guidance is based on a set of overarching principles and sets proportionate expectations dependent on the nature, scale and complexity of the (re)insurer. For the wider financial services sector, it is important to note that, on the publication of the Guidance, the Central Bank explained that it is currently considering similar guidance for other financial services sectors.

In addition to monitoring compliance with the Guidance, the Central Bank's Insurance Supervision Directorate's climate change priorities include:

- the use of a 'Heat Map' which has been developed to identify (re)insurers with greater exposure to climate change risks. The focus is on firms where risks appear concentrated;
- examining how natural catastrophe risks are being modelled and managed, including how modelling is being adapted and revised to take climate change risks into account; and
- considering how to better understand the flood protection gap in Ireland (building on the results of the Central Bank's 2021 Climate & Emerging Risk Survey).

5.5 The Irish Investment Limited Partnership

Enhancements to the Irish investment limited partnership ("**ILP**") have made this investment vehicle a highly attractive option for fund managers availing of closed-ended strategies in private equity, real estate, credit, infrastructure and sustainable finance. Due to the flexibility with regard to investment restrictions and borrowing and the speed in bringing a qualifying investor alternative investment fund ("**QIAIF**") ILP to market, the QIAIF ILP has the potential to become the preferred vehicle for ESG funds. QIAIFs have already been used to invest in sustainable asset classes such as wind and solar power.

Many private asset managers have become accustomed to establishing their partnership vehicles in other jurisdictions, due to a number of perceived issues with the Investment Limited Partnership Act 1994. The recent legislative changes have addressed the issues that meant only a small number of ILPs were established after the introduction of the original legislation in 1994 and continued efforts should be made to raise awareness of the enhanced regime and to promote the ILP has a suitable vehicle for channelling private capital into sustainable investments.

5.6 European Long Term Investment Funds

As noted in section 4.9 above, enhancements to the ELTIF Framework at EU level have increased the potential for these investment funds to play a significant role in orienting capital towards sustainable investments. Prior to March 2024, the Irish regulatory framework had not accommodated the establishment of ELTIFs in Ireland. The burgeoning interest in the enhanced ELTIF framework generally and particularly the potential for ELTIFs to play a significant role in sustainable projects and transitioning to a net zero economy means that there is an opportunity to promote Ireland as an attractive domicile for these funds. It is therefore welcome that the Central Bank has introduced a new standalone chapter on ELTIFs in its AIF Rulebook addressing ELTIF restrictions, supervisory requirements, prospectus requirements, general operational requirements, annual and half-yearly reports and the marketing of ELTIF to retail investors. The Central Bank started accepting applications for authorisation as ELTIFs from 11 March 2024.

5.7 Embedding ESG in the Irish Financial Services Sector

The table below sets out some developments that have progressed ESG considerations in the Irish financial services sector.

Figure 11 Progress on ESG Considerations

ENVIRONMENTAL

Central Bank Expectations

- The Central Bank Letter to regulated firms dated November 2021 set out supervisory expectations related to climate and other ESG issues. The supervisory expectations focused on five key areas including governance, risk management framework, scenario analysis, strategy and business model risk and disclosures.

Climate Forum and Sustainable Investment Charter

- The Climate Forum meets twice yearly and brings together climate change experts, industry representative bodies, regulated firms and Central Bank representatives
- The Sustainable Investment Charter was published in June 2022 and provides a guide to apply sustainable investment principles to the Central Bank's investment assets.

Central Bank Regulatory Priorities

- The Central Bank's regulatory priorities for 2023 include strengthening the resilience of the financial system to climate change risks.

SOCIAL

Diversity

- The Central Bank publishes an annual report on Demographics in the Financial Sector. The 2023 report noted that female applications for board positions across industry were up from 30% in 2022 to 39% in 2023. However, women continue to be under-represented in the most senior roles and in particular in revenue generating roles. The Central Bank has also published a Diversity & Inclusion Strategy 2022-2026.
- The Update to the Ireland for Finance Action Plan 2023 noted that a really significant action that requires considerable progress is diversity and inclusion within the financial services sector and more generally.
- The Women in Finance Charter: Led by industry and supported by the Government of Ireland, Ireland's Women in Finance Charter underpins the financial services industry's ambition to see increased participation of women at all levels, including junior, middle and senior management, leadership and board roles within financial services organisations based in Ireland.
- Gender Pay Gap Legislation: 2022 marked the first year of Ireland's mandatory Gender Pay Gap ("**GPG**") reporting regime, introduced under the Gender Pay Gap Information Act 2021. Employers with 250 employees or more were required to publish their reports over the course of December 2022, based on the June "snapshot" date they chose.

Figure 11 Progress on ESG Considerations

GOVERNANCE

The Central Bank has progressed a number of initiatives addressed at or related to governance in regulated financial service providers:

- **The Individual Accountability Framework:** On 9 March 2023, the Central Bank of Ireland (Individual Accountability Framework) Act 2023 was enacted with the objective of promoting improved governance and positive culture changes in regulated financial service providers. The Individual Accountability Framework ("**IAF**") introduces enhancements to the Central Bank's Fitness and Probity regime, introduces a Senior Executive Accountability Regime ("**SEAR**") and new Conduct Standards and amends the Central Bank's Administrative Sanctions Procedure. The Central Bank's SEAR framework includes a prescribed responsibility which assigns responsibility for managing the firm's approach to identifying, assessing and managing climate-related and environmental risks across the firm.
- **Fund Management Company Effectiveness Guidance:** Known as the CP86 framework, this regulatory framework consists of rules and guidance for fund management companies designed to underpin the achievement of substantive control by fund management companies acting on behalf of investment funds over the activities of their delegates.
- **Central Bank Cross Sectoral Guidance on Outsourcing:** Published in December 2021, this guidance is relevant to all regulated financial service providers which use outsourcing as part of their business model.
- **Central Bank Cross Sectoral Guidance on Operational Resilience:** The Central Bank published this guidance in December 2021 with the objective of communicating to industry how to prepare for, respond to, recover and learn from an operational disruption that affects the delivery of critical or important business services.

5.8 Ireland for Finance Strategy 2026

The Irish government published an updated Ireland for Finance strategy for the development of Ireland's financial services sector in October 2022.[70] The updated strategy was a proactive response to changes in the area since the launch of the 2019 strategy as a result of the pandemic, the invasion of Ukraine and global taxation developments. Sustainable finance is one of five core themes within this revised framework and its aim is to embed environmental, social and governance principles into the financial system by encouraging longer term investments in sustainable economic projects. In March 2024, a further update to the Ireland for Finance Strategy was published, with a specific focus on sustainable finance. Some significant developments highlighted by the strategy documents published to date include the following:

- by the end of 2021, Sustainable Finance Skillnet had invested close to €1 million, developed new courseware, and facilitated over 2,000 professional individuals in 420 companies to upskill in sustainable finance;
- Euronext Dublin attracts 39% of the entire ESG bond listing flow of the Euronext Group which operates across seven European markets and €177 billion has been raised for ESG purposes in Dublin since 2015; and
- issuances of Sovereign Green Bonds, including in 2023 a 20Y €3.5 billion transaction, and in March 2024, an additional €500mn was raised with the tapping of an existing bond. Green Bonds now account for over 7% of Ireland's total benchmark bonds.

6. Horizon Scanning

6.1 Future Developments under the SFDR

6.1.1 Commission's Level 1 Review

The Commission is conducting a comprehensive assessment of the implementation of the SFDR in 2023 / 2024, with the review focusing on how the regulation ensures legal certainty, its usability and its role in mitigating greenwashing. The assessment is also considering the interactions with other related sustainable finance legislation, such as the EU Taxonomy Regulation, the Benchmark Regulation, the MiFID / IDD sustainability amendments and the CSRD. On 14 September 2023, the Commission published a public consultation and a targeted consultation relating to its review of the SFDR, with a closing date of 15 December 2023. The Commission indicated that it may issue proposals in Q2 2024.

6.1.2 ESAs' Level 2 Review

The Commission recognises that developments in a novel and evolving area like sustainable finance disclosures will require changes to the RTS to reflect the increased demand for high quality sustainability-related information. In its updated Action Plan, the Commission announced a review of the RTS to cater for the increased demand for transparency in areas that extend beyond the environment. The Commission also announced its aim to strengthen the disclosure and effectiveness of decarbonisation actions by FMPs for all financial products.[72]

Pursuant to a mandate from the Commission to review and revise the SFDR RTS with respect to the content and presentation of information relating to the do no significant harm ("**DNSH**") principle and the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports, the ESAs published a consultation paper on 12 April 2023.[73] The consultation proposed significant changes to the existing disclosure requirements under the SFDR. The proposals included changes to the PAI indicators, including additional social indicators and refinements to calculation methodologies, proposed changes to the DNSH aspect of the definition of "sustainable investments" and material changes to the mandatory disclosure templates for Article 8 and Article 9 products, including information on decarbonisation targets, including intermediary targets and milestones and, where relevant, actions pursued. The consultation period closed on 4 July 2023. The ESAs delivered their final report to the Commission on 4 December 2023. The ESAs' proposals are being considered by the Commission and will be subjected to scrutiny by the European Parliament and the Council of the EU before being published in the Official Journal of the EU.

6.1.3 ESMA Guidelines on Fund Names using ESG or Sustainability-related terms

The ESMA consultation on fund names using ESG or sustainability-related terms[74] issued on 18 November 2022 and closed on 20 February 2023. ESMA sought stakeholders' views on the introduction of quantitative thresholds for the minimum proportion of investments sufficient to support the use of ESG or sustainability-related terms in funds' names. ESMA proposed:

- a quantitative threshold of 80% for the use of ESG related words;

- an additional threshold of 50% for the use of "sustainable" or any sustainability-related term, as part of the 80% threshold;
- the application of minimum safeguards to all investments for funds using such terms (exclusion criteria based on the exclusion criteria applicable to Paris-aligned Benchmarks in the Level 2 measures adopted under the Benchmark Regulation); and
- additional considerations for specific types of funds (index and impact funds). ESMA suggests that funds using the word "impact" or "impact investing" or any other impact-related term in their name should meet the proposed thresholds and additionally make investments with the intention to generate positive and measurable social and environmental impact alongside a financial return.

On 14 December 2023, ESMA issued a public statement providing an update[75] on the guidelines. The update confirmed that the final guidelines would not include the threshold of 50% in sustainable investments for the use of sustainability-related words in funds' names. The final guidelines would also address funds using "transition" or "impact"-related terms in their names. The final guidelines were published on 14 May 2024.[76] They apply three months after their publication on ESMA's website in the EU official languages and managers of fund existing before the date of application of the guidelines will have six months to comply with the guidelines.

6.1.4 Common Supervisory Action on Sustainability-related Disclosures and the Integration of Sustainability Risks

ESMA and NCAs have launched a common supervisory action ("**CSA**") on sustainability-related disclosures and the integration of sustainability risks.[77] The CSA is intended to assess the compliance of asset managers with the relevant provisions of the SFDR, the Taxonomy Regulation and relevant implementing measures. ESMA will develop a common methodology for NCAs to share knowledge and experiences on how to foster convergence in how they supervise sustainability related disclosure. The main objectives of the CSA are to:

- assess whether market participants adhere to applicable rules and standards in practice;
- gather further information on greenwashing risks in the investment management sector; and
- identify further relevant supervisory and regulatory intervention to address the issue.

NCAs will conduct the CSA in 2023 and until Q3 2024.

6.1.5 Market Developments

Having conducted a review of a sample of the submissions received since the application date of SFDR Level 1 on March 2021, the Central Bank published figures breaking down the number of Article 6, Article 8 and Article 9 funds *(see Figure 12 below)*. While the majority of funds are Article 6 funds (with no specific ESG focus) and only 183 Article 9 funds were authorised, it is expected that over time, as more reliable data becomes available to support investment strategies and decisions and in response to increasing investor demand for ESG products, more funds will classify as Article 8 or Article 9 funds.

It is also likely that more funds will disclose positive taxonomy alignment figures and will opt into completing PAIS as more reliable data becomes available and to meet market expectations.

Figure 12 Central Bank Statistics on Article 6, 8 and 9 Funds[78]		
SFDR Classification	**Number of Funds** (including sub-funds)	**Assets under Management (€)**
Article 6	5,831	€2.6 trillion (approx. 73.37%)
Article 8	1,276	€893 million (approx. 24.91%)
Article 9	183	€61.5 million (approx. 1.72%)
Total	**7,290**	**Approx. €3.6 trillion**

6.2 Future Developments under the EU Taxonomy Regulation

In accordance with the EU Taxonomy Regulation, the Commission will regularly review the technical screening criteria with the aim of reflecting technological progress, new scientific evidence and future EU policy developments. The Commission has stated that the EU Taxonomy Regulation is a living document that will continue to evolve over time, with more activities being added to its scope by means of amendments.[79]

6.3 A Social Taxonomy

Social objectives have been a feature of the EU's sustainable finance strategy since its inception. The need for social investment is widely recognised in order to achieve the United Nations Social Development Goals and to create the social internal market set out in the Treaty of the European Union (Article 3). There is also growing demand for social bonds to finance projects such as social housing, healthcare and jobs for target groups. Market participants are aware that if they neglect social factors, they run the risk of being associated with human rights abuse such as child labour and slave labour.

The classification system introduced by the EU Taxonomy Regulation initially only covers environmental activities and objectives, although Article 18 of the EU Taxonomy Regulation sets out the minimum safeguards as "procedures" that the entity implementing a sustainable economic activity must follow and that must be aligned with the following international instruments:

- the International Bill of Human Rights (the Universal Declaration of Human Rights and the UN Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights);[80]
- the International Labour Organization Declaration on Fundamental Rights and Principles at Work;[81]
- the United Nations Guiding Principles on Business and Human Rights ("**UNGPs**") which implement the United Nations "Protect, Respect and Remedy" Framework and address human rights and transnational corporations and other business enterprises;[82] and
- the Organisation for Economic Co-operation and Development ("**OECD**") guidelines for multi-national enterprises ("**MNEs**"),[83] which are recommendations addressed by governments to MNEs aiming to encourage positive contributions enterprises can make to economic, environmental and social progress.

Social and governance aspects are therefore a feature, rather than the main focus, of the EU Taxonomy Regulation, which is currently focused on environmental considerations. The Commission has given the Platform on Sustainable Finance the mandate to work on extending the EU Taxonomy to social objectives. The Platform on Sustainable Finance has published a report setting out its key initial observations and recommendations in relation to this task.[84]

6.4 EU Climate Benchmarks

Following on from the introduction of Paris-aligned Benchmarks and Carbon Transition Benchmarks through amendments to the Benchmarks Regulation in 2018, the Commission is exploring the possibility of introducing a new label which encompasses all ESG pillars. The objective of such an EU ESG benchmark label would be to bring more clarity to the market, meet the demand of asset managers and investors, channel capital flows towards more sustainable investments and further tackle ESG-washing. The Commission has engaged a contractor to carry out a study, which is intended to provide an extensive view of the existing ESG-related benchmarks market, highlighting shortfalls and best practices. The findings of the study will inform the Commission about the possible features for a new EU ESG benchmark label that would facilitate the alignment of investments with long-term sustainability considerations. The Commission has observed that many investors are currently relying on "so-called ESG benchmarks" to justify the sustainability-related features of their portfolio or the investment products they make available. However, the current lack of harmonisation of methodologies and diverging levels of ambition of the objectives pursued impacts the comparability and reliability of existing ESG benchmarks. Stakeholders were invited to contribute to an industry survey before the deadline of 8 April 2022. Work is ongoing and the Commission has not issued any further announcements since the conclusion of the survey.

6.5 ESG Rating Providers

In order to obtain much of the data required to fulfil their disclosure obligations under the various legislative initiatives adopted under the Action Plan, many corporates and investors have to rely on third party data providers and ESG rating providers. ESG ratings are marketed as providing an opinion on the exposure of a company or entity to ESG factors and their impact on society. As well as assisting with compliance with disclosure obligations, they provide information for investment strategies and risk management. The Commission committed in its renewed sustainable finance strategy published in July 2021[85] to take action to improve the reliability, comparability and transparency of ESG ratings. On 13 June 2023, the Commission published a proposed regulation[86] intended to improve the reliability and transparency of ESG ratings activities. It is felt that the current ESG ratings market is not functioning properly, with investors' and rated entities' needs not being met and confidence in ratings being undermined.

The Commission's proposals aim to improve transparency of ESG ratings characteristics and methodologies, ensure increased clarity on the operations of ESG rating providers and prevent risks of conflicts of interest. The general objective of the initiative is to improve the quality of ESG ratings to enable investors to make better informed investment decision with regard to sustainability objectives.

Under the proposed regulation, ESG rating providers operating in the EU would have to seek authorisation from ESMA. The legislation also contains rules on the provision of ESG ratings in the EU by third country ESG rating providers. To ensure the integrity and reliability of ESG rating activities, the proposal sets out organisational requirements, processes and documents concerning governance for ESG rating activities. The regulation will apply six months after its entry into force and there are transitional provisions for ESG ratings providers which provide their services at the date of entry into force of the regulation and for new entrants that are categorised as small and medium-sized undertakings.

6.6 An EU Ecolabel

The EU ecolabel is a symbol of environmental excellence awarded to products and services that meet environmental standards throughout their life cycle and provides guidance to companies on environmental best practices. Launched in 1992, the EU ecolabel encourages innovation in the environmental and efficiency sector, helps consumers, retailers and businesses make truly sustainable choices and promotes environmental protection.

The Commission has been exploring the possibility of applying the EU ecolabel to certain retail financial products including UCITS. The Commission's website notes that the criteria development process for this product group has commenced but that the project, having commenced in 2019, is currently on hold. The ecolabel will define the minimum environmental performance of retail financial products and will be based on the requirements of the EU Ecolabel Regulation 66/2010, with the objective of awarding the best environmentally performing financial products.

One challenge of introducing an EU ecolabel for retail financial products relates to the interaction and consistency with other product labelling requirements, which may be in place at national level or apply in jurisdictions outside the EU. This could require manufacturers of retail financial products to comply with multiple differing criteria to apply for certification under the various ecolabelling programmes. Harmonisation and mutual recognition between different programmes would encourage adoption of ecolabels and promote efficiency.

It will also be important to ensure that the criteria for the EU ecolabel for financial products are consistent with other EU measures including the SFDR and EU Taxonomy Regulation. For example, it would need to be considered whether an Article 9 SFDR product would automatically qualify for the EU Ecolabel or would further criteria, such as a specified degree of Taxonomy-alignment, be required. It is important to ensure that the EU ecolabel would reinforce and complement the existing requirements rather than adding an additional layer of compliance.

6.7 Corporate Sustainability Due Diligence Directive

CS3D was approved by the European Parliament on 24 April 2024 and is expected to be published in the Official Journal of the EU in 2024. The Commission has described the CS3D as underpinning the SFDR, which requires FMPs to publish a statement on their due diligence policies with respect to principal adverse impacts (the PAIS referred to in section 4.1 above) on a comply or explain basis. The CS3D aims to promote sustainable and responsible corporate behaviour for in-scope companies by (among other things) requiring them to conduct due diligence in respect of the human rights impacts and adverse environmental impacts of operations, subsidiaries and chains of operations and to prevent, bring to an end or mitigate those impacts. The new regulatory regime encompassing both the CSRD and the CS3D should improve the quality of issuers' sustainability conduct and disclosure is expected to improve.

6.8 ESAs Progress Reports on Greenwashing

The three ESAs (the EBA, the European Insurance and Occupational Pensions Authority ("**EIOPA**") and ESMA) published a call for evidence on greenwashing on 15 November 2022 to gather input from stakeholders on how to understand the key features, drivers and risks associated with greenwashing and to collect examples of potential greenwashing practices.

The ESAs outlined that, due to the growing demand for sustainability-related products combined with the rapidly evolving regulatory regimes and sustainability-related product offerings, the call for evidence was also motivated by the need to better understand which areas may become more prone to greenwashing risks. The call for evidence sought input on potential greenwashing practices relevant to various segments of the sustainable investment value chain and of the financial product lifecycle.

Respondents were invited to submit their responses by 10 January 2023. Contributions to the call for evidence fed into the ESAs' progress reports[87] on greenwashing which were mandated by the Commission and published on 1 June 2023.

In these reports, the ESAs put forward their common high-level understanding of greenwashing: *"a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants".*

The ESMA progress report[88] notes that the mismatch between growing demand for ESG products and the limited pool of assets that are deemed sustainable, in particular those in line with the high standard of the EU Taxonomy Regulation, creates a competitive drive for FMPs to gain market share and revenue through bolstering their sustainability profiles, which may in some cases be misleading.

The ESAs issued their final reports[89] on 4 June 2024. The reports provide an evaluation of the current supervisory response to greenwashing risks under the remit of each ESA and provide a forward-looking assessment of how sustainability-related supervision can continue to be enhanced in the coming years.

Some key findings from the reports include:

- There has been a clear increase in the total number of potential cases of greenwashing across all sectors from 2012 to 2023 (+21.1% increase in alleged cases in all regions and +26.1% increase in alleged cases in the EU in 2023). Greenwashing controversies remain amplified towards EU financial and banking institutions.
- Reputational and operational risks are considered the types of financial risks most impacted by greenwashing. Litigation risk resulting from greenwashing has been a growing trend in the past three years.
- Greenwashing can be captured by existing EU rules prohibiting misleading information and can also be addressed by acting on infringements against a series of specific sustainability-related requirements introduced in the EU in recent years.
- NCAs have reported having detected only a limited number of actual or potential occurrences of greenwashing. Formal enforcement decisions are also limited, reflecting the fact that NCAs have addressed irregularities relating to sustainability-related claims mostly in their ongoing supervision.

The ESAs have not suggested significant legislative change. In its report, the EBA submits that the focus should be on finalising and implementing existing legislative initiatives, but states, *"...developments on aspects that are relatively less regulated (transition finance, green- and sustainability-linked loans) or where specific issues have been identified (review of the Sustainable Finance Disclosure regulation(SFDR)) would contribute to the robustness of the regulatory framework".*

Figure 13 summaries the main conclusions from the ESAs' final reports.

Figure 13 Summary of European Securities and Markets Authority (ESMA), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority Final Report (EIOPA) Conclusions

EBA	▪ Institutions should review and adapt their governance arrangements and internal processes to build safeguards against greenwashing. They should take a proactive approach in addressing data challenges and consider the extent to which external verification and alignment with market guidance would support the credibility of green or sustainable products and / or targets. ▪ At an entity level, institutions should substantiate forward-looking commitments such as net zero pledges with credible plans and strategies. ▪ Greenwashing-related financial risks should be integrated in the management of conduct, operational and reputational risks. ▪ The EBA will provide regulatory guidance on how to address greenwashing-related aspects within prudential supervision.
ESMA	▪ NCAs are expected to gradually deepen their critical scrutiny of sustainability-related claims. ▪ ESMA will continue to support the monitoring of greenwashing risks, the deployment of SupTech tools and capacity building. It will prompt common supervisory actions where deemed necessary. ESMA may produce additional guidance for stakeholders in high-risk areas of greenwashing. ▪ ESMA invites the Commission to reinforce NCA's and ESMA's mandates in certain areas, such as for benchmarks, and make sure that all NCAs have the powers to promote retail investors' financial education. ▪ ESMA will publish an opinion building on the preliminary regulatory remediation actions identified in its progress report.
EIOPA	▪ In its final report, EIOPA sets out nine key proposals aimed at enhancing the supervision of greenwashing and at improving the sustainable finance regulatory framework, which include: using the ESAs' common understanding of greenwashing as a reference point; building a common EU supervisory approach in relation to sustainability claims and greenwashing; tackling greenwashing through enhanced supervision and targeted supervisory activities; enhancing supervisory resources and expertise to tackle greenwashing; closing the gap related to non-life insurance products with sustainability features; consumer-centric sustainability preferences; creating a sustainability-related investment framework that works for insurance and pension consumers and providers; and enhancing sustainable finance and mitigating greenwashing in the occupational pensions sector.

The Commission will consider the ESAs' final recommendations, which may lead to some changes to the EU regulatory framework although the emphasis in the reports is on resourcing supervision and implementation of the existing requirements.

6.9 Transposition of the CSRD

As noted at section 4.3 above, much of the CSRD must be transposed by member states by 6 July 2024, with CSRD reporting then being introduced on a phased basis over a number of years. The Department of Enterprise, Trade and Employment ("**DETE**") consulted on the member state options contained in the CSRD in January 2023 and published the results of that consultation process in a policy paper[91] in July 2023, which sets out the DETE's proposed position on some of the optionality for members states provided for in the CSRD.

The DETE notes that, while smaller companies are not directly within the scope of the directive, they may need to provide information to larger companies in due course if they are part of the value chain. To begin preparations for this, businesses are encouraged to avail of government supports such as the Green Transition Fund and to use the Climate Toolkit 4 Business. The toolkit allows businesses to see their environmental impact based on information at hand and create a plan to improve it. The DETE suggests that a discussion with their accountants or auditors and large companies that they work with will also be helpful to their preparations. The DETE has also set up a mailing list (csrd@enterprise.gov.ie) to assist companies in staying up to date on developments on the transposition of the directive.

On 22 December 2023, the Commission Delegated Regulation[92] specifying the first set of ESRS – the mandatory reporting standards for companies within the scope of the CSRD – was published in the Official Journal of the EU. The final version of the ESRS contains significant changes compared to those presented to the Commission by EFRAG in November 2022. In particular, only two of the General Disclosures remain mandatory, while other disclosures will be subject to a materiality assessment. Some stakeholders have expressed concerns that this will result in a misalignment between the disclosures required under the SFDR and the information provided by investee companies, leading to a lack of comparable and reliable corporate sustainability disclosures.

Between 27 February 2024 and 19 April 2024, the Irish Auditing and Accounting Supervisory Authority ("**IAASA**"), which has responsibility for examining sustainability reporting for entities within the scope of the Transparency Directive for financial reporting and which fall within the scope of CSRD, as well as responsibility for inspecting the assurance on reports in the case of public interest entities, consulted on its proposal to adopt a Sustainability Assurance Standard in Ireland. This is required under the CSRD.

6.10 Green Claims and Complex Debt Securities

On 22 March 2023, the EU published a proposal for a Green Claims Directive[93] to combat greenwashing and false environmental claims made by businesses in respect of their product offering. On 12 March 2024, the European Parliament approved the proposed text of the directive at first reading. Under the proposal, any explicit environmental claims will have to be based on an assessment underpinned by scientific evidence. The assessment will also have to consider, amongst other factors, the claim over the lifecycle of the product and whether any positive achievement will result in a significant worsening of another impact. A Green Claims Directive is a welcome complement to existing consumer and unfair commercial practices legislation at EU and national level. With the normal ordinary legislative process expected to run until the last quarter of 2024, businesses are encouraged to proactively assess and report on the environmental impact of their products in line with the Green Claims Directive proposal to instil greater consumer confidence and trust in green marketed products.

There are ongoing concerns that complex debt securities are being marketed inappropriately to retail investors, using promised high yields and, increasingly, ESG claims to entice investment. The significant loss to Irish investors in a recent debt securities funded waste-to-energy plant project in the United Kingdom ("**UK**") has led to calls for greater transparency and regulation over how funds invested in ESG projects can be used. This case concerned intra-company loans made with investor funds following delays and increased costs involved in the intended waste-to-energy plan project which subsequently was cancelled due to an assessment that it was unviable.[94]

In the UK, similar debt security investments were often marketed to retail investors without the standard investor protections offered by the Prospectus Regulation and MiFID regime by designing the debt securities to be non-transferable securities (as most financial markets regulation applies only to transferable securities). These non-transferable retail offered debt securities were colloquially known as "mini-bonds". Following large scale retail investor losses in a number of high-profile mini-bond schemes, the Financial Conduct Authority in the UK intervened to prohibit the marketing of mini-bonds to consumers, unless they are sophisticated or have a high net worth. As part of the post-Brexit reform of the financial services sector, the UK is also planning to apply the same securities offering regulations to non-transferable securities as apply to transferable securities. Should similar investor protection issues be identified in Ireland, particularly in the context of using ESG claims to market to retail investors, reforms similar to those in the UK may be considered.

6.11 Fund Sector 2030

The terms of reference for the Department of Finance to conduct a review of Ireland's funds sector and produce a report "Funds Sector 2030: A Framework for Open, Resilient and Developing Markets" were published on 6 April 2023. The framework will seek to ensure that Ireland maintains its leading position in asset management and funds servicing and continued support for our national and regional economies. The review will also seek to ensure that Ireland's funds sector is resilient, future-proofed, supportive of financial stability and a continued example of international best practice.[97] While sustainable finance is not referred to in the terms of reference, strengthening Ireland's reputation as a domicile for sustainable funds and promoting our sustainable finance knowledge, skills and expertise should form part of this review. The consultation was published on 22 June 2023[98] and responses were requested by 15 September 2023. The Minister for Finance issued a progress update on 21 December 2023[99] based on the responses received from the consultation. Consultation with stakeholders will continue during 2024 and a final report is expected to be issued to the Minister by the consultation team in summer 2024.

7. Opportunities: Maximising Ireland's Existing Strengths

7.1 Ireland's Established Reputation for Financial Services

The vision of the International Financial Services Strategy 2025 – Ireland for Finance is for Ireland to be a top tier location of choice for specialist international financial services.[100] This strategy positioned sustainable finance as one of three horizontal priorities across the four pillars outlined (Operating Environment, Technology and Innovation, Talent, Communications and Promotion). The latest Action Plan published under the strategy (published on 8 March 2024) contains a special edition on sustainable finance. Ireland offers a world-class legal and regulatory environment already benefiting domestic and international FMPs distributing sustainable finance products to Irish and international investors. The SFDR, EU Taxonomy Regulation and EUBGS create opportunities for Ireland to promote itself as a domicile for sustainable investment funds and green bond issuances.

Ireland is internationally recognised as one of the world's most advantageous jurisdictions in which to establish international investment funds. Fund vehicles with many different characteristics can be established in Ireland as Irish collective asset-management vehicles ("**ICAVs**"), investment companies, investment limited partnerships, unit trusts or common contractual funds.

In addition to the issuance of ESG bonds by Irish corporates, Ireland is the jurisdiction of choice for the establishment of special purpose vehicles for a variety of debt issuance transactions, including, but not limited to: asset-backed security transactions (commercial mortgage-backed securities, residential mortgage-backed securities and auto-loan securitisations, amongst others), collateralised loan obligations, medium-term note programmes, repackaging transactions, loan origination structures and non-performing loan transactions. As ESG considerations and impact investing continue to permeate most of the traditional forms of securitisation transactions into the future, we expect to see Irish special purpose vehicles at the heart of such structures.

Ireland is a member state of the EU and also a member of the OECD. In the evolving investment environment many originators and arrangers prefer to use onshore entities in their transaction structures. In fact, many investors in debt issuance transactions will only invest in debt securities issued by special purpose vehicles located in EU or OECD member countries.

From a tax perspective, Irish tax legislation provides for specific treatment in relation to qualifying special purpose vehicles where such vehicles are intended to be tax neutral entities. In addition, Ireland has a large double taxation treaty network and has a domestic infrastructure capable of implementing the most complex capital markets transactions (such as an experienced listing authority, experienced corporate service providers, lawyers, auditors, etc) in a cost effective manner.

All of these factors combined make Ireland the leading EU member state jurisdiction in which to locate debt issuance special purpose vehicles.

Many of the world's most prominent service providers have established substantial operations both in Dublin and throughout Ireland. Following the UK's decision to leave the EU, Ireland has been the jurisdiction of choice for many entities relocating operations from the UK to the European Union in order to retain access to the European market. A tax efficient and sophisticated regulatory framework is supported by an enduring political commitment to facilitate the development of Ireland as a leading centre for international financial services, including investment fund management and administration activities. Continued government impetus to build on the outstanding success of financial services in Ireland to date has sustained the focus on innovation in the international financial services sector, backed by sound and prudent regulation.

7.2 A Prudent and Pragmatic Regulator

The Central Bank is the regulatory authority responsible for the authorisation and supervision of regulated financial service providers and Irish investment funds. The Central Bank has worked closely with the industry stakeholders to tailor its regulations to accommodate a range of investment products with different structural features. The Central Bank's due consideration of developing industry practice, whilst having regard to its duties to protect investors, has been characteristic of the robust and energetic regulatory environment for financial services in Ireland.

The Central Bank has made clear its commitment to addressing the challenges posed by climate change to the financial system as part of its mandate to ensure that the financial system operates in the best interests of consumers and the economy.

The stability, efficiency and transparency of the Irish regulatory regime are likely to be key factors for investors and FMPs considering investing in or distributing financial products in and from Ireland.

7.3 Ireland as a Listing Venue

The Irish Stock Exchange plc, trading as Euronext Dublin is part of the Euronext Group comprised of six market locations across Amsterdam, Brussels, Dublin, Lisbon, Oslo and Paris. In June 2020, Euronext announced that it would be launching a series of ESG products and services to help support sustainable growth in European capital markets as part of a new three-year strategic plan entitled "Let's Grow Together 2022".

One such product is the "Euronext ESG Bonds" offering. Broadly, Euronext ESG Bonds is designed to encourage and promote more sustainable investment in Europe by offering issuers a range of opportunities to list bonds issued to finance their environmental and sustainability projects.

The benefits of Euronext ESG Bonds include: (i) creating a virtual community of ESG issuers on a single platform, enabling such issuers to showcase their ESG products; (ii) granting investors access to easily identifiable ESG investment opportunities and (iii) providing such investors with the ability to source ESG documentation directly from issuers in connection with an investor's ESG investment diligence process.

As at June 2024, the Euronext Group is home to over 1,700 ESG Bonds from over 400 issuers across the globe, including sovereigns, development banks, municipals, government-backed entities, financial institutions and other corporates. There are over 1,000 ESG Bonds across over 200 issuers listed on Euronext Dublin.

7.4 Ireland for Finance - Action Plans

Action Plan 2021, 2022 and 2023

Ireland's growth in the area of sustainably-linked and green bonds is evident from the designation in 2019 of the Irish Stock Exchange as Euronext's hub for green and ESG-related bonds, and the World Bank Group's use of Dublin as a centre for the issuance of sustainable development bonds. Capitalising on this positive momentum, the Irish government's Action Plan 2021 was leveraged to launch a proposal for a Sustainable Finance

Roadmap. This roadmap set out a programme of work and research which included establishing ISFCOE to lead research aimed at supporting the design and development of the infrastructure required in the transition to a sustainable economy. The aim of this roadmap is to analyse current trends and future needs for green and sustainable finance activities in the context of the European Green Deal and the renewed Sustainable Finance Strategy. It will also serve as a guide for market stakeholders seeking to align themselves with the government's sustainability goals.

Key actions under the roadmap include:

- establishing an International Sustainable Finance Centre of Excellence;
- accelerating access to sustainable finance knowledge and skills;
- establishing a public–private climate and sustainable finance group;
- assessing the viability of a climate funding platform in Ireland;
- developing a sustainable finance fintech strategy;
- delivering a coordinated public–private campaign to promote Ireland as a centre for sustainable finance.

The Action Plan 2022 reiterated the government's commitment to develop sustainable financial services in Ireland, switching focus to the wholesome implementation of the Sustainable Finance Roadmap.

The Action Plan 2023[101] announced that a revision of the Sustainable Finance Roadmap was underway and would be a key deliverable following the emergence of new opportunities and fresh engagement with stakeholders in the sustainable finance sphere. It singled out Ireland's top five global position for installed wind power capacity per capita and the prospect of extracting the potential of offshore electricity generation in Ireland's surrounding waters with the right levels of directed private sector investment. The areas of focus for the revised roadmap include the State's net-zero transition, biodiversity finance, the development of a sustainable finance strategy for fintech, and an update to the Ireland's sustainable finance talent strategy.

A second key deliverable of the Action Plan 2023 centred on the need to support and deepen foreign direct investment in Ireland's financial services. By updating the Sustainable Finance Value Proposition, IDA Ireland have been tasked with cultivating relations with international financial services clients already on the ground in Ireland and attracting new international investors, with whose input Ireland's sustainable finance objectives can be achieved. This will be designed in conjunction with keys stakeholders including the Financial Services Ireland (Ibec), the Department of Finance and ISFCOE.

Action Plan 2024

The 2024 Action Plan was launched on 8 March 2024 and contains a special edition on sustainable finance. The new action plan is focused on 13 key deliverables over 2024 under five themes: sustainable finance; fintech and digital finance; diversity and talent; regionalisation and promotion; and operating environment. The Action Plan notes that, to date, over 3,000 Irish based financial sector staff have been upskilled in sustainable finance ensuring Irish located professionals are in a position to support innovation and embrace new emerging thematic areas on both a risk and opportunity basis.

The plan also refers to the announcement in Budget 2024 of the Infrastructure, Climate and Nature Fund to deal with the pro-cyclicality of capital spending. It is intended that €2 billion will be invested in this fund each year from 2024 to 2030, building a fund of up to €14 billion.

7.5 Advantages of Ireland as a Financial Services Centre / Fund Domicile

The table at Figure 14 sets out a number of factors that all play a role in maintaining Ireland's position as a leading financial services centre and fund domicile of choice.

Figure 14 Factors maintaining Ireland's position as a leading financial services centre / fund domicile of choice
▪ Ireland services alternative investment assets representing approximately **40%** of global and **63%** of European hedge fund assets and is the largest hedge fund administration centre in the world.
• Ireland is the domicile for 5.9% of investment fund assets globally, making it the third largest global centre for investment funds and the second largest in Europe.
• Irish domiciled ETFs represent approximately 64% of the total European ETF market.
• Irish domiciled money market funds represent approximately 40% of the total European money market fund market.
• Ireland has one of the highest number of stock exchange listed investment funds globally, with over 4,000 classes listed.
• Ireland was ranked the 11th most competitive economy in the world and the 7th most competitive economy in the EMEA in the IMD World Competitiveness Yearbook 2022.
• Ireland is an EU Member State and benefits from the harmonisation of EU financial services regulation. It therefore qualifies as a UCITS and AIF domicile and as a "home" or "host" state for the provision of EU investment services under MiFID. Ireland is a participating member of the Economic and Monetary Union and has the euro as its currency.
• Following the UK's withdrawal from the EU, Ireland holds the important position as the only English speaking gateway to one of the world's largest markets.
• Ireland is an OECD member state and has continually confirmed its commitment to its membership of the EU.
• Ireland offers a range of tax-exempt fund vehicles (including ICAVs, investment companies, investment limited partnerships, unit trusts and common contractual funds) which can be tailored to suit investor requirements.
• Ireland has one of the most developed and favourable tax treaty networks in the world, with a continuously expanding tax treaty network including over 70 countries.
• Irish funds can use structured fund vehicles which can access Ireland's network of double tax treaties.

- Euronext Dublin is an internationally recognised, regulated exchange for the listing of Irish and non-Irish domiciled investment funds and it is widely regarded as one of the leading exchanges in the world for the listing of investment funds.
- Irish investment funds, fund managers, administrators and depositaries enjoy a prudent but practical regulatory environment governed by an approachable Central Bank willing to discuss and if possible work through any issues, with regulatory sensitivity to the needs of international fund managers, service providers and investors.
- Ireland was the first regulated jurisdiction to provide a regulatory framework specifically for the alternative investment fund industry and is at the forefront of product innovation, providing opportunities and solutions for this sector.
- Ireland was the first EU Member State to introduce a specific regulatory framework for loan originating investment funds.
- Ireland does not operate banking secrecy and was the only international funds centre to appear on the original OECD white list of countries that are in compliance with internationally agreed tax standards.
- Ireland has signed bilateral Memoranda of Understanding with 40 jurisdictions including the UK, China, Japan, Dubai, Hong Kong, Isle of Man, Jersey, South Africa, Switzerland, Taiwan, UAE and USA and cooperates with all EU Member States through the EU legislative framework.
- Ireland has signed AIFMD co-operation agreements with 40 regulatory authorities, including the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Securities and Futures Commission of Hong Kong.
- Ireland has a well-developed infrastructure with sophisticated telecommunications networks and local availability of highly educated labour, the resilience and strength of which were demonstrated by Ireland's very successful adaptation to remote working during the Covid-19 pandemic when minimal disruption to services occurred.
- Ireland's professional services infrastructure is well developed and experienced, with specialist legal, tax and accounting skills.
- A wide range of languages is supported in the Irish funds industry and with approximately 20% of Ireland's resident population coming from abroad (as at May 2023 – Central Statistics Office), the Irish funds industry has access to a workforce which includes many native speakers of European and Asian languages.
- Ireland has direct daily flights to and from the US and all of Europe's major financial centres and transport hubs.
- Ireland is in the same time zone as London and business can be conducted with Japan, Hong Kong and Australia in the morning and North and South America in the afternoon.

8. Challenges

8.1 The Legislative Challenge

From the outset, with the publication of the Commission's Sustainable Finance Action Plan in March 2018, the implementation timeline for the various proposals outlined in that plan appeared highly ambitious and challenging for stakeholders. Delays in the legislative process, resulting in the EU Taxonomy Regulation being finalised six months after the SFDR and the publication of the final SFDR RTS after the Level 1 March 2021 SFDR implementation deadline, have led to a complicated matrix of requirements with which stakeholders must contend. The misalignment of timing of the various initiatives under the Action Plan, together with differing approaches to key issues such as the application of the DNSH test under the SFDR and the EU Taxonomy Regulation and to defining what is a sustainable investment[102] in both pieces of legislation has created significant implementation challenges.

The ongoing lack of clarity relating to key concepts such as the definition of sustainable investments means that some FMPs are reluctant to classify their products as ESG products due to concerns relating to greenwashing – which results in the contrary phenomenon of greenbleaching or greenhushing. Many of the interpretation issues arise at EU level and therefore engagement at EU level is essential to ensure that the issues are identified and adequately addressed. There may also be scope for further guidance and clarity around Central Bank expectations relating to the implementation of the SFDR / EU Taxonomy Regulation. While we appreciate and understand the Central Bank's desire to adhere to a standardised European supervisory approach, there may be areas where the Central Bank can usefully provide guidance that would not impact on supervisory convergence. Again, ongoing engagement between the Central Bank and industry is essential to ensure any such areas can be identified and that clarity can be provided to FMPs operating in Ireland in relation to the Central Bank's expectations in relation to areas attracting debate at EU level.

As noted earlier, much of the legislation arising from the Action Plan has direct effect in Ireland and therefore does not require transposition. In relation to legislation that does require transposing regulations, it should be ensured that transposition of directives is timely and that member state discretions are exercised in a manner that benefits the domestic market. Continued focus on skills development for FMPs and their service providers, regulators and those working in relevant government departments will be necessary to ensure the efficient and effective transposition and implementation of EU requirements.

8.2 The Regulatory Challenge

The ambitious timelines for implementing many of the measures under the Action Plan has meant that the Central Bank has had to deal with high volumes of filings as financial products update their pre-contractual disclosures to comply with the various compliance deadlines under the SFDR / EU Taxonomy Regulation. The Central Bank has adopted a pragmatic approach to date, providing for streamlined filing processes and providing feedback to industry on its findings and expectations arising from its review of the initial filings under the SFDR.

It is essential that those in the Central Bank reviewing disclosures and engaging with FMPs on a bilateral basis have the necessary skills and understanding of the various legislative initiatives and the impacts and challenges for FMPs. This will require ongoing training, recruitment of ESG experts and measures to facilitate open discussion and consultation with industry.

8.3 The Data Challenge

In order to design ESG strategies and to comply with their disclosure obligations, FMPs gather information from multiple sources, which include direct interactions with companies and their own internal research encompassing proprietary financial forecasts and ESG assessment, as well as utilising multiple third-party research datasets.

The lack of availability of reliable, comparable sustainability data is one of the most significant impediments for asset managers, asset owners, and wealth advisors in meeting the expectations of sustainable finance disclosure. To use the investment funds industry as a case study, many fund managers may have opted to disclose 0% Taxonomy alignment, not to consider PAIs of investment decisions on sustainability factors, or not to classify their investment strategy under Article 9 SFDR based upon their inability to access reliable data to support the relevant disclosures. This not only undermines the legislative purpose of these disclosures, but also undermines investor confidence and makes it more difficult for investors to make well-informed investment decisions based on their sustainability preferences.

Irish Funds conducted a survey of ESG Data Vendors in 2021 that revealed a "patchy coverage" of several ESG data points and a wide range of variance in the reported data with low levels of comparability. The survey found that data was generally available for only 8 out of the 14 mandatory PAI relating to investee companies set out in the SFDR and that data can vary considerably between data vendors. While there is good coverage on greenhouse gas emissions, carbon footprint, carbon intensity and board diversity, across these indicators, there was a wide variance in the data provided.[103]

Figure 15 Incomplete coverage of mandatory PAI[104]

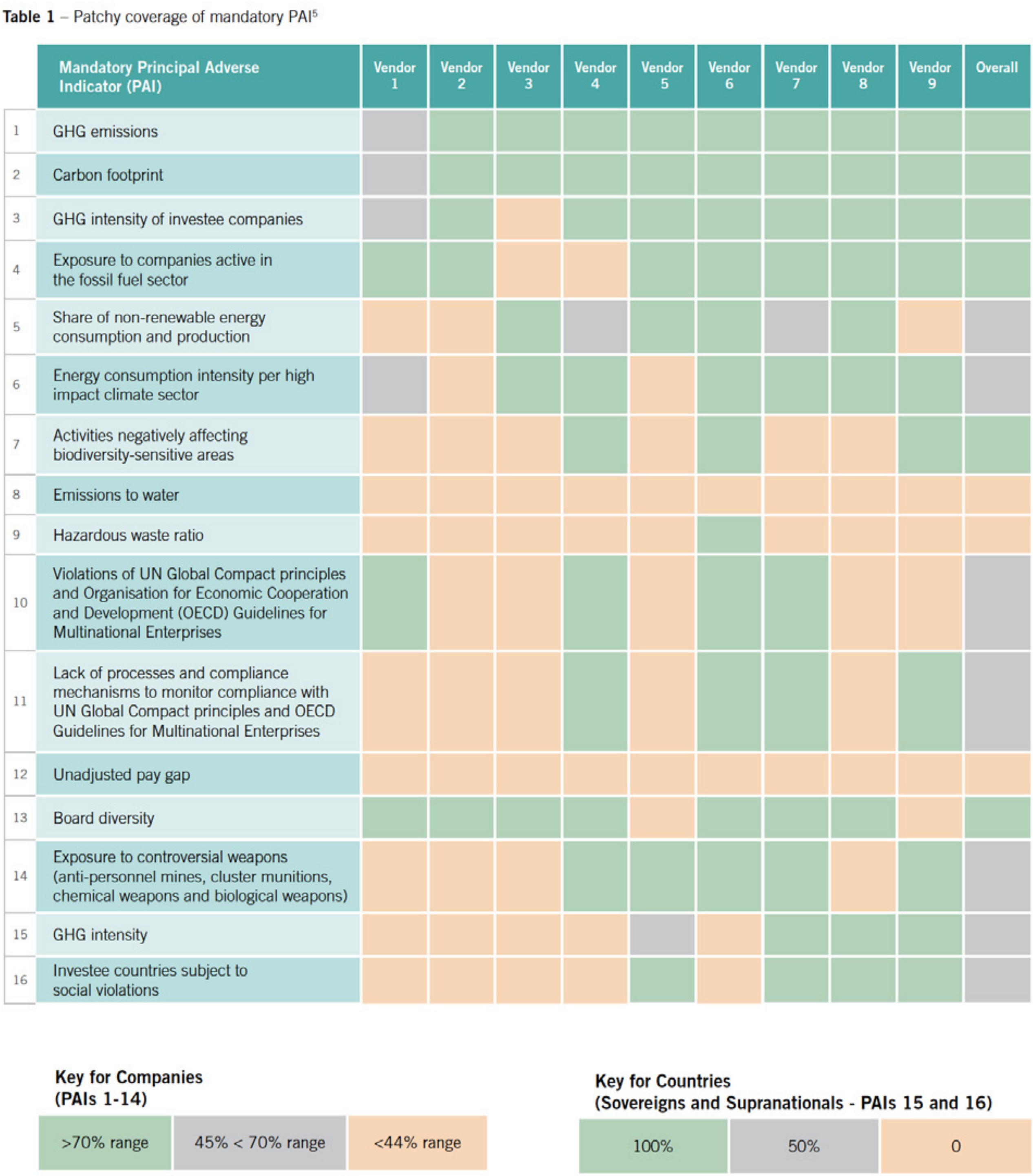


Table 1 – Patchy coverage of mandatory PAI[5]

	Mandatory Principal Adverse Indicator (PAI)	Vendor 1	Vendor 2	Vendor 3	Vendor 4	Vendor 5	Vendor 6	Vendor 7	Vendor 8	Vendor 9	Overall
1	GHG emissions										
2	Carbon footprint										
3	GHG intensity of investee companies										
4	Exposure to companies active in the fossil fuel sector										
5	Share of non-renewable energy consumption and production										
6	Energy consumption intensity per high impact climate sector										
7	Activities negatively affecting biodiversity-sensitive areas										
8	Emissions to water										
9	Hazardous waste ratio										
10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises										
11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises										
12	Unadjusted pay gap										
13	Board diversity										
14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)										
15	GHG intensity										
16	Investee countries subject to social violations										

Key for Companies (PAIs 1-14)

>70% range	45% < 70% range	<44% range

Key for Countries (Sovereigns and Supranationals - PAIs 15 and 16)

100%	50%	0

The introduction of the ESRS under the CSRD should mean that the availability of comparable data relating to companies within the scope of the CSRD will improve over time. However, significant data challenges will remain in relation to investments in non-EU companies or EU companies that do not fall within the scope of the CSRD.

The existence of multiple regulatory requirements and frameworks requiring access to differing data points leads to interoperability challenges. FMPs may be subject to a number of regulatory requirements in addition to the EU rules, including the UK Taxonomy, UK Sustainability Disclosures Regime and US SEC rules. Inconsistencies may arise between the legislative requirements and various frameworks such as the ESRS and the International Financial Reporting Standards ISSB, giving rise to significant implementation challenges.

Access to reliable and complete data meeting the criteria in the various legislative initiatives adopted under the Action Plan is key to effective implementation. The Commission's proposal on ESG Ratings Providers (see section 6.5), together with the reporting requirements under the CSRD, should assist FMPs in meeting their obligations. As the data landscape evolves, regulatory guidance on how to address data gaps and on the use of "best efforts" would assist in the consistent application of the legislative requirements.

8.4 The Resourcing Challenge

The complex matrix of requirements under the Action Plan and the detailed and technical nature of those requirements mean that FMPs, their service providers, government departments and regulators must ensure that their staff are adequately trained and have the necessary skills, expertise and experience to understand the issues and address the challenges arising from implementation. This may necessitate recruitment in addition to training of existing staff. This creates a highly competitive environment for ESG talent.

Sustainable Finance Skillnet can play an important role in this regard. Sustainable Finance Skillnet is a national framework working to develop skills and leadership capacity to advance ESG best practice across Ireland's financial services ecosystem. The objective of this national network is to support sustainable business growth and practices in Ireland by embedding sustainable approaches within firms through the delivery of specialised training aimed at business leaders and employees.

9. Progress against 2021 Report

In this section, we comment on the progress made with respect to the specific recommendations made in the 2021 Report and identify possible next steps and further implementation plans to advance the progress made in building Ireland's reputation as a leader in sustainable finance.

9.1 Progress since the 2021 Report

The Sustainable Finance Ireland Legal and Regulatory Report published in May 2021 sets out a number of recommendations to feed into the Sustainable Finance Roadmap 2021. The left column in the table below sets out those recommendations, as they appeared in the 2021 Report, while the right column of the table sets out notes on progress to date in relation to those recommendations.

	Legislative, Regulatory and Policy Recommendations
1	**EU Engagement** To become a hub for Sustainable Finance, Ireland must base its actions on reliable benchmarks and guidelines which stem from the Action Plan. Ireland should continue its engagement at an EU level to shape and influence policy and legislation from the early stages prior to the initiation of legislative proposals by the European Commission. It is also vital the Sustainable Working Groups and the recommendations of the Roadmap feed into this process and identify any material issues to the ability to grow our Sustainable economy.
	EU engagement to ensure that Ireland can shape and influence policy and legislation from the early stages should continue to be a priority. In particular, Central Bank involvement in discussions at ESA level is critical. The election of Director General Financial Conduct Derville Rowland as Chair of the Investment Management Standing Committee for the period 1 July 2021 to 30 June 2023 was notable in this regard.
2	**Timely implementation of the EU Action Plan** It is vital that Ireland is at the forefront of the implementation of legislation at the earliest opportunity; key to this as a matter of priority is how the government implements the Delegated Legislation and other measures requiring action of the Member States. It is imperative that this is done in a timely manner to gain first mover advantage and to establish Ireland as a favourable jurisdiction in the area of Sustainable Finance comparable to its competitors within Europe.
	The delegated legislation under the Action Plan has been adopted in a timely manner to date (see section 5.3 above).

Legislative, Regulatory and Policy Recommendations	
3	**Resourcing** An enormous number of legislative proposals emanate from the Action Plan. This is will require significant resources, mainly at the Department of Finance. We also note that the legislative agenda will be very busy with the existing Governmental Programme and potentially an additional period of post-pandemic measures. Consideration should be given to resourcing in this area well in advance of any bottlenecks, e.g. sector experts, legislative draftsmen. Industry has a large number of global experts in ESG which could be leveraged by Government and Central Bank to assist with this process.
	Resourcing in the Central Bank, government departments, FMPs and their service providers should continue as an ongoing priority.
4	**An Annual Sustainable Finance (Miscellaneous Amendments) Bill** Ireland currently has a world-class legal and regulatory environment for financial services. However, that environment is becoming increasingly complex and it is likely that the tsunami of regulations, directives and technical standards emanating from the EU will reveal gaps in our domestic laws or the need for amendment or development of Irish FP structures. We[106] are hugely supportive of the Government's work on international financial services. However, recent events have shown that the pace of legislative reform in Ireland can be impacted by changes in Governmental programmes or composition. Significant external factors including Brexit and the COVID-19 pandemic can also push legislative proposals down the agenda. If a dedicated Bill was to be put forward annually it would permit both large and incremental changes to our existing legal infrastructure and domestic FPs in a timely manner. We understand the legislative and policy constraints which have sometimes been raised on similar requests. However, we see Sustainable Finance as having a broader impact across the entire financial eco-system and all IFS strategy to at least 2025. Indeed, as the work of the Sustainable Working Groups will show, FMPs will increasingly become connected across different sectors under ESG and Sustainable Finance laws.
	This recommendation has not been adopted to date. Timely transposition of EU measures and the enactment of necessary legislative changes are key to ensure that Ireland has first mover advantage with regard to sustainable finance developments. An annual bill would ensure that our national legislation is kept under review and that an accommodating legislative framework for sustainable finance is developed in Ireland. An annual bill would not, however, address the transposition of EU law, as the deadlines for transposition will be prescribed in EU legislation and transposition should not be postponed to meet an annual legislative cycle.
5	**Focus and Execution on the Ireland for Finance Strategy** The findings of this Report are highly aligned in key areas with the pillars, horizontal priorities, recommendations and action points set out in the Ireland for Finance Strategy 2025. We note that certain action points have understandably been delayed by the COVID-19 pandemic. However, the EU Commission has repeatedly stated that it does not want the Action Plan to be held-up noting the urgency in addressing the climate crisis. The Action Plan has a finite window and, in order to be effective, it is vital that action points in the Ireland for Finance Strategy 2025 are completed in advance of the EU deadlines. This may require the Sustainable Working Groups to prioritise specific actions.
	Progress Reports and an updated Ireland for Finance Strategy are available at https://www.gov.ie/en/publication/ireland-for-finance-strategy/

	Legislative, Regulatory and Policy Recommendations
6	**Distribution** As set out in Ireland for Finance Action Plan 2021, the significant growth in the number of regulated entities relocating to Ireland post Brexit presents enormous opportunities. One of these opportunities is to establish Ireland as a hub for EU and international distribution of FPs. Ireland is already recognised as a gateway into the EU for financial services utilising the passporting options available under various EU regulations and directives. Some of the distribution provisions will be updated to require distributors to take into account sustainable preferences. For example, draft MIFID II changes are due to be introduced by October 2022. They will require systematically asking investors, at the outset of the sales process, to indicate specifically if they have a preference for ESG products – this could cause a radical shift in the demand levels for ESG products and how they are designed (or indeed the current classification of Article 8 FPs). Part of Ireland's strategy on talent should be to upskill our distribution professionals as well as creating a favourable environment for international firms to relocate their senior distribution staff here, e.g. from London post Brexit. We also need to ensure that distribution activities may be conducted virtually pursuant to appropriate regulation. As an island, Ireland lacks some of the land links and proximity advantages that other Member States have for pan-EU physical marketing. Virtual marketing will also reduce the carbon footprint associated with some forms of physical marketing, e.g. air travel or the production of hard copy marketing materials.
	Upskilling distribution professionals and creating a favourable environment for international firms to relocate their senior distribution staff here should be an ongoing priority. Significant investment has been made to date to prioritise talent development, particularly by Sustainable Finance Skillnet.
7	**The War for Senior ESG Talent** Ireland has seen huge growth in FMPs expanding or relocating here post Brexit. Sustainable Finance is a long-term growth sector for these entities. However, many senior ESG professionals and officers have previously been based outside of Ireland and / or are only being recruited now. While, Ireland offers enormous opportunities and benefits for senior management we do hear from clients that relocation packages and benefits in other jurisdictions are being more aggressively marketed. We recommend that the Sustainable Working Groups put forward balanced proposals for encouraging the relocation and retention of senior ESG talent. We also note that some of this talent will stem from the skills and training initiatives which form part of the Sustainable Finance Ireland workstreams. However, this process will take time and many multi-national organisations are making decisions now.
	Issues relating to the relocation of senior talent to Ireland have primarily been addressed to date at firm level, rather than through national or government sponsored initiatives.

	Legislative, Regulatory and Policy Recommendations
8	**Social Impact Projects** One criticism levelled at the EU Taxonomy was that it was very focused on the "E" in ESG. While tackling the environmental challenges facing the globe is a fundamental priority, we should not lose sight of the social aims of the European Green Deal and the Action Plan. In addition focusing on enhancements to the regulatory framework to strengthen efforts to eliminate modern slavery, bribery, corruption, unethical and unfair practices in the workplace and in supply chain management could help enhance Ireland's reputation as a jurisdiction which focusses on the promotion of social and ethical matters in the financial services sector. Further and notwithstanding some laudable efforts in this space (Clann Credo, Venture Wave Capital and so on), Ireland has a comparatively smaller number of social impact enterprises and funds. We would recommend a renewed focus on a social impact framework for funds and FPs. Section 11 of this report outlines the Luxembourg Société d'Impact Sociétal ("**SIS**"). An SIS is a company whose first objective is to generate a measurable positive social or environmental impact, the second objective being the financial return. This is a potential opportunity that we recommend Ireland explores.
	Ireland has continued to develop its anti-corruption framework. In May 2022, the Advisory Council against Economic Crime and Corruption was established pursuant to one of the recommendations made in the Review of Structures and Strategies to Prevent, Investigate and Penalise Economic Crime and Corruption (the "**Review**"). The cross-sectoral, partnership-based Advisory Council is tasked with advising and making proposals on strategic and policy responses and will be responsible for developing a multi-annual strategy to combat economic crime and corruption. The implementation plan arising from the Review sets out 22 actions to be completed by State agencies and departments and sets timelines for the completion of these actions. Ireland has had legislation in place for some time seeking to ensure that slavery or human trafficking is not taking place in supply chains or within an organisation – the Criminal Law (Human Trafficking) Act 2008, as amended by the Criminal Law (Human Trafficking) (Amendment) Act 2013. This legislation should be kept under review to ensure that it continues to adequately address the current issues with respect to modern slavery and human trafficking.
9	**Goldplating** We would recommend that a consistent methodological approach is adopted with regard to the implementation of European regulatory and legislative measures. At present, we would not recommend that Ireland introduces any form of gold-plated standard on the implementation of European regulation in the area of Sustainable Finance in order to ensure there is consistency across Member States and to avoid greenwashing and product mis-selling. We say at present because we are aware of a number of initiatives in other Member States including traffic light labelling of sustainable FPs (e.g. in Germany).
	To date, Ireland has adopted an approach of not gold-plating EU measures, and this approach should continue. Divergences in national approaches create operational challenges for FMPs, the majority of whom operate on a cross-border basis. While not supplementing EU requirements, the Central Bank should consider areas where guidance at a national level may assist with the interpretation and implementation of the EU measures in Ireland, providing clarity and certainty to FMPs operating here. In this regard, we note the publication of the Central Bank's Guidance for (Re)Insurance Undertakings on Climate Change Risk in March 2023, which is intended to clarify the Central Bank's expectations on how (re)insurers might address climate change risk in their business and to assist (re)insurers in developing their governance and risk management frameworks to appropriately consider and address climate change risk. This type of guidance may be useful for other financial services sectors.

	Legislative, Regulatory and Policy Recommendations
10	**ESG Q&As** There is no doubt that the pace of legislative change coupled with the phased implementation of key regulations and delayed technical standards is creating huge uncertainty in the market. We expect much of this uncertainty to be addressed at EU level, eg, by ESMA Guidance. However, there are a large number of Irish FMP and FP structures which are purely domestic concerns. The Central Bank has published detailed Q&As in the areas of UCITS, AIFMD, Investment Firms (MiFID), Brexit etc., which deal with the impact of EU laws and regulations on Irish authorised entities. We would recommend: (a) updating these existing Q&As to include ESG sections; and (b) a dedicated ESG Q&A potentially linked to the work of the new Climate Change Unit.
	The Central Bank Q&As have not been updated to included ESG sections, nor has a dedicated ESG Q&A been published.
11	**Revisiting the ELTIF** ELTIF a pan-European regime for AIFs which channel the capital they raise towards European long-term investments in the real economy, in line with the EU objective of smart, sustainable and inclusive growth. Many of the features of the ELTIF position it as an ideal option for facilitating retail investment into sustainable infrastructure and ESG projects. As at the date of the latest publication of the ELTIF register (https://www.esma.europa.eu/sites/default/files/library/esma34- 46-101_esma_register_eltif_art33.xlsx) there are now 81 ELTIFs registered in the EU (which represents significant growth after a very slow start). ELTIFs have been established in Spain, France, Italy and Luxembourg. However, to date no ELTIFs have been established in Ireland. International managers have commented that this is due to some "gold-plating" of the ELTIF requirements in the AIF Rulebook. We would recommend that the industry submissions previously made on ELTIF to solve this issue are revisited in light of its increasing numbers and use by global managers.
	The Central Bank published a new ELTIF chapter in the Central Bank's AIF Rulebook and announced it was open to applications for authorisation from 11 March 2024.
12	**Data Provider Regime** It is unquestionable that data analytics and the ability to screen underlying investments for compatibility with the EU Taxonomy and related measures is core to the success of the Action Plan. There have been calls in some sectors for regulation of ESG data, ratings and research to ensure high standards, transparency and reduce the risks of greenwashing (e.g. the EFAMA recommendation to the European Commission and ESMA's letter to Commissioner McGuinness on ESG rating and assessment tools). It is not yet clear if these proposals will be formally advanced. If not, we would recommend that the Sustainable Working Groups examine whether a domestic Irish regime should be adopted. In the absence of a coherent framework at EU level, the Roadmap should consider a register of data providers, voluntary codes or Irish laws and regulations to address the risks of greenwashing, capital misallocation, conflicts of interest and product mis-selling that may arise in this area.
	The Commission has published a proposal on ESG Rating Providers (see section 6.5). The establishment of a harmonised EU regime ensuring a level playing field is preferable to taking domestic initiatives in this regard.

	Legislative, Regulatory and Policy Recommendations
13	**Fintech** There is a window of opportunity for Ireland to strengthen alignment between Sustainable Finance and FinTech. We would recommend that Ireland uses this window of opportunity to establish itself as a hub for Sustainable Finance and as a defining force in European and global capital markets in coming years. The establishment of a Sustainable Finance innovation platform to support Irish efforts in this area and the development of anti-greenwashing tools for investors will aid this.
	Exploiting the interlinkages between Fintech and sustainable finance should be an ongoing priority. The establishment of the Postgraduate Diploma in Sustainable Financial Technology and Innovation by Sustainable Finance Skillnet and Maynooth University[107] is a notable development in this regard. Also of note is the launch of the Sustainable Finance Fintech Strategy in October 2022. The strategy focuses on 10 actions under 5 pillars - Nurturing the Ecosystem, Enabling Environment, Capability and Talent, Access to Capital and Data.
14	**Benchmarking Process** We note that a separate benchmarking process is underway of international domiciles. We would recommend that Ireland seeks to emulate the initiatives that have been successfully introduced by competitor jurisdictions within the EU such as, for example in the case of Germany, with the allocation of state assets into sustainable investments and the reallocation of equity investments into sustainability investments.
	We agree that it is important to monitor initiatives introduced in competitor jurisdictions and to seek to emulate successful initiatives that have promoted the development of sustainable financial products.
15	**Longer Maturity Green Bonds** Green bonds are increasingly growing in popularity, Ireland has issued sovereign green bonds and corporate Irish bonds have also been issued. We would recommend that Ireland continues to develop its growing status in this area and explores the issuing of sovereign green bonds with longer maturities.
	Ongoing.
16	**International Tax Reform - Consultation** The clarity and certainty of the Irish tax system should be preserved. Ireland has been fully engaged in those international tax discussions for many years. As we reform and modernise our tax code in line with these international developments, we should ensure that such measures are introduced in a manner that supports the ESG agenda. Ongoing discussion and consultation on the complex tax changes being introduced is vital to ensure that Ireland is seen as a stable and reputable jurisdiction within which to pool investment capital.
	Since 2021 Ireland has introduced complex tax measures in response to its obligations under European directives and OECD base erosion and profit shifting ("**BEPS**") initiatives. Ireland has implemented relevant measures as flexibly as possible to continue to facilitate international financial transactions in Ireland, while ensuring compliance with its obligations under relevant EU and international law. Domestically, the Funds Sector 2030 consultation process will address the domestic tax treatment of investment products. This consultation process will allow stakeholders to engage on the suitability of Ireland's tax regime for international financial services activity and will provide an opportunity for stakeholders to comment on the role of Irish tax policy in supporting financing of ESG mandates. The consultation period closed on 15 September 2023. The Minister for Finance issued a progress update on 21 December 2023[108] based on the responses received from the consultation. Consultation with stakeholders will continue during 2024 and a final report is expected to be issued to the Minister by the consultation team in summer 2024.

	Legislative, Regulatory and Policy Recommendations
17	**International Tax Reform – Interest Limitation** As part of the introduction of an interest limitation restriction in 2022, Ireland should take account of the need to foster Sustainable Finance. The interest limitation restriction contains exclusions for public infrastructure assets, which should be interpreted in a broad manner which encourages investors to invest in EU and Irish sustainable projects.
	Ireland has implemented its interest limitation rule and has defined qualifying long-term infrastructure projects. The implementing rules have made provision for certain ESG projects to be treated as public infrastructure assets (thereby benefitting from favourable treatment under the interest limitation rule). In particular, the following have been classified as qualifying public infrastructure projects: ▪ installations generating energy from renewable sources (eg, wind, wave, solar, hydropower) within the meaning of European Union (Renewable Energy) Regulations 2020 (as regulated by the Commission for the Regulation of Utilities); ▪ projects of strategic economic or social importance or those that contribute substantially to the fulfilment of the objectives in the National Planning Framework (where approved by An Bord Pleanála or the local authority). This may include a broad range of projects such as thermal power stations (subject to certain minimum thresholds), transport, environmental and health infrastructure; ▪ certain road and rail infrastructure projects; and ▪ certain strategic housing developments, including those in strategic development zones and student accommodation. This would generally capture social housing projects. Many large scale projects falling into the above categories would attract financing from banking and capital markets, as well as from international institutional investors and their managers. There is also scope for ministerial regulation to designate specific projects as qualifying as long-term public infrastructure projects and it remains to be seen how this power will be used. We hope it would be exercised favourably to designate additional projects which further Ireland's ESG agenda which may attract international financing, though projects would need to be considered on a case-by-case basis.
18	**EII Investments – Renewable Energy Support Schemes** The recent consultation on aligning the EII scheme with RESS schemes should be progressed, such that Irish individual investors can be provided with increased incentives to support the provision of sustainable projects.
	Finance (No. 2) Act 2023 extended the EII scheme to accommodate ESG mandates. The concept of expansion risk finance investments has been extended to investments where the investment: ▪ can be shown to improve certain environmental performance of activities, ▪ constitutes an environmentally sustainable investment under the EU Taxonomy Regulation; or ▪ is aimed at increasing capacity for extraction, separation, refining, processing or recycling certain raw materials.

	Legislative, Regulatory and Policy Recommendations
19	**VAT Reforms** Ireland should make efforts to progress EU VAT reform to allow for reduced rates of VAT, not just on construction of energy efficient buildings, but also on the refurbishment and retrofitting of energy efficient buildings.
	There has been one key VAT reform in this area. EU rules have been updated to permit member states to apply reduced rates of VAT in respect of solar panels for private dwellings. Ireland has implemented this change and applies a zero percent VAT rate in respect of such solar panels. This is likely to make the installation and retrofitting of solar technology more affordable for Irish homeowners. As a general comment, Ireland is constrained in its ability to change domestic VAT rules because of its obligations under EU law. We would recommend that the Irish government and its representatives in Europe continue to advocate for more flexibility in VAT rules in respect of investments and activity with promote ESG agendas (and carbon trading may be a potential area of focus). The emphasis on tax policy is more often on direct taxation because of the limitations of EU law.
20	**Other Updates** Ireland should make efforts to progress EU VAT reform to allow for reduced rates of VAT, not just on construction of energy efficient buildings, but also on the refurbishment and retrofitting of energy efficient buildings.
	Finance (No. 2) Act 2023 extended the existing accelerated capital allowances scheme for energy efficient equipment for two years until 31 December 2025.

9.2 Next Steps

There are a number of further implementation efforts and matters to progress which may serve to maintain and develop Ireland as a centre of excellence for sustainable finance, to encourage ESG investment and to ensure that there is a bias in domestic and international capital flows toward projects and infrastructure that achieve ESG objectives.

9.2.1 A Holistic, Multi-Disciplinary Approach by Government

Sustainable finance has implications across a number of government departments. A straightforward example is the interaction between the corporate reporting requirements of the CSRD, the transposition of which will come within the remit of the DETE, and the disclosure requirements for FMPs under the SFDR / EU Taxonomy Regulation. Sustainability and sustainable investment will have implications and opportunities across all areas of government and therefore the adoption of a holistic, multi-disciplinary approach increases cross-departmental awareness and understanding of the relevant issues and an appreciation of the inter-relatedness of those issues. In this regard, we note the references to a "whole of government commitment" / "across all of government" in the Ireland for Finance Action Plan 2023. As a small nation that can be nimble and adaptive, Ireland has an opportunity to be first among equals in this regard.

9.2.2 Engagement at EU Level and in International Fora

Having a prominent place at the table in key fora discussing sustainable finance issues and developing policy and legislation in this area, particularly on key committees in the ESAs, is necessary to ensure that Ireland has an opportunity to influence and shape the sustainable finance from the earliest stages and before final legislative provisions are enacted. Ireland is well-placed to take a leadership role in this debate in light of its established reputation as an international financial services centre with a deep talent pool, particularly with respect to ESG matters.

9.2.3 Engagement with Stakeholders

The Central Bank has a successful track record to date of engaging constructively with industry to implement the legislative initiatives arising from the Action Plan. The ongoing consultation by the regulator and government departments with all relevant stakeholders will ensure a complete understanding of the challenges and opportunities in sustainable finance and the effective and efficient implementation of legislation. In this regard, we note the establishment of the Climate Forum, which meets twice yearly, and brings together climate change experts, industry representative bodies, regulated firms and Central Bank representatives.

A great number of Ireland's ESG experts hold positions in domestic regulatory bodies connected to financial services, but are currently operating without significant touchpoints with one another. Increasing the frequency and quality of interactions between experts would assist progress in placing Ireland as a forerunner in global ESG-linked finance.

9.2.4 Prompt Transposition of EU Laws

Ireland has a positive track record with regard to the transposition of EU laws in the financial services sector. Swift transposition can assist EU member states in obtaining first mover advantage and ensuring that member state discretions are exercised in a way that best meets the member state's needs and objectives.

9.2.5 Financial Literacy

Buy-in at all societal levels, including business groups, consumers and government, bolsters Ireland's aim of becoming and remaining a sustainable finance centre of excellence. Initiatives such as the Sustainable Finance Skillnet, which aims to develop skills and leadership capacity to advance ESG best practice, contribute to ensuring that stakeholders are suitably equipped with the requisite skills and expertise when engaging in sustainable finance activities. With respect to consumers, initiatives aimed at informing the public of the potential benefits, risks and overall operations of sustainable finance can be beneficial in advancing the sustainable finance agenda. Education can also play an important role in incentivising an increased uptake of sustainable business practices and hastening the transition for businesses to sustainable, profitable operating models. The Department of Finance is now, on foot of a Recommendation in the Retail Banking Review, published in November 2022, developing a national financial literacy strategy. The development of a new national financial literacy strategy in Ireland aims to support consumers in their day-to-day financial transactions and enhance consumers' overall financial wellbeing. The national financial literacy strategy will also help support financial inclusion and identify best practice at national and international level for all stakeholders invested in improving financial literacy levels in Ireland.

9.2.6 Complementary Regulatory Guidance

As noted in sections 2 (Introduction) and 5 (Update on Irish Developments) above, gold-plating of EU requirements is not viewed as an effective way to differentiate Ireland as a sustainable finance centre of excellence. However, regulatory guidance on key implementation issues such as on how to address data gaps and on the use of "best efforts" could assist in the consistent application of the legislative requirements. Through its ongoing constructive engagement with industry, the Central Bank may identify areas where domestic guidance might facilitate the implementation of initiatives and differentiate Ireland as a jurisdiction with a coherent, consistent and predictable regulatory environment.

9.2.7 Promoting and Facilitating Fund Vehicles for Sustainable Investment

The enhancement of Ireland's ILP vehicle was a welcome development in ensuring that Ireland now has a fit for purpose partnership vehicle that will facilitate ESG strategies. Work is ongoing to ensure that fund managers are aware of the potential of the ILP in advancing the sustainable finance agenda and, more generally, of the key features and benefits of the ILP.

As noted in section 5 (Update on Irish Developments) above, the Central Bank's accommodation of ELTIFs in the Irish regulatory framework is a welcome development. Market participants are already showing a keen interest in the reformed ELTIF framework and it is likely that there will be increased uptake of the framework now that the reforms have been introduced.

9.2.8 Corporate Power Purchase Agreements

The Sustainable Energy Authority of Ireland ("**SEAI**") has compiled a roadmap on Corporate Power Purchase Agreements ("**CPPAs**"), which sets out seven core principles which have been developed to ensure that corporate power procurement contributes to the achievement of Ireland's climate and renewable energy goals. These core principles include the reduction of greenhouse gas emissions, lower electricity costs, and the promotion of innovation in finding hybrid energy solutions. CPPAs are agreements under which business purchase electricity directly from a generator and present an opportunity for companies to meet sustainability targets, help renewable projects and to hedge electricity price exposure. It is expected that the surge in CPPAs will continue throughout 2024.

9.2.9 Stranded Assets

ESG commitments have encouraged companies to seek out so-called 'green space' for their operations. The demand for these spaces will increase significantly in the coming years, with more companies being obliged by government policy or company mandates to conduct greener operations. As a result, the market will become oversupplied with stranded so-called 'brown-spaces'. There is a substantial opportunity for investors to rescue these stranded assets by retrofitting and bringing them into the green market but this investment will need to be incentivised to justify the capital expenditure.

9.2.10 Blue Bonds

The World Bank defines blue bonds "as a debt instrument issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits."[109] Blue bonds are an innovative sustainability-focused financial product dedicated to ocean-conservation, marine and fishery projects. They present an opportunity for governments to access private capital and use funds to protect and conserve their water's habitats. The first sovereign blue bond was issued in October 2018 by the Republic of Seychelles and since then their popularity has increased significantly (with issuances by the World Bank and the Bank of China, amongst others) as awareness grows about the need to protect the world's oceans and address the impacts of climate change.

Ireland has an opportunity to position itself at the centre of this growing segment of the industry through its role as the jurisdiction of choice for European special purpose vehicles. For example Credit Suisse has recently chosen Ireland as the jurisdiction in which to base a number of SPVs involved in blue bond transactions, including the US$656 million Galápagos marine conservation-linked bond, arranged and structured by Credit Suisse. The bond was used to finance a debt conversion for Ecuador exchanging US$1.628 billion of Ecuador's international bonds for a US$656 million loan. The US International Development Finance Corporation (DFC), provided US$656 million in political risk insurance for the loan, while Inter-American Development Bank (IDB) provided a US$85 million guarantee. The debt conversion will generate an estimated US$323 million for marine conservation in the Galápagos Islands over 18.5 years, including funding to capitalise an ongoing endowment for the Galapagos Life Fund (GLF). Ongoing investment in the Irish financial services sector, together with Ireland's reputation as a leader in marine conservation, fisheries and offshore renewable energy, has the potential to position Ireland as the jurisdiction of choice for international blue bond transactions.

9.2.11 Lender Capital Requirements

Generally, under the terms of Green and Sustainability Linked Loans or "Green Bonds" each lender is required to deploy the proceeds of those "Green Bonds" towards green / sustainable projects. Currently, lenders in the Irish market are incentivised to make these Green Bonds available to borrowers, as lenders have been able to raise money for these loans at a competitive price in the international capital markets. Lenders in the Irish markets have, therefore, been keen to deploy these funds. If lenders were to receive preferred capital treatment in respect of Green and Sustainability Linked Loans, this could further enhance the provision of green / sustainable finance. There has been discussion around increasing capital requirements for so called "dirty loans". However, such an approach could have the potential to crowd out so called "clean lending". Even at capital requirements of 100%, lenders may find "dirty loans" financially profitable where they are sufficiently well capitalised.[110] For that reason, the preferred approach might be to seek to reduce capital requirements for "clean loans" and retain existing capital requirements for "dirty loans".

EXECUTIVE SUMMARY - RESOURCE LINKS

1 Available at https://sfskillnet.sustainablefinance.ie/wp-content/uploads/2022/11/Regulatory-Study_Final.pdf

2 Ireland's Sustainable Finance Roadmap October 2021. Available at https://www.skillnetireland.ie/wp-content/uploads/2021/10/Irelands-Sustainable-Finance-Roadmap-October-2021.pdf

3 Available at: https://sdgs.un.org/goals

4 The United Nations webpage on the Paris Agreement is available here: https://unfccc.int/process-and-meetings/the-paris-agreement

5 European Commission Questions and Answers on Sustainable Finance package 13 June 2023. Available at https://ec.europa.eu/commission/presscorner/detail/en/QANDA_23_3194

6 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions Action Plan: Financing Sustainable Growth COM/2018/097 final. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097

7 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Strategy for Financing the Transition to a Sustainable Economy Com/2021/390 Final.
Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390

8 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

9 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

10 An earlier Legal and Regulatory Report commissioned by Sustainable Finance Ireland provided a full overview of the action plan, which is not addressed in detail in this study. Sustainable Finance Ireland Legal and Regulatory Report 28 May 2021 available at https://sfskillnet.sustainablefinance.ie/wp-content/uploads/2022/11/Regulatory-Study_Final.pdf

11 Available at https://www.morganstanley.com/content/dam/msdotcom/sustainability/20-05-22_3094389%20Sustainable%20Signals%20Asset%20Owners_FINAL.pdf

12 Financial market participants are defined in Article 2 of the SFDR to include an insurance undertaking which makes available an insurance-based investment product (IBIP); an investment firm which provides portfolio management; an institution for occupational retirement provision (IORP); a manufacturer of a pension product; an alternative investment fund manager (AIFM); a pan-European personal pension product (PEPP) provider; a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013; a management company of an undertaking for collective investment in transferable securities (UCITS management company); or a credit institution which provides portfolio management.

OVERVIEW OF GLOBAL LEGAL AND REGULATORY LANDSCAPE - RESOURCE LINKS

13 The table does not purport to cover all global developments relating to sustainable finance, which is beyond the scope of this paper. We have sought to highlight some of the key developments at a global level. The United Nations Global Sustainable Finance Observatory has established a hub for data and resources on sustainable finance which includes information on national strategies, sustainable finance frameworks, taxonomies, product standards and sustainability disclosure regimes in different jurisdictions – accessible at https://gsfo.org/#:~:text=The%20Global%20Sustainable%20Finance%20Observatory,exchanges%2C%20standard%2Dsetters%2C%20and

14 The 2021 United Nations Climate Change Conference.

15 "Published" in this table refers to the date of publication in the Official Journal of the EU.

16 There are other compliance deadlines specified within the SFDR, for example in relation to the publication of the first principal adverse impact statement where an FMP opts into publishing this statement or is required to do so due to the size of the FMP.

17 Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

18 Article 10 SFDR requires FMPs to publish on their websites sustainability information about their Article 8 and Article 9 SFDR financial products. The RTS prescribe in detail what information should be included in these website disclosures.

19 Joint ESA Supervisory Statement on the application of the Sustainable Finance Disclosure Regulation 25 February 2021 JC 2021 06. Available at https://www.esma.europa.eu/sites/default/files/library/jc_2021_06_joint_esas_supervisory_statement_-_sfdr.pdf

20 Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 amending Commission Delegated Regulation (EU) 2022/1288

21 Updated Joint ESA Supervisory Statement on the application of the Sustainable Finance Disclosure Regulation 24 March 2022 JC 2022 12. Available at https://www.esma.europa.eu/sites/default/files/library/jc_2022_12_-_updated_supervisory_statement_on_the_application_of_the_sfdr.pdf

22 Supervisory briefing Sustainability risks and disclosures in the area of investment management 31 May 2022. Available at https://www.esma.europa.eu/sites/default/files/library/esma34-45-1427_supervisory_briefing_on_sustainability_risks_and_disclosures.pdf

23 Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288) 12 January 2024 JC 2023 18. Available at https://www.esma.europa.eu/sites/default/files/2023-05/JC_2023_18_-_Consolidated_JC_SFDR_QAs.pdf

24 See press release dated 27 October 2022 available at: https://www.esma.europa.eu/press-news/esma-news/esma-work-esg-disclosures-new-union-strategic-supervisory-priority

25 Commission questions and answers on Sustainable Finance package 13 June 2023 available at https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_3194

26 Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

27 "Large" in this context means an undertaking which satisfies two out of the following three conditions (including on a group basis): (i) balance sheet in excess of €25m; (ii) net turnover in excess of €50m; and / or (iii) average employees of more than 250.

28 A 'micro-undertaking' is one that does not exceed the limits of at least two of the following three: (i) balance sheet total in excess of €450,000; (ii) net turnover in excess of €900,000; and / or (iii) average number of employees in excess of 10.

29 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance

30 The reporting requirements under the CSRD differ to the disclosure standards being drawn up by the International Sustainability Standards Board, which will only require companies to report on the risks and opportunities from sustainability factors and not their external impact.

31 Directive 2009/65/EC.

32 Directive 2011/61/EU.

33 Directive 2014/65/EU

34 Directive 2009/138/EC.

35 Directive (EU) 2016/97.

36 Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks.

37 Proposal for a Regulation of the European Parliament and of the Council on European green bonds, COM/2021/391 final.

38 Regulation (EU) 2017/1129. An exception is provided for with respect to bonds covered by Article 1(2), points (b) and (d) of the Prospectus Regulation, which do not require a prospectus.

39 See https://commission.europa.eu/system/files/2022-12/SWD_2022_442_F1_STAFF_WORKING_PAPER_EN_V4_P1_2417689.PDF

40 See https://commission.europa.eu/document/download/0c7781c8-7121-4c01-9588-e8b79bd1cfc4_en

41 See https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/investor-presentation_en

42 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions A Capital Markets Union For People And Businesses-New Action Plan COM/2020/590 final. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:590:FIN

43 https://finance.ec.europa.eu/system/files/2021-07/210609-capital-markets-union-indicators_en.pdf

44 Central Bank of Ireland Securities Markets Risk Outlook Report 2023 Risks in a rapidly changing environment March 2023. Available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/securities-markets/risk-outlook-reports/securities-markets-risk-outlook-report-2023.pdf?sfvrsn=dc0f991d_2

45 See https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/securities-markets/risk-outlook-reports/securities-markets-risk-outlook-report-2023.pdf?sfvrsn=dc0f991d_2

46 Regulation (EU) 2017/2402

47 See https://ec.europa.eu/info/publications/200722-proposal-capital-markets-recovery_en

48 Regulation (EU) 2021/557

49 EBA Report Developing a Framework for Sustainable Securitisation. Available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/1027593/EBA%20report%20on%20sustainable%20securitisation.pdf

50 Report from the Commission to the European Parliament and the Council on the functioning of the Securitisation Regulation 10 October 2022. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0517

51 Available at: https://www.eba.europa.eu/sites/default/files/2023-11/cdc9ffd1-76f9-4711-ae2b-7d4247c85749/FF55%20-%20Templates.xlsx

52 https://www.eba.europa.eu/sites/default/files/2023-11/39f91f76-23b5-4a69-a50d-b3154022e62e/FF55%20-%20Template%20guidance_0.pdf

53 Available at https://www.lsta.org/content/guidance-on-green-loan-principles-glp/#

54 Available at: https://www.eiopa.europa.eu/eiopa-issues-opinion-supervision-use-climate-change-risk-scenarios-orsa-2021-04-19_en

55 Available at: https://www.eiopa.europa.eu/eiopa-publishes-application-guidance-how-reflect-climate-change-orsa-2022-08-02_en

56 Available at: https://www.eiopa.europa.eu/system/files/2023-03/EIOPA%20Staff%20paper%20-%20Nature-related%20risks%20and%20impacts%20for%20insurance.pdf

57 EIOPA has published further papers addressing issues relating to climate change impact on specific aspects of the insurance industry, including: EIOPA Report on "Impact Underwriting Report on the Implementation of Climate-related Adaptation Measures in Non-Life Underwriting Practices" 6 February 2023 available at: https://www.eiopa.europa.eu/system/files/2023-02/Impact%20underwriting%20-%20Report%20on%20the%20implementation%20of%20climate-related%20adaptation%20measures%20in%20non-life%20underwriting%20practices.pdf.pdf; ECB and EIOPA Joint Discussion Paper on Policy options to reduce the climate insurance protection gap April 2023 available at: https://www.eiopa.europa.eu/system/files/2023-04/ecb.policyoptions_EIOPA~c0adae58b7.en_.pdf; EIOPA Methodological Paper on potential inclusion of climate change in the Nat Cat standard formula 29 June 2021 available at: https://www.eiopa.europa.eu/system/files/2021-07/methodological_paper-potential-inclusion-of-climate-change-in-the-natcat-standard-formula.pdf

58 Regulation (EU) 2023/606

59 See register of authorised ELTIFs maintained by ESMA, accessed on 14 June 2023 and available at https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.esma.europa.eu%2Fsites%2Fdefault%2Ffiles%2Flibrary%2Fesma34-46-101_esma_register_eltif_art33.xlsx&wdOrigin=BROWSELINK

60 European Commission website What is the capital markets union? Available at https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/what-capital-markets-union_en

61 European Commission website Retail investment strategy. Available at https://finance.ec.europa.eu/publications/retail-investment-strategy_en

62 European Commission website Digital finance package. Available at https://finance.ec.europa.eu/publications/digital-finance-package_en

63 Sustainable Finance and the Asset Management Sector Disclosures, Investment Process and Risk Management November 2022 Central Bank of Ireland. Available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/sustainable-finance-asset-management-sector-disclosures-investment-processes-risk-management.pdf?sfvrsn=996f9b1d_5

64 Details in relation to the streamlined filing process for SFDR Level 1 updates are available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/sustainable-finance-disclosure-regulation-process.pdf?sfvrsn=eb31891d_4. Details in relation to the Taxonomy Regulation streamlined process are available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/taxonomy-regulation-sfdr-clarification-document.pdf?sfvrsn=3f06921d_4. Details in relation to the streamlined process for SFDR Level 2 are available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/process-clarifications-for-ucits-and-aifs-pre-contractual-documentation-updates-in-relation-to-the-level-2-measures-in-relation-to-the-sustainabl-e-finance-disclosure-regulation.pdf?sfvrsn=fc66951d_0. Details in relation to the streamlined filing process for updates relating to investments in EU Taxonomy aligned nuclear energy and gas are available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/process-clarifications-for-ucits-and-aifs.pdf?sfvrsn=486e991d_5

65 Sustainable Finance and the Asset Management Sector Disclosures, Investment Process and Risk Management November 2022 Central Bank of Ireland. Available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/sustainable-finance-asset-management-sector-disclosures-investment-processes-risk-management.pdf?sfvrsn=996f9b1d_5

66 Available at https://www.centralbank.ie/docs/default-source/news-and-media/press-releases/governor-letter-climate-expectations-november-2021

67 The Commission announced in a press release dated 21 September 2022 that it had sent formal notice letters to member states for non-transposition of the sustainable finance delegated legislation. The press release is available at https://ec.europa.eu/commission/presscorner/detail/en/INF_22_5409

68 Available at: https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-re-insurance-undertakings-on-climate-change-risk.pdf?sfvrsn=a232991d_6

69 Available at: https://www.centralbank.ie/docs/default-source/publications/regulatory-and-supervisory-outlook-reports/regulatory-supervisory-outlook-report-2024.pdf?sfvrsn=e6b1621a_10

70 Available at https://www.gov.ie/pdf/?file=https://assets.gov.ie/238832/e6d8cd40-7d4a-48f3-863b-1726ab3eeaa6.pdf#page=null

71 Available at: https://www.gov.ie/pdf/?file=https://assets.gov.ie/287365/eeafa9af-86cd-4742-aacc-19a48b9a9f41.pdf

HORIZON SCANNING - RESOURCE LINKS

72 The legislative mandate was set out in the Commission letter to the ESAs re amendments to the regulatory technical standards under the Sustainable Finance Disclosure Regulation 2019/2088 11 April 2022. Available at https://www.esma.europa.eu/sites/default/files/library/mandate_to_esas_on_pai_product.pdf

73 ESAs Joint Consultation Paper Review of the SFDR Delegated Regulation regarding PAI and financial product disclosures 12 April 2023 JC 2023 09. Available at https://www.esma.europa.eu/sites/default/files/2023-04/JC_2023_09_Joint_consultation_paper_on_review_of_SFDR_Delegated_Regulation.pdf

74 Available at https://www.esma.europa.eu/press-news/consultations/consultation-guidelines-funds%E2%80%99-names-using-esg-or-sustainability-related

75 Available at: https://www.esma.europa.eu/sites/default/files/2023-12/ESMA34-1592494965-554_Public_statement_on_Guidelines_on_funds__names.pdf

76 https://www.esma.europa.eu/sites/default/files/2024-05/ESMA34-472-440_Final_Report_Guidelines_on_funds_names.pdf

77 See press release dated 6 July 2023 available at: https://www.esma.europa.eu/press-news/esma-news/esma-and-ncas-assess-disclosures-and-sustainability-risks-investment-fund

78 Sustainable Finance and the Asset Management Sector Disclosures, Investment Process and Risk Management November 2022 Central Bank of Ireland. Available at https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/sustainable-finance-asset-management-sector-disclosures-investment-processes-risk-management.pdf?sfvrsn=996f9b1d_579
European Commission Questions and Answers on the Sustainable Finance package 13 June 2022. Available at https://ec.europa.eu/commission/presscorner/detail/en/QANDA_23_3194

80 Further information on the International Bill of Human Rights is available at https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights

81 Available at https://www.ilo.org/wcmsp5/groups/public/—ed_norm/—declaration/documents/normativeinstrument/wcms_716594.pdf

82 Available at https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

83 Available at https://www.oecd-ilibrary.org/finance-and-investment/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_81f92357-en

84 Platform on Sustainable Finance Final Report on Social Taxonomy February 2022. Available at https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf

85 Communication from the Commission on the Strategy for Financing the Transition to a Sustainable Economy COM(2021) 390 final.

86 Proposal for a Regulation of the European Parliament and Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities 2023/0177 (COD) available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC0314

87 EIOPA Advice to the European Commission on Greenwashing Progress Report 1 June 2023 available at https://www.eiopa.europa.eu/system/files/2023-06/EIOPA%20Progress%20Report%20on%20Greenwashing.pdf. EBA Progress Report on Greenwashing Monitoring and Supervision 31 May 2023 available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2023/1055934/EBA%20progress%20report%20on%20greewnwashing.pdf

88 ESMA Progress Report on Greenwashing 31 May 2023. Available at https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

89 EBA: https://www.eba.europa.eu/sites/default/files/2024-05/a12e5087-8fd2-451f-8005-6d45dc838ffd/Report%20on%20greenwashing%20monitoring%20and%20supervision.pdf; ESMA: https://www.esma.europa.eu/sites/default/files/2024-06/ESMA36-287652198-2699_Final_Report_on_Greenwashing.pdf; EIOPA: https://www.eiopa.europa.eu/document/download/c5d52866-1c3f-4913-9e20-5a5f40135efa_en?filename=Final%20Report%20-%20EIOPA%20advice%20to%20the%20European%20Commission%20on%20greenwashing.pdf

90 The use of technology by supervisory agencies to support supervision.

91 Available at https://enterprise.gov.ie/en/publications/proposed-policy-response-to-the-public-consultation-on-the-corporate-sustainability-reporting-directive.html

92 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

93 Available at https://environment.ec.europa.eu/publications/proposal-directive-green-claims_en

94 See https://www.irishtimes.com/crime-law/courts/2023/05/19/solar-21-proceedings-adjourned-to-enable-provision-of-further-information-to-concerned-investors/

95 Regulation (EU) 2017/1129.

96 Directive 2014/65/EU

97 Press release Minister McGrath publishes terms of reference for "Funds Sector 2030: A Framework for Open, Resilient and Developing Markets" 6 April 2023 available at https://www.gov.ie/en/press-release/2ee7c-minister-mcgrath-publishes-terms-of-reference-for-funds-sector-2030-a-framework-for-open-resilient-developing-markets/

98. Available at: https://www.gov.ie/en/consultation/2a28f-public-consultation-funds-sector-2030-a-framework-for-open-resilient-developing-markets/#:~:text=The%20Minister%20for%20Finance%20Michael,run%20until%2015%20September%202023%20.

99 Available at: https://www.gov.ie/pdf/?file=https://assets.gov.ie/279724/98cdddeb-bda1-491d-9159-fd7381b0e72a.pdf#page=null

OPPORTUNITIES: MAXIMISING IRELAND'S EXISTING STRENGTHS - RESOURCE LINKS

100 Ireland for Finance The Strategy for the Development of Ireland's International Financial Services Sector to 2025 Government of Ireland April 2019. Available at https://assets.gov.ie/24482/278893738e764db79c43eada83c030e3.pdf. An update to the strategy was published in October 2022, extending the strategy to 2026 – see https://www.gov.ie/pdf/?file=https://assets.gov.ie/238832/e6d8cd40-7d4a-48f3-863b-1726ab3eeaa6.pdf#page=null.

101 https://assets.gov.ie/249800/6960311b-344b-4236-875b-c04e74d09247.pdf

102 The approach to defining Taxonomy-aligned investments in the EU Taxonomy Regulation is to prescribe very detailed, technical screening criteria in Level 2 measures, whereas under the SFDR, a very flexible, broad definition of sustainable investment has been provided at Level 1, with a lack of further guidance as to what qualifies as a sustainable investment.

103 Principal Adverse Impacts Reporting Irish Funds 13 October 2021. Available at https://www.irishfunds.ie/news-knowledge/newsletter/principal-adverse-impacts-reporting/

104 Principal Adverse Impacts Reporting Irish Funds 13 October 2021. Available at https://www.irishfunds.ie/news-knowledge/newsletter/principal-adverse-impacts-reporting/

105 Sustainable Finance Ireland Legal and Regulatory Report May 2021. Available at https://sfskillnet.sustainablefinance.ie/wp-content/uploads/2022/11/Regulatory-Study_Final.pdf

106 "We" here refers to the authors of the 2021 Report.

107 See https://merrionstreet.ie/minister_carroll_macneill_announces_pioneering_new_postgraduate_diploma_in_sustainable_financial_technology_innovation_with_sustainable_finance_skillnet_and_maynooth_university.html

108 Available at: https://www.gov.ie/pdf/?file=https://assets.gov.ie/279724/98cdddeb-bda1-491d-9159-fd7381b0e72a.pdf#page=null

109 World Bank 2018 Sovereign Blue Bond Issuance: Frequently Asked Questions. Available at https://www.worldbank.org/en/news/feature/2018/10/29/sovereign-blue-bond-issuance-frequently-asked-questions.

110 See Green Capital Requirements 25 February 2023 available at https://www.bankingsupervision.europa.eu/press/conferences/shared/pdf/20230502_research_conference/Oehmke_paper.pdf

Appendix I – **Glossary of Terms**

Action Plan	European Commission Sustainable Finance Action Plan
AIFMD	Alternative Investment Fund Managers Directive Directive 2011/61/EU
BTAR	Banking book taxonomy-alignment ratio
Central Bank	Central Bank of Ireland
CMU	Capital Markets Union
Commission	European Commission
CPPAs	Corporate Power Purchase Agreements
CS3D	Corporate Sustainability Due Diligence Directive
CSA	Common supervisory action
CSRD	Corporate Sustainability Reporting Directive Directive (EU) 2022/2464
DETE	Department of Enterprise, Trade and Employment
DNSH	Do no significant harm
EBA	European Banking Authority
ECB	European Central Bank
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds

IDD	Insurance Distribution Directive Directive (EU) 2016/97
ILP	Investment limited partnership
ILR	Interest limitation rule
IOSCO	International Organisation of Securities Commissions
ISFCOE	International Sustainable Finance Centre of Excellence
ISSB	International Sustainability Standards Board
LMA	Loan Market Association
MiFID II	Markets in Financial Instruments Directive Directive 2014/65/EU
NCAs	National competent authorities
NFRD	Non-Financial Reporting Directive Directive 2014/95/EU
NGEU	NextGenerationEU (the EU's €800 billion temporary recovery instrument)
NGFS	Network for Greening the Financial System
NTMA	National Treasury Management Agency
PAIs	Principal adverse impacts
PAIS	Principal Adverse Impact Statement
Paris Agreement	Legally binding international treaty on climate change agreed in Paris, France on 12 December 2015

ESAs	European Supervisory Authorities
ESG	Environmental, social and governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
ESRB	European Systemic Risk Board
EU	European Union
EuGB Regulation	Proposal for a Regulation of the European Parliament and of the Council on European Green Bonds
EUGBS	EU Green Bond Standard
FMPs	Financial market participants
FSB	Financial Stability Board
GAR	Green asset ratio
GLPs	Green loan principles
IAASA	Irish Auditing and Accounting Supervisory Authority
ICMA	International Capital Markets Association
RIS	Retail Investment Strategy
QIAIF	Qualifying investor alternative investment fund
Roadmap	National Sustainable Finance Roadmap
RTS	Regulatory technical standards
SDGs	United Nations Sustainable Development Goals
SEAI	Sustainable Energy Authority of Ireland
SFDR	Sustainable Finance Disclosure Regulation Regulation (EU) 2019/2088
SLLs	Sustainability linked loans
TCFD	Task Force on Climate-related Financial Disclosures
UCITS	Undertakings for Collective Investment in Transferable Securities
UNPRI	United Nations Principles for Responsible Investing
2021 Report	Ireland as a Global Centre of Excellence for Sustainable Finance – Legal and Regulatory Report

Appendix II – **Sustainable Finance Legislation Map**

Legislative Document	Summary	Key Date	Who is in Scope?
Sustainable Finance Disclosure Regulation Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector **Eur-lex Link**	The SFDR imposes requirements on FMPs and financial advisers to make sustainable related disclosures in relation to financial products. It introduces requirements and common criteria for investors to determine what activities are environmentally sustainable and additional requirements for ESG products with certain characteristics.	10 March 2021	FMPs and financial advisers regulated in the EU and / or actively marketing their products in the EU, including AIFMs, UCITS Management Companies, MiFID authorised entities and insurance undertakings and their financial products, including UCITS, AIFs, segregated portfolio mandates and pension products.
SFDR RTS / Level 2 Measures Commission Delegated Regulation (EU) 2022/1288 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports **Eur-lex Link**	The RTS supplement the SFDR and specifies the exact content, methodology, and presentation of the information to be disclosed under the SFDR under at both entity and product level. A corrigendum to this Delegated Regulation was published on 27 December 2022.	1 January 2023	FMPs and financial advisers

Legislative Document	Summary	Key Date	Who is in Scope?
SFDR RTS / Level 2 Measures Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 amending and correcting the regulatory technical standards laid down in Delegated Regulation (EU) 2022/1288 as regards the content and presentation of information in relation to disclosures in pre-contractual documents and periodic reports for financial products investing in environmentally sustainable economic activities **Eur-lex Link**	The RTS supplement the SFDR by requiring FMPs to disclose the extent to which their portfolios are exposed to nuclear and gas-related activities in compliance with the EU Taxonomy Regulation, as outlined in the Complementary Climate Delegated Act.	17 February 2023	FMPs and financial advisers
EU Taxonomy Regulation Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending regulation ((EU) 2019/2088) **Eur-lex Link**	The EU Taxonomy Regulation provides for a framework to classify environmentally sustainable economic activities. It sets out the criteria and factors to be considered for a product or activity to be deemed "environmentally sustainable". It seeks to increase transparency and establish clarity on what activities are deemed "green or "sustainable".	1 January 2022 (first two environmental objectives) 1 January 2023 (last four environmental objectives)	Financial market participants who offer financial products including most insurance, pension and portfolio management providers. Financial and non-financial companies falling within scope of the NFRD and individual member states and the EU with regard to existing or potentially new eco-labelling or other legislative measures.
EU Taxonomy Regulation Level 2 Measures – Climate Delegated Act Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives **Eur-lex Link**	This delegated regulation provides the technical screening criteria to determine which economic activities most contribute to meeting the environmental objectives in the EU Taxonomy Regulation.	1 January 2022	See scope of EU Taxonomy Regulation.

Legislative Document	Summary	Key Date	Who is in Scope?
EU Taxonomy Regulation Level 2 Measures – Article 8 Disclosures Delegated Act Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation **Eur-lex Link**	This delegated act supplements the EU Taxonomy Regulation by requiring additional disclosures from companies in scope of the NFRD on how and to what extent their activities are associated with environmentally sustainable economic activities aligned with the EU-Taxonomy.	1 January 2022	Financial and non-financial undertakings that are subject to the disclosure obligations laid down in Articles 19a and 29a of the Accounting Directive 2013/34/EU such as asset managers, credit institutions, investment firms, and insurance undertakings
EU Taxonomy Regulation Level 2 Measures – Complementary Climate Delegated Act Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures **Eur-lex Link**	This delegated act supplements the EU Taxonomy Regulation by setting out the conditions under which nuclear and gas activities can be included in the list of economic activities laid down in the EU Taxonomy Regulation.	1 January 2023	See scope of EU Taxonomy Regulation.

Legislative Document	Summary	Key Date	Who is in Scope?
EU Taxonomy Regulation Level 2 Measures – Technical Screening Criteria Commission Delegated Regulation (EU) 2023/2486 of 27 July 2023 establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. **Eur-lex Link**	This delegated act sets out the technical screening criteria for the remaining four environmental objectives (circular economy, water and marine resources, pollution prevention and control and biodiversity and ecosystems.	1 January 2024	See scope of EU Taxonomy Regulation.
MiFID II Level 2 Measures – Product Governance Commission Delegated Directive (EU) 2021/1269 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors and preferences into the product governance obligations **Eur-lex Link**	This amendment requires that sustainability factors and preferences should be considered within the product governance requirements in Delegated Directive (EU) 2017/593, as part of the product oversight and governance process. Investment firms, will be required to update their investment advisory and organisational processes, to ensure that they properly reflect an investor's sustainability preferences.	22 November 2022	MiFID authorised investment firms.
MiFID II Level 2 Measures – Organisational Requirements and Sustainability Preferences Commission Delegated Regulation (EU) 2021/1253 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms **Eur-lex Link**	This amendment relates to the integration of sustainability into organisational requirements, as well as the integration of sustainability preferences into the suitability process. MiFID firms are required to update their product origination and marketing / distribution strategies, to ensure that they take account of the sustainability preferences.	2 August 2022	MiFID authorized investment firms.

Legislative Document	Summary	Key Date	Who is in Scope?
Insurance Distribution Directive Level 2 Measures Commission Delegated Regulation (EU) 2021/1257 amending Delegated Regulation (EU) 2017/2358 and Delegated Regulation (EU) 2017/2359 as regards the integration of sustainability factors and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products **Eur-lex Link**	This amendment integrates sustainability factors and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products.	2 August 2022	Insurance undertakings and insurance distributors.
UCITS Directive Level 2 Measures Commission Delegated Directive (EU) 2021/1270 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS) **Eur-lex Link**	Provides for sustainability risks and sustainability factors to be taken into account for UCITS. Sets out organisational requirements, including rules on identification of types of conflicts of interest, conduct of business and risk management for UCITS management companies.	1 August 2022	UCITS management companies
AIFMD Level 2 Measures Commission Delegated Regulation Amending Delegated Regulation (EU) No 231/2013 as regards sustainability risks and sustainability factors to be taken into account by alternative investment fund managers **Eur-lex Link**	Provides for sustainability risks and sustainability factors to be taken into account by alternative investment fund managers. Sets out operating conditions, including rules on due diligence and identification of types of conflicts of interest.	1 August 2022	AIFMs.
Solvency II Level 2 Measures Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings **Eur-lex Link**	Provides for the integration of sustainability risks in the governance of insurance and reinsurance undertakings. Sets out requirements on governance, conflicts of interest and risk management for insurance and reinsurance undertakings	2 August 2022	Insurance and reinsurance undertakings.

Legislative Document	Summary	Key Date	Who is in Scope?
Securitisation Regulation Amendment Regulation Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardized securitisation to help the recovery from the COVID-19 crisis **Eur-lex Link**	The Securitisation Regulation Amendment Regulation introduces a new provision which mandates the EBA to produce a report by 1 November 2021 on developing a sustainable securitisation framework for the purpose of integrating sustainability-related transparency requirements into the Securitisation Regulation.	9 April 2021	Securitisations, securitising entities, and EU-regulated institutional investors.
Low Carbon Benchmark Regulation Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks **Eur-lex Link**	The Low Carbon Benchmark Regulation introduces a new category of benchmarks comprising low-carbon or "decarbonised" versions of standard indices and positive carbon impact benchmarks. Provides for sustainability-related disclosures for all benchmarks. All benchmarks (except for interest rate and currency benchmarks) should include information as to the degree to which they align with the Paris Agreement.	Entered into force 10 December 2019. Various application dates specified in regulation.	Benchmark administrators and, indirectly, benchmark users such as asset managers and their products
Low Carbon Benchmarks Level 2 Measures – Benchmark Statement Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published **Eur-lex Link**	This delegated regulation provides detail on the explanation to be included in benchmark statements as to how ESG factors are reflected in each benchmark or family of benchmarks.	23 December 2020	Benchmark administrators

Legislative Document	Summary	Key Date	Who is in Scope?
Low Carbon Benchmarks Level 2 Measures – Benchmark Methodology Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology **Eur-lex Link**	Provides detail as to how benchmark administrators should explain how, for each benchmark provided or published, the key elements of the benchmark methodology reflect ESG factors.	23 December 2020	Benchmark administrators
Low Carbon Benchmarks Level 2 Measures – Minimum Standards Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks **Eur-lex Link**	Specifies the minimum standards applicable to EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks	23 December 2020	Benchmark administrators
Corporate Sustainability Reporting Directive ("CSRD") Directive (EU) 2022/2464 of the European Parliament and the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34 /EU, as regards corporate sustainability reporting **Eur-lex Link**	CSRD will require in-scope companies to publicly disclose information on how they engage with environmental and social issues, human rights and governance factors and, under the relatively novel concept of 'double materiality', also disclose how those issues impact those companies.	Transposition date 6 July 2024. Various dates apply in respect of the reporting requirements.	All large companies (whether listed or not) and all companies listed on regulated markets, EU-regulated insurance undertakings and credit institutions (with some exceptions, including in respect of "micro undertakings")
European Sustainability Reporting Standards Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards **Eur-lex Link**	The sector-agnostic ESRS set out detailed reporting requirements for companies in the scope of the CSRD.	Apply from 1 January 2024 for financial years beginning on or after 1 January 2024.	See scope of CSRD

Legislative Document	Summary	Key Date	Who is in Scope?
Capital Requirements Regulation Level 2 Measures - Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a CRR (the "ITS") Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 amending Commission Implementing Regulation (EU) 575/2013 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council **Eur-lex Link**	The ITS specify the Pillar 3 ESG disclosure standards required under the Capital Requirements Regulation (EU) 575/2013, including: • tables for qualitative disclosures on ESG risks; • templates with quantitative disclosures on climate change transitional risk; • templates with quantitative disclosures on climate change physical risk; and • templates with quantitative information and KPIs on climate change mitigating measures, including the green asset ratio on taxonomy-aligned activities and other mitigating actions.	28 June 2021	Large institutions with traded securities in EU official markets
Investment Firms Regulation (IFR) and Investment Firms Directive (IFD) **Eur-lex Link - IFR** **Eur-lex Link - IFD**	Article 53 IFR stipulates that investment firms must disclose information on environmental, social and governance risks, including physical risks and transition risks, once in the first year and then biannually. Article 35 IFD stipulates that the EBA must report on technical criteria for exposures of activities associated with ESG objectives.	December 2022	Class 2 and Class 3 investment firms
EU Green Bond Standard (the "EUGBS") Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds **Eur-lex Link**	The EUGBS aims to provide an official European and international voluntary standard, providing a clearly defined protocol for issuing green bonds. It is designed to enhance the effectiveness, transparency, comparability and credibility of the green bond market and to encourage the market participants to issue and invest in EU green bonds.	21 December 2024	Bond issuers.

Legislative Document	Summary	Key Date	Who is in Scope?
ESG Ratings Providers Regulation Proposal for a Regulation of the European Parliament and of the Council on the Transparency and Integrity of Environmental, Social And Governance (ESG) Rating Activities COM/2023/314 final **Eur-lex Link**	Proposed rules which would require ESG ratings providers to be supervised by ESMA.	Will enter into force 20 days after publication in the Official Journal of the EU	ESG ratings providers.
Corporate Sustainability Due Diligence Directive Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence And Amending Directive (EU) 2019/1937 COM/2022/71 Final **Eur-lex Link**	The Corporate Sustainability Due Diligence Directive ("**CS3D**") will require in-scope companies to conduct risk-based human rights and environmental due diligence in respect of their operations, the operations of their subsidiaries and their chains of activities.	The transposition date will be two years after the entry into force of the directive.	CS3D will apply to a broad range of companies, including: • EU-incorporated companies with more than 1,000 employees on average and a net worldwide turnover of €450 million (including, for an ultimate parent undertaking, on a consolidated basis); • non-EU incorporated companies with a turnover in the EU in excess of €450 million including, for an ultimate parent undertaking, on a consolidated basis); and • certain companies that are involved in franchising or licencing agreements in return for royalties in excess of certain thresholds and meeting certain other conditions. CS3D will not apply to AIFs or UCITS and provides that regulated financial undertakings must conduct due diligence in respect of their "upstream" chain of activities only.

Contact us

E: info@isfcoe.org **W:** https://ifscoe.org/

The Black Church, St. Mary's Place, Dublin 7, D07 P4AX

Commissioned by:

In partnership with:

Prepared by:

The International Sustainable Finance Centre of Excellence is co-funded by Skillnet Ireland and participating businesses. Skillnet Ireland is funded from the National Training Fund and the European Union through the Department of Further and Higher Education, Research, Innovation and Science.

Co-funded by the European Union