



FISER CONSULTING
FINANCIAL SERVICES

2024 SUSTAINABILITY OUTLOOK

Key trends in the EU financial sector

December 2023



EXECUTIVE SUMMARY



2023 marked a significant year in Sustainability regulation, especially in the European financial sector. Organizations are now facing the need to revise their strategies and assess their compliance, delimiting the industry trends expected for 2024. With an **historic agreement on transitioning away from fossil fuels reached during COP28**, next year will be focused on accelerating Climate action.



As we embark in 2024, financial institutions in Europe will have to be prepared to address new challenges that will gain momentum after this year's developments. **First, revised Net-zero goals will be the starting point**, since investors and regulators focus will be on credible, measurable, and actionable **transition plans for intermediate targets set by 2030**.



The second trend will be measuring Scope 3 financed emissions and setting specific targets prioritizing by GHG high-emitting and high-intensive sectors. Since these represent most of the Scope 3 emissions in the case of financial institutions, remediate data gaps will be a top priority.



With the need of aligning investment portfolios to Net-zero, **the third trend for 2024 will be the rise of Responsible investments**. A recent standardization is expected to facilitate capital flows, especially to Impact investing. Although the sustainable debt market is expected to slow down, financial institutions will benefit from updating their Sustainable Finance frameworks with recent guidelines and investors will be more prepared by monitoring initiatives to prevent greenwashing.



Lastly, 2024 will be the year of ESG compliance. With stricter regulations and reporting requirements to come into effect, the EU financial sector will have to develop a strategic roadmap, including the integration of data management and a shift from Climate to Nature.



Financial institutions will benefit from responding to evolving Sustainability demands. **FiSer Consulting will guide your organization to ensure compliance through tailored assessments and strategic support**. Our dedicated colleagues will help you navigate your business to mitigate risks, unlock new business opportunities and become more sustainable.

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2023 AT A GLANCE

The year of regulation

In 2023, Sustainability continued to be a focal point for financial institutions. **Several regulations came into force, including the Corporate Sustainability Reporting Directive (CSRD) and the first set of the European Sustainability Reporting Standards (ESRS)**, broadening the scope of environmental and social information that companies in the EU must report.

In the UK, listed companies started to comply with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and in the US, the Securities and Exchange Commission (SEC) proposed rule changes to require companies to include certain climate-related disclosures in their registration statements and periodic reports.

On a global scale, the International Sustainability Standards Board (ISSB) issued its inaugural sustainability standards, IFRS S1 and IFRS S2, enabling companies to communicate to investors about the sustainability-related risks and opportunities they face.

Nevertheless, **2023 was also the year of unprecedented manifestations of the climate crisis**. The warmest on record, was marked by deadly heatwaves, wildfires and floods. Extreme global temperatures will likely continue into 2024 unless significant reductions in GHG emissions are achieved in the near future. Unfortunately, progress on widely accepted targets shows the opposite:



UN SDGs Implementation

Half of measurable targets are showing moderate to severe deviations, with 30% experiencing no progress and even regression



Climate Action Tracker

Efforts to limit warming to 1.5°C are failing, with progress made on every indicator (except EV sales) lagging significantly behind



Planetary Boundaries

Six of nine boundaries have been transgressed, suggesting that Earth is well outside of the safe operating space for humanity

Financial institutions are actively incorporating ESG factors into their strategies and managing risks on their balance sheets. This, coupled with evolving regulatory demands, will play a pivotal role in setting sustainability trends for 2024

COP28 HIGHLIGHTS

Transitioning away from fossil fuels

2024 will be influenced with what came out of COP28 in Dubai, UAE. After an historic decision to establish a loss and damage fund for developing countries hit by the climate crisis in 2022, **this year's summit opened with delegates agreeing on the fund's operationalization.**

Followed by intense negotiations, **the conference ended with a final agreement to transition away from fossil fuels in a just manner.** Although the phase-out wording that advocates were so strongly looking for was not incorporated, the deal represents a major step for future climate action.

Cut emissions



UNEP/IPCC reports are clear

Latest data shows the world faces global warming of 2.5-2.9°C unless nations go further than the current nationally-determined contributions (NDCs). In the most optimistic scenario, the likelihood of limiting global warming to a maximum rise of 1.5°C is only 14%. To reach the goal, emissions need to be cut 40%-50% by 2030

Global Stock Take



Fossil fuels explicitly mentioned

The first global Stock Take concluded with a deal, initially resisted by oil-producing nations, highlighting the challenge of balancing growth with environmental concerns. In the end, the agreement sets ambitious targets renewable energy and efficiency, marking the first explicit mention of fossil fuel use

Nature



Biodiversity loss and Adaptation

Over 150 businesses and financial institutions committed to climate and nature targets, which will drive nature-based solutions and disclosures using the TNFD framework. Heads of state and governments also pledged to integrate sustainable agriculture and food systems into climate action with specific 2025 objectives

COP28 stressed the urgency of transitioning to renewable energy, emphasizing Nature's role in climate adaptation. This is set to boost regulations on biodiversity and drive more capital to Responsible investments

4 KEY TRENDS

In the EU financial sector for 2024

In 2024 financial institutions will have to navigate through a challenging scenario. With concerns on the global economic outlook remaining on top of executive boards discussions, so are the **increasing sustainability requirements imposed by the market, regulators and the public audience**. FiSer anticipates the following trends to be relevant in the financial services industry:

#1 Net-zero intermediate targets

Science-based **interim targets for 2030 and a credible and measurable transition plan** to achieve them will be under the scrutiny of investors and regulators

#3 Rise of Responsible investments

The demand for investments contributing to sustainable development has made necessary **standardized definitions**. While the **sustainable debt market is expected to remain stable**, new initiatives aim to increase transparency and prevent **greenwashing risks**

#2 Scope 3 financed emissions

Measurement of the lending and investments portfolios GHG emissions will be key to achieve net-zero intermediate targets, **prioritized by high-emitting and high-intensity sectors**

#4 The year of ESG compliance

With the rapid uptake in mandatory disclosures, 2024 will be the **first year of disclosure of new KPIs under the Pillar 3 ESG disclosures (GAR/BTAR)**. Financial institutions will also need to **prepare for CSRD and monitor developments on the CSDDD and Nature-related regulation**



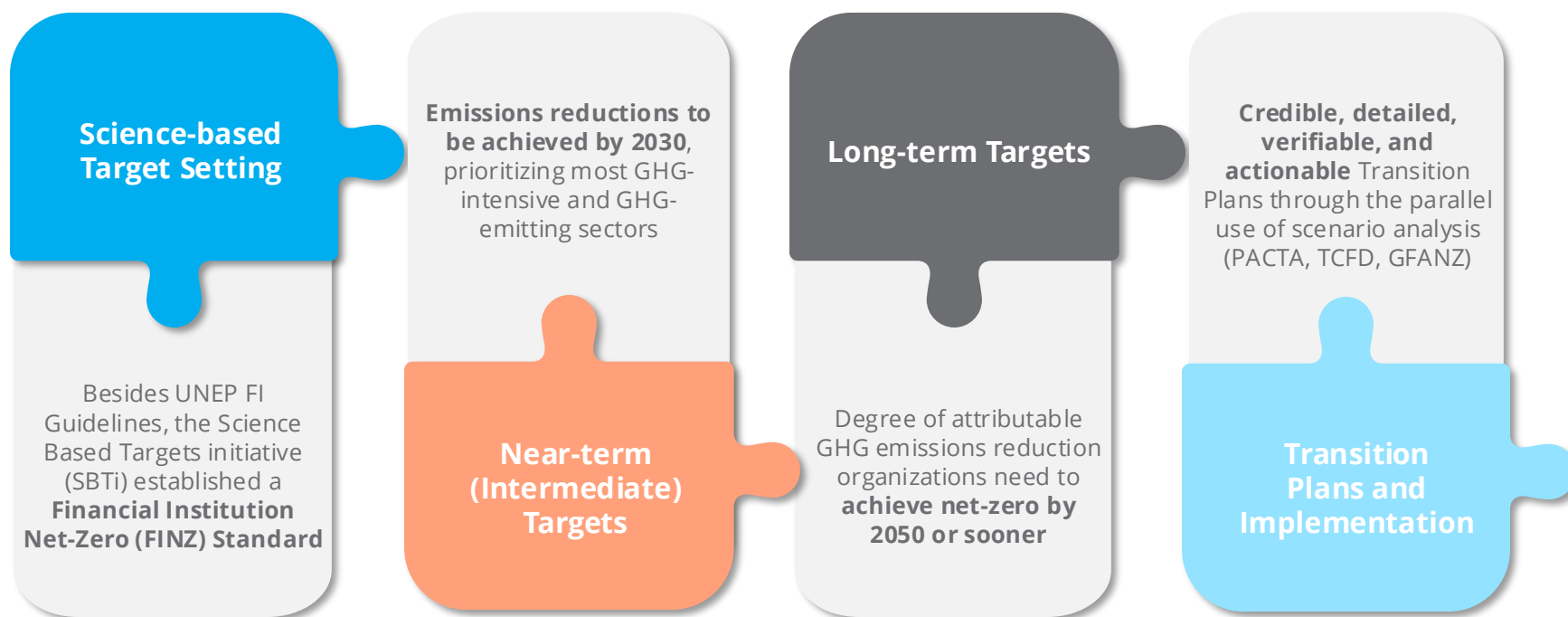
Data management will be a key element to align business strategy with sustainability commitments and comply with all regulatory requirements. Financial institutions will benefit from hiring in-demand, qualified ESG professionals to develop smart solutions

#1 NET-ZERO GOALS

Setting and tracking intermediate targets

As capital providers, financial institutions have been recognized to play a crucial role in supporting the transition to a low-carbon economy. With the Paris Agreement, many of them have pledged to lower their financed emissions by committing to the **Net-Zero Banking Alliance (NZBA)** and the **Net-Zero Asset Owner Alliance (NZAOA)**.

By transitioning lending and investment portfolios to Net-Zero GHG emissions by 2050 or sooner, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels, financial institutions have taken the first step to define a roadmap for their Net-Zero Goals. However, latest progress reports have shown that **some members have not yet set targets including GHG-intensive sectors such as power generation, oil and gas**, making it a priority for them in 2024.



By joining the UN-convened alliances, financial institutions have committed to set interim targets by 2030. FiSer foresees an increased focus of investors and regulators on the measurement and performance of these intermediate targets in 2024

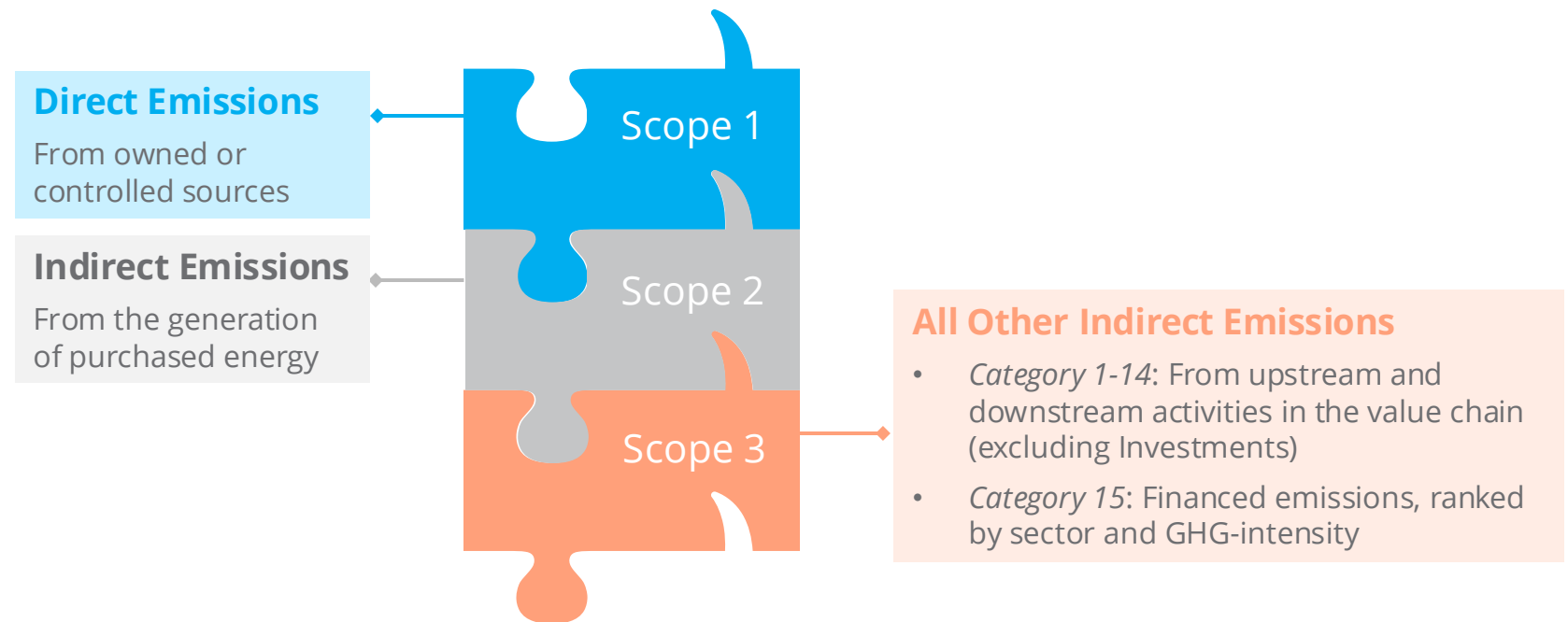
#2 SCOPE 3

The complexities of measuring financed emissions

To ensure targets for Net-Zero are being met, financial institutions need to measure and disclose GHG emissions. According to the UNEP FI, **around 97% of a financial institution's emissions are situated in Scope 3**, with the majority being Financed Emissions, known as Category 15 under the GHG Protocol.

The main challenge comes from **collecting data to compute Financed Emissions**. Since it is either unavailable or lags the reporting period, modelling tools and sector aggregation can help with initial estimations.

Besides the GHG Protocol, the most widely accepted methodology to measure Scope 3 is the **GHG Accounting and Reporting Standard for the Financial Industry**, developed by the Partnership for Carbon Accounting Financials (PCAF), which recently released the **first-ever standard for Capital Markets to measure and disclose GHG emissions associated with off-balance activities (Facilitated emissions)**.



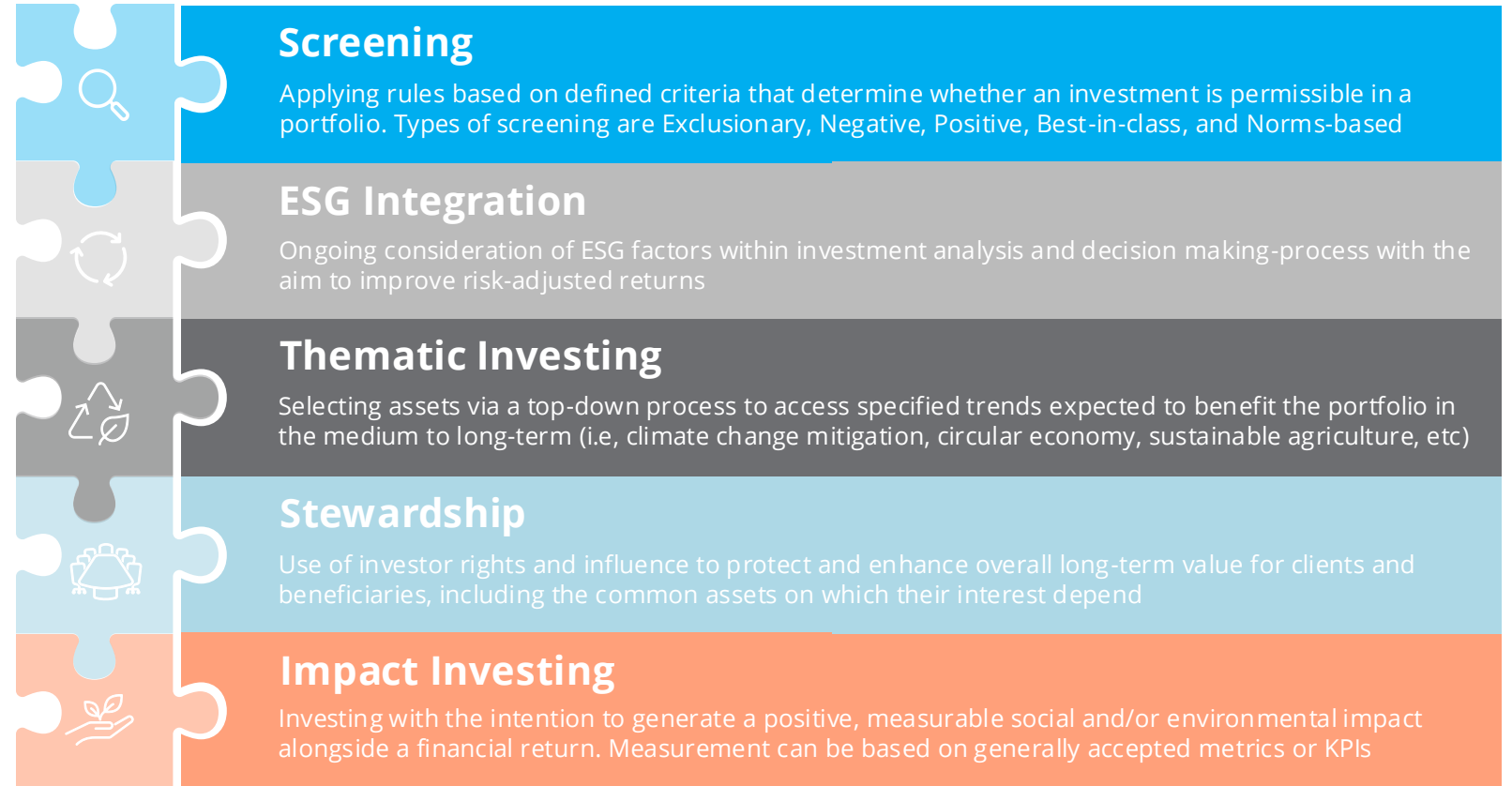
Financed emissions and Net-zero targets by sector will be on the spotlight in 2024. Facilitated emissions (from underwriting, securitisation and advisory) and Scope 4 (Avoided) emissions are developing areas that will also impact financial institutions

#3 RESPONSIBLE INVESTMENTS

Standardization will facilitate a rise

Institutional investors committed to transition their investments to Net-Zero must complement their traditional financial analysis and portfolio construction tools to consider all relevant issues when assessing risk and return. By including ESG criteria, **investors are driving a growing Responsible investments market, but often lacking on standardization.**

To address this, **The Principles for Responsible Investment (PRI), the Global Sustainable Investment Alliance (GSIA), and the CFA Institute have collaborated to establish a harmonized terminology** for five Responsible Investments terms, defined as follows:



This initiative provides market participants with a clear definition of Responsible Investments degrees, enabling an increased capital allocation to tackle global challenges. Out of the five types, Impact investing is set to gain the most traction in 2024

#3.1 SUSTAINABLE DEBT MARKET

Outstanding to remain stable

One of the most relevant Responsible investments are sustainable bonds and loans, which in turn are helping the financial and corporate sector to achieve their transition plans. **The International Capital Market Association (ICMA) and the Loan Market Association (LMA) Principles and Guidelines, along with the EU Green Bond Standards** outline the requirements to correctly label instruments. The most relevant categories are:



Green

(climate change mitigation and adaptation)



Social

(positive social outcome)



Sustainability

(combination of green and social)



Sustainability-linked

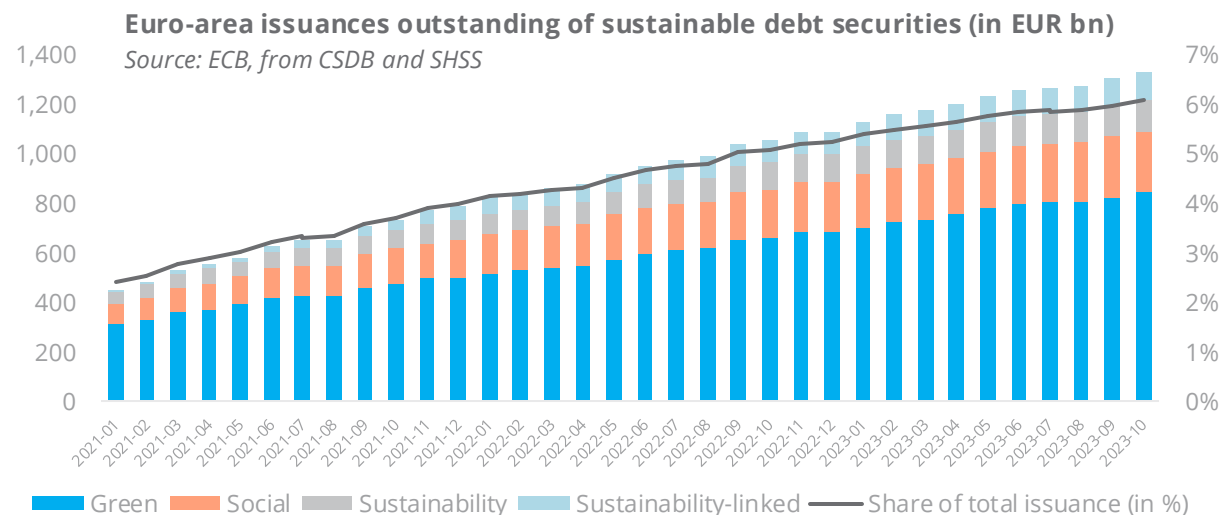
(coupon linked to KPIs, with a step-up/step-down feature)



Transition

(brown industries, not widely accepted)

There has been an upward trajectory on sustainable debt issuance in recent years, **but a stabilization is expected in 2024 as the high-interest rate and lower-lending volumes environment continues** and the identification of new eligible assets reaches its limits.



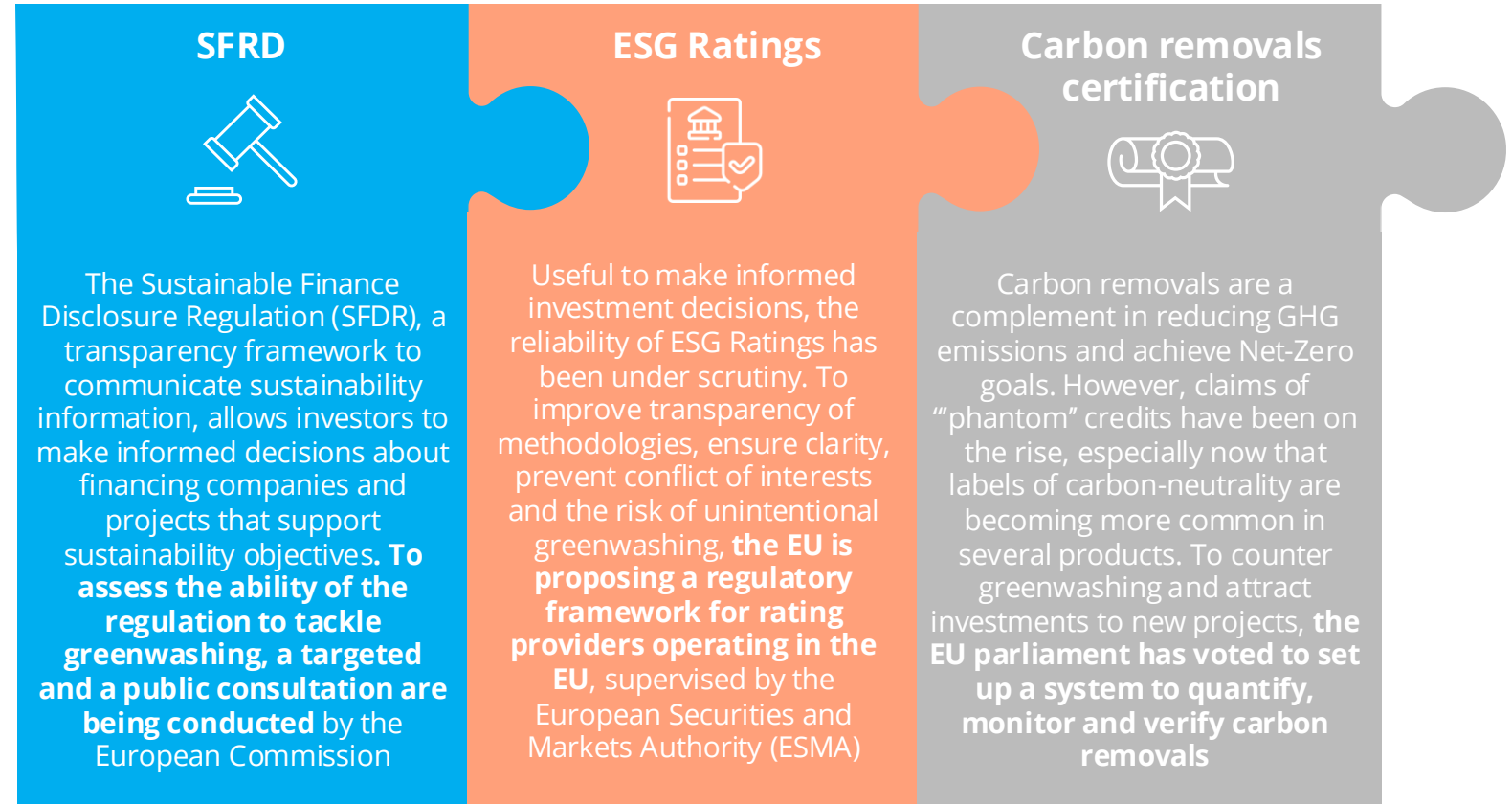
Banks and corporations will benefit by updating their Sustainable Finance Frameworks and Impact Reporting to adhere to the latest guidelines. This responsiveness will position them to meet investors' demands by issuing sustainable debt when market conditions improve

#3.2 CLAIMS OF GREENWASHING

New initiatives to mitigate risks

A key aspect of Responsible investments is how to prevent misleading ESG claims, or *greenwashing* practices, which have been on the rise as the demand for sustainable products increases. According to a report by the European Banking Association (EBA), **climate change is the most common topic subject to greenwashing claims in the EU financial sector**.

Greenwashing, either at the product or entity level, intentional or unintentional, **prevents an efficient allocation of capital to finance the transition to a more sustainable economy**. To limit the risks, the most important initiatives to ensure transparency for investors in 2024 are:



False claims of sustainable investments, products or services may cause financial institutions reputational damage, legal liability, and financial losses. Sustainable labels need to be monitored carefully to not overstate impact

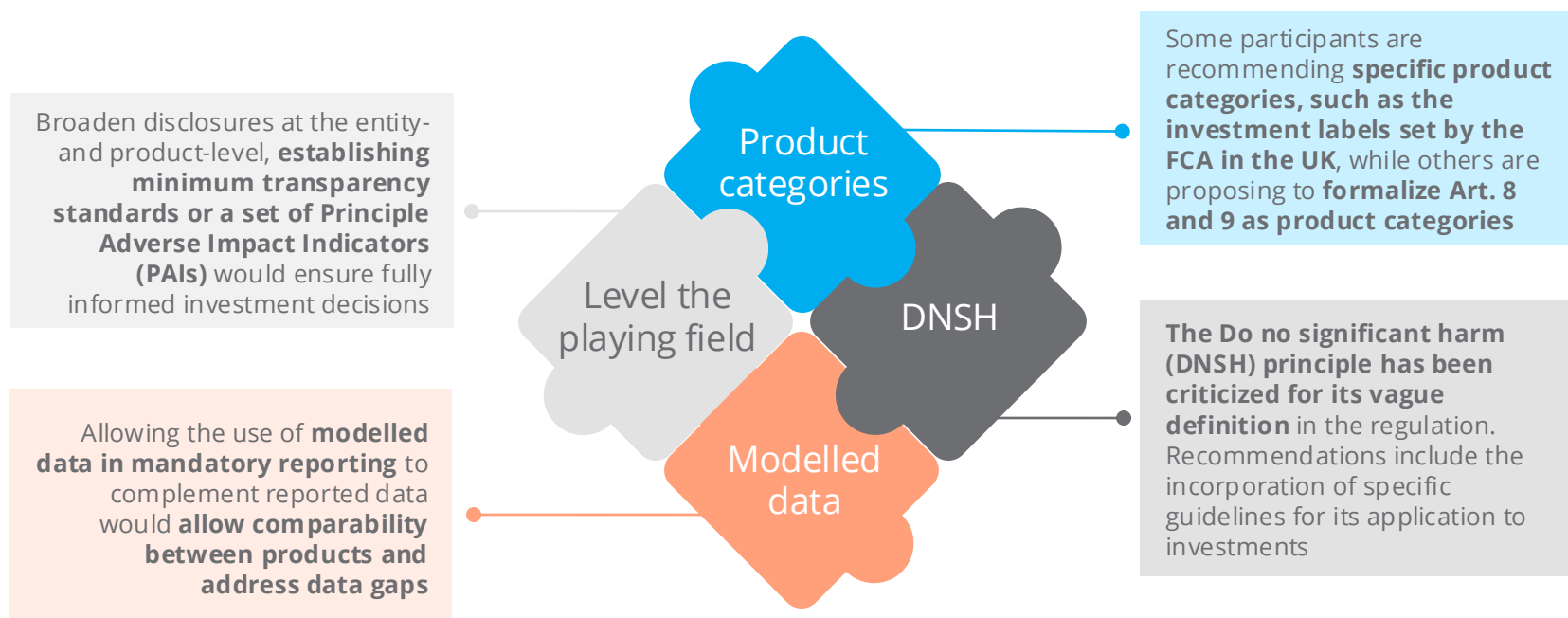
#3.3 SFDR IN REVIEW

Anticipating changes for fund managers

The Sustainable Finance Disclosure Regulation (SFDR) has been in application since March 2021. This regulatory framework categorizes funds into three types: **Article 6**, those where sustainability is not integrated into the investment process; **Article 8** (“light green”), funds which promote environmental and/or social characteristics, among other factors; and **Article 9** (“dark green”), funds that have sustainable investment as their objective.

In September, the European Commission initiated a **comprehensive consultation on SFDR, aiming to evaluate its effectiveness and explore potential changes to the disclosure requirements**. One of the crucial aspects of SFDR is the classification of funds, which are now often used as labels at the product level, deviating from the initial intention of the rules.

Market participants have expressed their **recommendations focusing in four major areas** to ensure SFDR promotes Responsible investments further and stands the test of time:



Considering the European Parliament election in June 2024, specific changes in the regulation might not be unveiled until the end of the year, with the possibility of a revised SFDR entering into force only after 2026

#4 ESG REGULATIONS

Priorities for the EU financial sector in 2024

The sustainability regulatory landscape for financial institutions remains complex and continues to evolve. Some of the **main priorities and developments that the European financial sector needs to monitor in 2024** to ensure compliance and a competitive position are as follows:

First round of compliance

As part of the European Green Deal, Financial institutions will be required to transition from NFRD and **report subject to CSRD with 2024 data, using the European Sustainability Reporting Standards (ESRS)**.

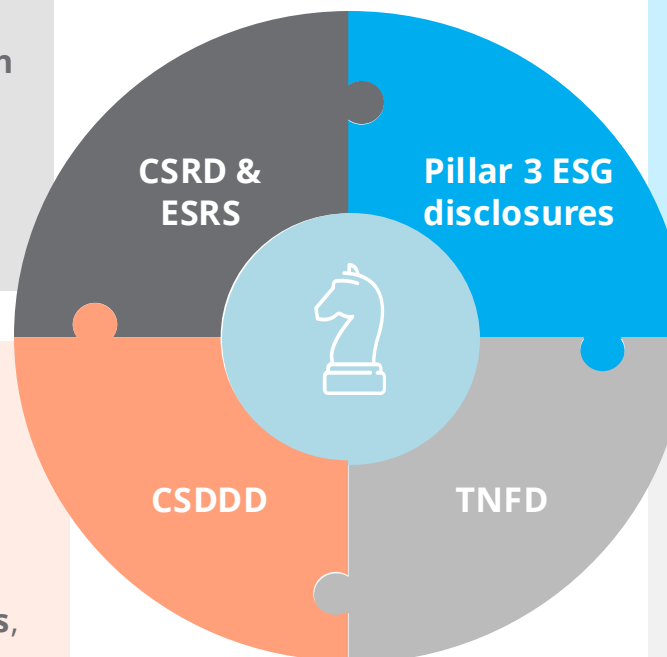
Sector specific-standards were postponed until mid-2026

New KPIs: GAR and BTAR

Banks need to disclose the Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR), using 2023 data and based on the EU Taxonomy. It will be critical to **improve data quality and availability of clients not subject to NFRD disclosures** requirements

Pushback on CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD) will require EU companies to conduct **environmental and human rights due diligence across their global value chains**, holding them accountable for adverse impacts. While the **downstream operations of the financial sector are initially out of scope**, there is a possibility of their future incorporation



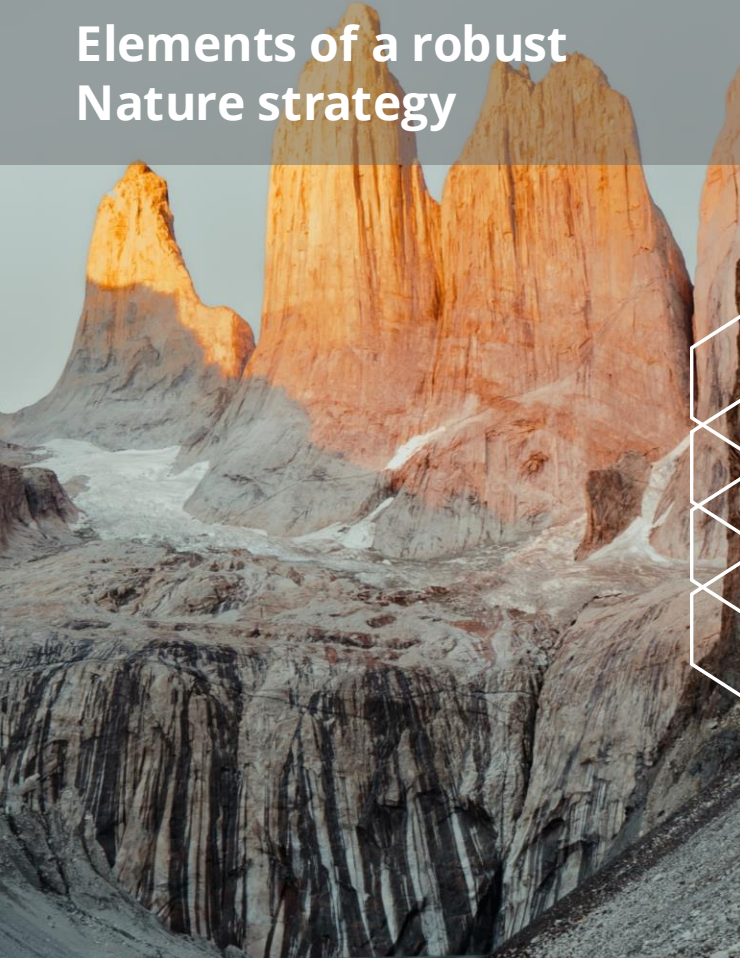
From climate to nature

With the release of the final framework from the Taskforce on Nature-related Financial Disclosures (TNFD), financial institutions have an **approach to quantify their financial exposure to natural capital loss**, identify opportunities to protect biodiversity, and set a robust Nature strategy. Although guidelines are voluntary, they complement the ESRS (E3 & E4)

Non-financial (ESG) data is expected to become as robust as financial data, so prioritizing a sound IT infrastructure and systems to improve data availability, quality and granularity will be key to successfully comply with regulations

#4.1 FROM CLIMATE TO NATURE

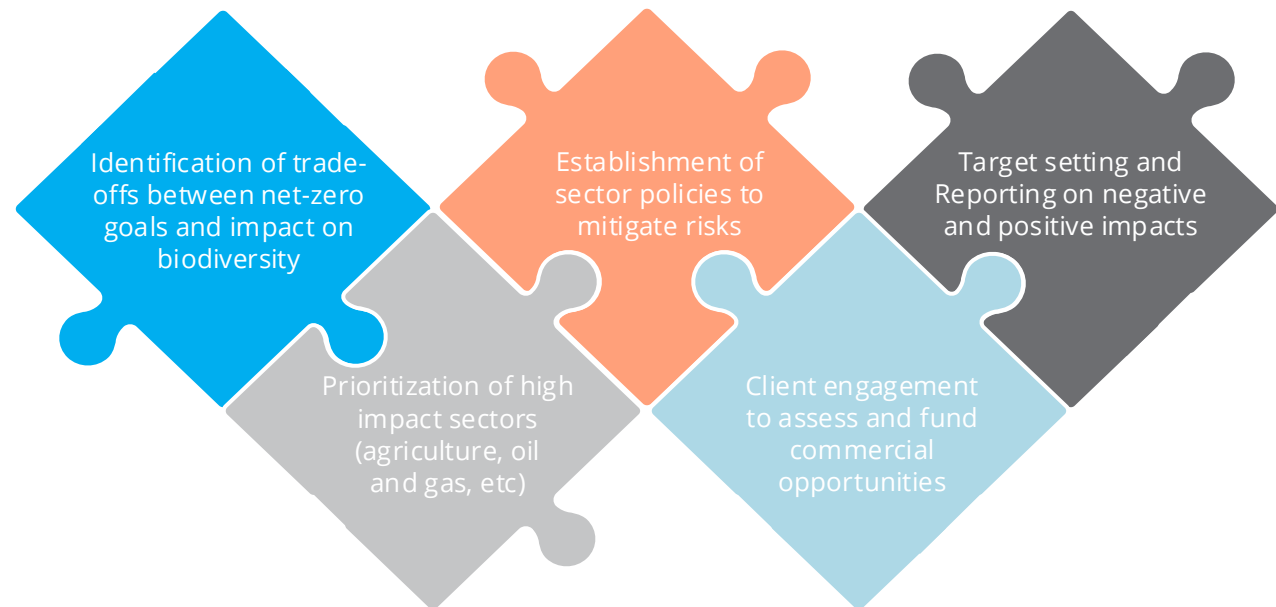
Elements of a robust Nature strategy



As part of the regulatory requirements that will remain a priority for European financial institutions, a **revision of Nature strategies is a critical element**. Nature-related risks are the hardest to measure and hence its secondary status when it comes to target setting processes. However, nature risks translate into economic risks, making **nature-based solutions (NbS) essential for climate change mitigation and adaptation**, involving actions to protect, manage, and restore ecosystems.

In 2023, the **Taskforce on Nature-related Financial Disclosures (TNFD)** released the final framework for financial institutions and the **Finance for Biodiversity (FfB) Foundation** launched a beta version of its Nature Target Setting Framework for Asset Managers and Owners, aligned with the mission of the Global Biodiversity Framework to reverse and halt biodiversity loss by 2030.

Financial institutions must **assess material drivers of biodiversity loss and identify trade-offs between nature and climate to set up a robust Nature strategy**, potentially including:



In addition to mitigating risks, a nature strategy can contribute to financial institutions achieving their net-zero targets. Also, NbS are increasing in demand and could generate significant new business value in 2024

PREPARE TO THRIVE

Overcoming challenges with FiSer Consulting

FiSer Consulting provides **tailored ESG and sustainability consultancy services** to financial institutions, ensuring alignment with evolving industry trends and regulatory standards. Our **comprehensive suite of solutions** can assist in assessing and adjusting your goals, implementing regulatory requirements effectively, and achieving compliance with best practices.

With our proven track record, FiSer can facilitate a **seamless transition to the 2024 regulatory environment**, positioning you in the market as a competitor and responsiveness player.

Our consultancy approach involves a **five-step systematic process**:

Revise ambition and targets

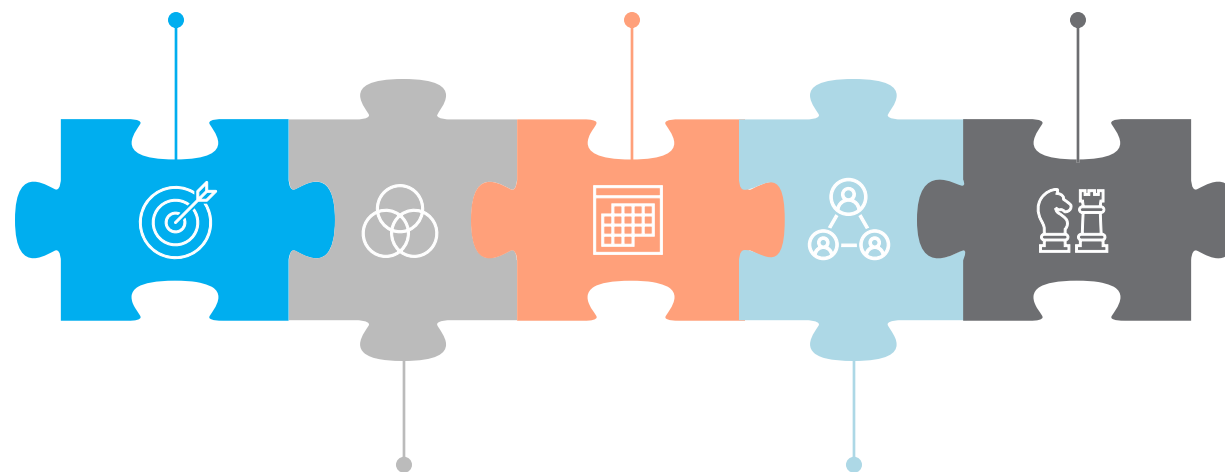
Evaluate and benchmark sustainability goals against trends, stakeholder expectations, and peers' performance

Develop a strategic roadmap

Design a roadmap with clear steps, timelines, and resource requirements to achieve sustainability targets

Ongoing expert advice

Provide continuous consultation to navigate complexities, ensuring successful delivery and responsiveness



Gap analysis

Conduct a thorough analysis to identify areas for enhancement, mitigate risks, and ensure compliance

Engage stakeholders

Foster continuous engagement with all stakeholders, facilitating alignment with sustainability objectives


GET IN TOUCH – BEYOND COMPLIANCE WITH FISER CONSULTING

Our team of experts at **FiSer Consulting** possess a profound understanding of sustainability best practices and climate risk regulation and can provide the **necessary strategies required for successful compliance with ESG standards**. By seamlessly combining financial, regulatory, technical, and environmental expertise, we provide comprehensive guidance and support to address the unique needs of your business. **Meet our dedicated colleagues** who can help you with navigating your business to be more sustainable and unlocking new opportunities:



Jeroen Wiggers – Banking Practice Lead


Jeroen is a banking professional with more than ten years of experience, starting in the consultancy sector at Capgemini Consulting and EY Advisory, where he worked on large-scale regulatory and transformation projects. He was a senior supervisor within the ECB's Single Supervisory Mechanism (SSM). As such, he worked in two of the ECB's Joint Supervisory Teams (JSTs) and supervised implementation of the ECB guide on climate change risks. He has performed several regulatory gap assessments at banks.

 j.wiggers@fiser.consulting



Camila Herrera – Senior Consultant

Camila is a banking professional with a background in Asset & Liability Management, Funding Strategy, and Debt Capital Markets, including sustainability-related transactions. Over eight years of leading cross-functional projects such as the first Chilean AT1 perpetual bond and the first bond with ESG criteria for Santander-Chile, to finance SMEs owned or led by women. Camila is a team builder through collaboration and humility, and she is intrinsically motivated to guide the financial sector in contributing to sustainable development.

 c.herrera@fiser.consulting