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Article

EU sustainable finance framework

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Abstract: Our study focusses on the sustainable finance framework of the European Union. Given that the concept, target system and practical implementation of sustainability have become one of the top priorities, we consider it important to present in an understandable and simple form what activities and regulations have been created in this regard within the scope of the European Union's common policy. Starting from the concept of sustainability, we analyse its significance. We examine the economic, social, corporate governance and environmental pillars and the European Green Deal based on them as foundations, as well as some prominent elements of sustainable finance: the Taxonomy, the Corporate Sustainability Reporting Directive, the Sustainable Finance Disclosure Regulation and the Union's Corporate Sustainability Due Diligence Directive. We review the relationships and interactions of the above elements. We describe the sustainability objectives of the European Green Deal and the resources related to them, as well as the Sustainable Finance package of the European Commission. We also provide an overview of the regulatory details of the above-mentioned elements of EU law, thereby making the complex and complicated process of regulation transparent. These issues are relevant to Hungary and other EU member states located in Central and Eastern Europe and they have an effect on their policies.

Keywords: sustainable finance, financial culture, European green deal, ESG framework, corporate sustainability reporting

1. Introduction

Our study examines the European Union (EU) framework of sustainability, focusing on sustainable finances. The sustainable finances are in complex relation to EU Taxonomy and sustainable reporting standards. The introduced rules indicate that the EU is committed to the gradual reduction of greenhouse gas emissions. In order to achieve the goals, sustainable investments are essential, which means a close relationship with sustainable finance. We examine the main elements of this complex phenomenon: EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR) and the Union's Corporate Sustainability Due Diligence Directive (CSDD). These are connected in the Sustainable Finance (SuFi) package of the European Commission based on European Green Deal and integrated into EU sustainability framework's environmental, social and corporate governance (ESG) aspects. This study starts from the global view, from sustainability.

Our research aim was to show the importance of sustainability in the European Union's common policy. Regarding this research aim the authors formulated their hypothesis:

The concept of sustainability has become more important in the EU which has economic, social, corporate governance and environmental effects.

2. Elements of a complex system

Sustainability

The concept of sustainability was introduced into the public consciousness by the Brundtland report, but sustainable existence is as old as humanity. Our ancestors only used essential natural resources (materials, energy carriers) to satisfy their needs. Renewable energy sources were also used: river water and the wind drove mills, the sun's energy extracted salt from seawater. However, the industrial revolution upset the balance for good. Mass production and consumerism led to the exploitation of our planet. One of the main questions of our days is how much time we have left until the final exhaustion of our Earth's raw materials. In contrast to energy, which is at least partly renewable, the Earth's material supply is finite. So, this is the neck of the bottle. There are many efforts to preserve our existing stocks, for example circular economy, recycling, reuse. However, we also know that according to the basic laws of thermodynamics, all processes take place automatically in the direction of chaos, and all other goals require energy. Although we often hear about sustainable growth, sooner or later we have to realize that this is impossible without the present exploitation of the resources of the future generation. Therefore, sustainability can only be a goal in itself: maintaining the economy, welfare, and social conditions at their current level. And this is necessary in order to gain time to find a solution that will save the ecosystem and prevent the final collapse.

The increase in the world's population and the continuous economic growth result in an increasing demand for food, water, energy and materials (OECD, 2012). This demand is a problem due to the scarcity of resources. Their main threats include physical depletion, rising extraction and processing costs, and geopolitical issues. The latter are either related to the fact that the geographical distribution of many resources is unequal, or to the fact that nations share common resource pools (Prins et al., 2011). In recent years, these concerns have led governments and international organizations to develop scenarios and strategies to promote the sustainable use of resources. Such an international objective is, for example, the Green Growth strategy (OECD, 2013), the EU initiative aimed at creating a resource-efficient Europe (EEA, 2011), or the FAO Save and Grow guide (FAO, 2011).

As a consequence of economic growth, in addition to increased emissions and higher consumption, the costs of environmental impact also appear. The ecological consequences associated with economic expansion encompass a greater consumption of non-renewable resources, elevated pollution levels, the phenomenon of global warming, and harm to various environmental habitats (Agnibhoj, 2020).

However, economic growth does not only damage the environment. As real income increases, individuals can devote more resources to protecting the environment. In addition, evolving technology allows not only higher performance, but all this with less pollution.

Several models are used in the literature to describe the relationship between economic growth and the environment. According to the classic PPF curve (Production Possibility Frontier), the depletion of non-renewable resources also increases with increasing consumption. The curve shows the maximum amount of consumption that can be achieved with a given resource depletion (Antle and Heidebrink, 1995). The external costs of growth are the short- and long-term costs of environmental damage (climate change, declining biodiversity, toxins with long degradation times, etc.) that extend to future generations (Brown et al., 2019). The inverted U shape of the environmental Kuznets curve illustrates that, after reaching a certain level of growth, the negative environmental effects of growth can begin to be reduced as a result of development (Wang et al., 2022). However, this theory was already disputed in the 1990s (Arrow et al., 1995). The most obvious counterargument is that economic growth will never increase the amount of non-renewable resources. This is why several new models were born. According to the limit theory, reaching a certain level of environmental pollution already reduces and reverses economic growth. Studies on the relationship between economic growth and the environment are basically of two kinds: according to ecologists, there is no economic growth without environmental pressure. However, according to the economists' point of view, this can be achieved, for example, by reducing the price of renewable energy or with the help of the carbon tax.

Meadows et al. (1972) pointed out early on that infinite growth is not possible on a finite planet. According to their model, growth still has roughly a hundred years left. Half of that has already passed. Moreover, economic growth has not only advantages, but also disadvantages. One of them is that, due to the high employment rate, organizations compete for labor by offering ever higher wages. The increasing wage costs are integrated into the prices and result in inflation. Growing imports due to growing consumption worsens the balance of payments, and at the same time makes investors more irresponsible, who only pay attention to growth. Another problem is the growing environmental burden and depletion of non-renewable resources. Several studies have already described the relationship between GDP growth and the increasing burden on the environment (Dogan and Inglesi-Lotz, 2020; Stern et al., 1996).

According to Brundtland (1987) report the definition of sustainability is:

"meeting the needs of the present without compromising the ability of future generations to meet their own needs."

Components of sustainability (3P: People, Planet, Profit)

The three pillars of sustainability, often referred to as the "triple bottom line", consist of social, environmental and economic dimensions (Kouzelis, 2023). Finding the right balance of the 3Ps (Droste, 2023) within the organization can help consider the impact of decisions on social responsibility (people), economic profitability (profit) and environmental friendliness (planet).

- The social pillar ("people") emphasizes fair business practices for employees and the community.
- The environmental pillar ("planet") encourages the responsible use of resources in order to protect the environment.
- The economic pillar ("benefit, profit") includes the creation of economic value, which also takes into account environmental and social costs.

Social pillar—promoting equity and embracing diversity

Humans are the very important resources of the company. Company wants to satisfy the current generation employees and community members without compromising the future. It should include the safety, health, equality, and positive personal relationships.

Environmental pillar—protecting our planet and its diverse ecosystems

Companies must do everything they can to manage and repair environmental damage (sustainability, circularity).

Economic pillar—responsible nurturing of prosperity and progress

The third P—profit—goes beyond the traditional outlook and focuses more on the growing economy (How many jobs will be created? Which innovations will generate economic benefits?). The economic pillar of sustainability emphasizes the role of businesses in promoting prosperity and progress, but not at all costs. Here, the focus is on achieving economic growth in a responsible manner, taking into account social welfare and environmental protection. The ultimate goal is profit generation without waste.

It is about redefining success, not only in terms of financial gain, but also in the broader context of sustainable development. The 3 tools for this are sustainable development, inclusive growth, and risk management.

- Sustainable development: in the economic context of sustainability, growth must be synonymous with longevity. It is about ensuring that our development today does not jeopardize the ability of future generations to meet their own needs - according to the guiding principle of the 1987 Brundtland Report, which laid down today's sustainability aspirations. Sustainable growth is the intelligent fusion of environmental, social and economic priorities to promote sustainable development.
- Inclusive growth: inclusive growth recognizes that economic progress must be broad-based and equitable, benefiting all members of society. The idea that prosperity should serve the many, not the few. By practicing inclusive growth, we ensure that local and global inequalities are internalized in future policy-making processes. The European Union is committed to sustainable growth, which includes the support of the most important human values (Pásztor and Bendarzsevszkij, 2024). Improving the natural environment, as well as health and quality of life, is an important aspect for the member states.
- Risk management: in the pursuit of sustainability, risk management becomes a key economic principle. This includes identifying and mitigating not only financial, but also environmental and social risks.

In doing so, we create resilient economies that can weather any storm, whether it's a financial downturn or an environmental crisis.

ESG (environmental, social and corporate governance aspects)

The environmental, social and corporate governance (ESG) aspects are the set of sustainability aspects taken into account during corporate investments, which are strongly recommended to be taken into account. ESG is a system of criteria that can be integrated into investment decisions, which evaluates the environmental, social and governance effects and factors of a given company or country from a sustainability point of view (Szabó-Szentgróti et al., 2021; Szilágyi and László, 2023).

Corporate sustainability vs. ESG

ESG evolved from business sustainability. Financial institutions have realized that long-term financial success requires the protection of our environment and the observance of high social morals. Aside from this, the major difference between ESG and sustainability is that ESG sets actual thresholds towards defining environmental, social, and governance systems as sustainable. Sustainability, on the other hand, for example, has been utilized as an umbrella term for 'good' action according to the Business Environment. It is actually ethical and responsible business practice with embedded concerns for social equity and economic development. ESG represents that rare subset of conditions that removes the vagueness surrounding the definition of sustainability, and it's an unusually popular term with investors.

Sustainability of an investment

Despite its enormous popularity, it is not easy to define the concept of ESG. Nor, on the basis of which factors are we classifying environmental, social and corporate management responsibility in the company evaluation. ESG assessment is a multidimensional task. On the one hand, different metrics are needed in order to assess the status and success of different factors. These examined metrics show a relatively large overlap for the individual evaluation companies. The reason for this is that they can only work from the data published by the investigated companies, which dictates the data source (Brock and Courage, 2023). However, there is a big difference in the conversion of individual measures into scores (different scaling, categorization and weighting of the measures). Once we have established the scores for the *E*, *S* and *G* factors, the next step is to convert them into a common ESG score. In doing so, we can observe a different weighting. A common point among the evaluation companies is that they take into account the scores of the 3 factors with different weights for each industry. For example, in an energy company, *E*, i.e., the environmental factor, is given more weight, but in a bank, *G*, i.e., the corporate governance factor, is the most important. The difference comes from the spread of these underweights and overweights. Aligning corporate strategy with ESG goals is now one of the most important goals for many companies, especially given the financial, regulatory and reputational implications of current and future ESG leadership within the EU. While ESG-focused investments have been on the rise for several years, the ESG regulatory initiatives that will soon be implemented in Europe as part of the EGD will move ESG efforts from recommended to mandatory.

European Green Deal

In July 2021, the European Commission (hereinafter: COM) adopted the European Green Deal (EGD), which aims to make Europe the first climate-neutral continent by 2050 (Lapierre and McDougall, 2021).

- No net emissions of greenhouse gases (green house gases, hereinafter: GHG) by 2050

- economic growth independent of resource consumption
- "we will not leave a single person or place behind"
- The first goal is to achieve the emission reduction target of at least 55%. These are the central elements of EGD.
- The main elements of the EU Green Deal are:
- Climate action (reduction of GHG emissions),
- Clean energy (renewable energy sources, hydrogen, trans-European energy networks),
- Sustainable industry (decarbonisation, circular products),
- Buildings and renovations (reduction of energy consumption and GHG emissions of buildings),
- Sustainable mobility (zero-emission vehicles),
- Elimination of pollution (chemical and ozone protection strategy),
- From producer to consumer" (farm to fork, F2F, organic farming, reducing methane emissions),
- Preservation of biological diversity (protection of habitats, increase of public green areas),
- Research and development (green partnership),
- Prevention of unfair competition due to emissions displacement (the attractiveness of outsourcing production outside the EU should be reduced with compensations).

COM expects to result in a cleaner environment, more affordable energy, smarter transportation, new jobs and an overall better quality of life (Tagliaferri, 2022). There are several funding mechanisms to facilitate the EU's Green Deal, totaling more than €1 trillion. These mechanisms finance the implementation of the policy reform necessary for the EU's economic growth and climate neutrality. There are two main sources of funding:

- EU budget and the EU emissions trading system (€528 billion)
- InvestEU program (€472 billion)
    - €279 billion from the public and private sector until 2030,
    - €114 billion from national co-financing

(numbers are rounded values)

The European Innovation Council (EIC) has also allocated a budget of 300 million euros to support investments in market-creating innovations that contribute to the achievement of the EGD's goals.

EU Sustainable Finances (SuFi)

EU Sustainable Finances is a broader concept encompassing various initiatives and regulations aimed at aligning financial flows with sustainable and socially responsible activities (Romano et al., 2022). It includes the EU Taxonomy but extends beyond it to address other aspects of sustainable finance, such as integrating environmental, social, and governance (ESG) factors into investment decisions

Sustainable finance initiatives within the EU aim to direct capital toward environmentally and socially beneficial activities while minimizing negative impacts (European Commission, 2022). This aligns with broader EU goals related to climate action, environmental protection, and the achievement of the United Nations Sustainable Development Goals (SDGs).

Sustainable finance ("funding", or sustainable finance, hereinafter: SuFi) illustrates how businesses can grow economically while benefiting society and the environment. SuFi includes, within the financial sector, a procedure that orients investment decisions by including ESG factors with a view to directing long-term investments toward sustainable economic activities and projects. Environmental consideration can refer to mitigation and adaptation to climate change as well as the environment in general, such as biodiversity conservation, prevention of pollution, and circular economy. These would include inequity, inclusiveness, labor practices, investment in human capital and their skills, community well-being, and human rights. For public and private organizations, organizational structure would be needed and also employee relations and remuneration of management to integrate social and environmental considerations into the decision-making process.

The European Banking Authority is developing harmonized rules for financial institutions to ensure the stability and efficient operation of the system. A particularly important area is the transition to sustainable financing. They aim to mitigate the risks arising from climate change and provide assistance in the management of ESG factors.

The EBA formulated its roadmap in which it responds to sustainable finance, environmental, social and governmental challenges. It integrates the main aspects into the banking framework, and at the same time takes into account the EU's efforts related to the transition to a sustainable economy.

The purpose of the SuFi package of measures is to improve the sustainability framework in the European Union (hereinafter: EU) as a whole, and is a further step in the financial sector in the direction that the EU economy can grow sustainably. The SuFi package includes:

- EU taxonomic climate regulation;
- corporate sustainability reporting directive (Corporate Sustainability Reporting Directive, hereinafter: CSRD) and
- 6 amending delegated legal acts on fiduciary obligations, investment and insurance advice.
- The 6 delegated acts require:
    - the obligation of investment and insurance advisers to examine clients' sustainability preferences;
    - the obligations of financial enterprises during the assessment of sustainability risk;
    - the obligation of manufacturers of financial products to take sustainability factors into account when designing financial products

Parts of the SuFi framework:

- Corporate disclosure of climate-related information
- EU labels for benchmarks (climate, ESG) and ESG information for benchmarks
- Sustainability disclosure in the financial services sector
- EU taxonomy for sustainable activities
- European green bond standard
- International platform for sustainable finance

3. Initiatives regulating ESG in the EU (EU Taxonomy, SFDR, CSRD, CSDD, EU GBS)

The EU Taxonomy

The EU Taxonomy is a classification system that establishes a framework for determining whether an economic activity is environmentally sustainable. It sets criteria for businesses to identify and report on their environmentally sustainable activities. Adopted in 2020, the Taxonomy Regulation is a key component of the European Union's efforts to transition to a more sustainable economy. The EU Taxonomy Regulation primarily focuses on environmental objectives, covering areas such as climate change mitigation, adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

In June 2020, the Commission published the EU Taxonomy Regulation and its Delegated Acts, finally entering into force in July 2020. The taxonomy is a classification system but at the same time a transparency tool to support the achievement of the objectives of the European Green Deal with a common language. An investment in what can be defined as environmentally sustainable economic activity is outlined from an investment perspective. This will enhance the ability of companies to account for and report on their sustainable activities. This is beneficial in enabling investors to shift their investments to sustainable activities and projects. The taxonomic regulation makes companies and investment portfolios comparable. The taxonomy might also have the potential to move forward both SFDR and NFRD regulations by making companies subject to the NFRD and SFDR disclose under requirements.

Economically sustainable environmental practices

Three primary criteria were established for their definition:

1) Substantial contribution to one or more environmental goals

"Do no significant harm" (DNSH) to any of the environmental protection objectives.

Adherence to minimum precautions

An action is deemed taxonomically aligned if it satisfies all three criteria.

An important contribution

The taxonomy delineates six environmental objectives. These items:

1) Climate change mitigation

2) Adaptation to climate change

3) Sustainable utilisation and conservation of aquatic and marine resources

4) Shift to the circular economy

5) Mitigation and regulation of environmental degradation

6) Safeguarding and rehabilitating biodiversity and ecosystems

The initial two objectives (climate change mitigation and adaptation) are encompassed in the primary climate target ratified in 2021, whereas the subsequent four objectives are incorporated in the environmental COM regulation.

DNSH

The secondary criterion for adherence to the nomenclatural principle is that an action must not substantially jeopardise any of the six environmental protection objectives. Every activity possesses distinct DNSH requirements. It was essential. DNSH comprises three categories of conditions:

- Quality: information obtained via a due diligence approach
- Quantitative: necessitates regulation
- Process-oriented: regulation is more challenging due to insufficient accessible knowledge

Essential protections

The third criterion for the taxonomy adjustment stipulates that the economic activity must comply with the following basic safeguards:

Guidelines for Multinational Enterprises by the Organisation for Economic Co-operation and Development (OECD)

- United Nations (UN) principles about business and human rights
- International Labour Organisation (ILO) declaration on principles and rights in the workplace

Universal Declaration of Human Rights (UDHR).

SFDR (Sustainable Finance Disclosure Regulation):

The SFDR is a regulation in force since March 2021, aiming to improve transparency concerning disclosures on sustainability in the financial services area. It gives the requirement for disclosure on financial market participants and financial advisers so that clarity and comparability would be shed on the way they integrate sustainability risks within their investment decision-making process. SFDR aims to prevent greenwashing by ensuring that investors receive accurate and comparable information about the environmental and social impact of their investments. It categorizes financial products as Article 6 (no sustainability focus), Article 8 (promoting environmental or social characteristics), or Article 9 (considered sustainable investments).

The purpose of the SFDR is to increase transparency and reduce greenwashing among financial market participants, including financial products and advisors, by enabling end investors to compare disclosures. Disclosure requirements

The SFDR defines different disclosure (transparency) requirements for financial market participants in Articles 6, 8 and 9 regarding sustainable investments / financial products before entering into a contract.

Article 6:

The information must ensure transparency regarding the integration of sustainability risks. In the course of their investment decisions, they must report on sustainability risks in pre-contractual disclosures.

Article 8:

The so-called Information on light green funds must provide transparency regarding “environmental or social characteristics, or their combination”, “provided that the companies selected for investment purposes follow good corporate governance practices”. Article 8 financial investments only take ESG characteristics into account without having a sustainable investment objective.

Article 9:

The so-called Information on dark green funds must ensure transparency if “its objective is sustainable investment and an index has been designated as a benchmark”.

Article 9 fund investments take into account both ESG strategies and sustainable investment objectives.

There are 3 main platforms where Article 8 and Article 9 market participants must publish information:

- periodical publications,
- pre-contractual disclosures and
- publication on the website.

Publication homepages should be constantly updated and should contain clear, concise and accurate information.

Affected companies covered by the SFDR:

- Financial market participants where financial products are manufactured, e.g.:
  - an insurance institution that makes insurance-based investment products (IBIP) available
- Financial advisors, where they provide investment or insurance advice, e.g.:
  - an insurance intermediary providing insurance advice on IBIPs
  - an insurance institution that provides insurance advice on IBIPs

Exemption

Financial advisors employing less than 3 people, although they must take sustainability risks into account in their advisory processes

CSRD (Corporate Sustainability Reporting Directive):

CSRD is a proposed update to the existing Non-Financial Reporting Directive (NFRD). The main objective of CSRD is to enhance the transparency and comparability of corporate sustainability reporting. It expands the scope of reporting requirements, introducing more detailed disclosure obligations for a broader range of companies. CSRD aims to align sustainability reporting with the EU's sustainability goals and standards, ensuring that companies provide consistent and relevant information on their environmental, social, and governance (ESG) performance (Courtnell, 2021). If adopted, CSRD would significantly impact how companies disclose their non-financial information, contributing to a more comprehensive understanding of their sustainability practices (Smith-Roberts, 2022).

The CSRD replaces the Non-Financial Reporting Directive (NFRD) with additional reporting requirements due to the NFRD's assessed deficiencies (Cassado Barral, 2023). Currently, the NFRD applies to listed and large companies that meet at least two of the following three criteria: average total assets of €20 million or net sales of €40 million for a financial year and employ more than 250 employees (approximately 11,700 companies are affected). Companies covered by the NFRD must disclose how they are affected by social and environmental sustainability issues. However, the NFRD is quite flexible in that it allows knowledge to be made public by its very nature.

To support EGD, COM proposed tightening these requirements by replacing NFRD with CSRD. Meaning that all the requirements stipulated in the NFRD are also part of the CSRD, plus the additional reporting requirements such as computer-readable reports and 3rd-party audits. The stricter requirements also extend the scope of the new reporting directive to approximately 49,000 companies. This is accomplished by adding SMEs to the listed and large companies that reduces the former balance sheet total and former net sales by over 2/3 and number of employees to 250. ((The head count reduction applies just to listed and large companies, not to SMEs). Such reporting also extends to companies that are not from the Union but whose securities are waived on Union-regulated markets. In this regard, companies will start reporting in 2024, which reports on the 2023 financial year.

CSDD (Corporate Sustainability Due Diligence):

Corporate Sustainability Due Diligence is a concept that involves companies assessing and managing the environmental, social, and governance risks associated with their operations and supply chains. While not yet a specific EU regulation, discussions around mandatory CSDD are gaining traction. The EU has expressed the intention to propose legislation on mandatory CSDD to address human rights and environmental issues in supply chains. This could involve obligations for companies to identify, prevent, and mitigate adverse impacts on human rights and the environment throughout their supply chains.

The CSDD is the EU's corporate sustainability due diligence directive. It serves as a framework directive for the due diligence obligations of the companies covered by it. The CSDD is supplemented by the CSRD, which in turn dictates how the companies involved are obliged to fulfill these reporting obligations (Smith-Roberts, 2022).

COM adopted the Proposal for the CSDD Directive on 23 February 2022. The proposed Directive would enable the Union's transition towards a climate-neutral and green economy, provided for under the European Green Deal, in coherence with the UN SDGs. With this thought in mind, corporate due diligence duty had to be imposed on companies to find, prevent, and eliminate or mitigate adverse impacts of their operations relating to people and the environment. The CSDD Directive shall apply to the group's own activities, its subsidiaries, and to linked value chains, including relationships with both direct and indirect business partners.

In order to fulfill the corporate due diligence obligation, the following conditions must be met:

- incorporating due diligence into corporate policies;
- identify actual or potential adverse human rights and environmental impacts;
- prevention or mitigation of possible effects;
- elimination or minimization of actual effects;
- establishment and continuous operation of a complaint procedure;
- monitoring the effectiveness of due diligence policies and measures; and
- public information on the implementation of due diligence.

The directive stipulates that it is the task of company managers (directors) to supervise the creation and implementation of due diligence processes, as well as the integration of due diligence into the official corporate strategy. As part of their duty to act in the best interests of the company, directors must now consider human rights, climate change and the environmental impact of business activities. The rules regarding the duties of the directors are enforced by the applicable laws of the member states regarding the director's obligations and their violation.

The rules for corporate sustainability due diligence are enforced by the designated authorities of the member states through administrative supervision. These authorities are empowered to carry out surveillance and to impose "effective, proportionate and dissuasive sanctions", including fines and compliance orders. As far as civil liability is concerned, it is the responsibility of the Member States to ensure that the victims (injured) are entitled to compensation for the damages resulting from violations of the law.

Who is covered by the directive?

Group 1

all EU limited liability companies which

- employs at least 500 employees and
- has a worldwide net turnover of EUR 150 million or more.

Group 2

limited liability companies operating in specific, high-impact sectors (mining and extraction, agriculture and the textile industry), which

- employ more than 250 employees and
- their net worldwide sales revenue is 40 million euros or more.

In the case of Group 2 companies, the rules enter into force two years later than in the case of Group 1 companies.

The directive also applies to non-EU companies that operate in the EU, and the threshold value of their sales revenue from the EU is adjusted to groups 1 and 2. Small and medium-sized enterprises (SMEs) are not directly covered by the directive.

Corporate legal entities must apply the CSDD and the CSRD in parallel. The CSDD mandates that firms do obligatory due diligence regarding human rights and environmental implications within their supplier chains, while the CSRD serves as the primary reporting mechanism for companies to disclose their pertinent sustainability initiatives.

European Green Bond Standard, (EU GBS)

In 2021 and 2022, the European Union financial markets experienced unprecedented issuance of green, social, and sustainability bonds, along with bonds associated with sustainability. These are often issued in accordance with the specifications and standards established by the International Capital Market Association, notably the ICMA GBP for green bonds. The EU GBS may not commence at the beginning of 2023 because to a lack of political unanimity in December 2022.

The objective of the European Union's general budget support is to guarantee that green bond issuances align with the union's environmental and climate goals. The EU GBS seeks to promote a transparent and resilient green bond market inside the European Union. Standard criteria for the appropriate utilisation of green bonds are necessary (Driessen, 2023).

The EU's GBS addresses the same four domains as other GBP regulations: the allocation of money, the methodology for project appraisal and selection, revenue management, and reporting protocols. Furthermore, the suggested framework includes four additional essential requirements:

- Taxonomic compliance: All proceeds from EU Green Bonds must be distributed to projects that adhere to the EU taxonomic legislation, contingent upon the necessary sectors being included. A 15% flexibility allowance is provided for industries not yet encompassed by the EU Taxonomy Regulation and for certain very particular activities.

- Transparency: Comprehensive transparency is mandated about the distribution of bond proceeds via meticulous reporting obligations.
- External review: All European Green Bonds are required to undergo an independent external audit to verify adherence to regulations and taxonomic alignment of financed projects.
- External auditors must be registered with and regulated by the European Securities and Markets Authority (ESMA). This guarantees the quality of their services and the dependability of their evaluations to safeguard investors and uphold market integrity.

The recent agreement between the European Parliament and the European Council is provisional and requires ratification and acceptance by both entities before it becomes final and effective. The definitive text, upon adoption, will take effect 12 months following its implementation date.

4. Interconnections and synergies

The connection between the United Nations Sustainable Development Goals (SDGs) and the European Union's Sustainable Finance Package is rooted in a shared commitment to address global challenges, promote sustainable development, and integrate environmental, social, and governance (ESG) considerations into financial decision-making. Both frameworks aim to mobilize resources and investments towards activities that contribute positively to the planet and society.

Connection between UN SDGs and EU Sustainable Finance Package

1) Alignment with SDGs:

The EU Sustainable Finance Package is designed to align with the UN SDGs. The taxonomy, in particular, provides a framework for identifying economic activities that contribute to environmental objectives, many of which are closely linked to the SDGs.

2) Promotion of Sustainable Investments:

The EU Sustainable Finance Package encourages financial institutions to integrate sustainability risks and opportunities into their decision-making processes. This aligns with the broader SDG agenda by promoting investments that have positive social and environmental impacts.

3) Transparency and Disclosure:

The SFDR within the Sustainable Finance Package emphasizes transparency in disclosing how financial market participants and advisors integrate ESG factors into their investment decisions. This aligns with the SDGs' emphasis on accountability and transparency in achieving sustainable development.

4) Fostering Corporate Accountability:

The proposed CSRD aims to expand sustainability reporting requirements for companies, enhancing transparency and accountability (Cassaro, 2022). This connects with SDG 12 (Responsible Consumption and Production) and SDG 17 (Partnerships for the Goals), emphasizing responsible business practices and partnerships for sustainable development.

5) Facilitating Green Investments:

The EU Sustainable Finance Package, by providing a clear taxonomy for sustainable activities, facilitates green investments. This directly supports SDG 13 (Climate Action) and other environmental goals by directing capital towards projects that contribute to climate mitigation and adaptation (Sia, 2021).

6) Private Sector Engagement:

The EU's sustainable finance initiatives recognize the crucial role of the private sector in achieving the SDGs. By creating a framework that incentivizes sustainable investments and transparent reporting, the EU aims to mobilize private capital to address societal and environmental challenges.

Connection between The EU Taxonomy, EU Sustainable Finances, SFDR, CSRD, and potential CSDD

The EU Taxonomy, EU Sustainable Finances, SFDR, CSRD, and potential CSDD are interconnected elements of the EU's broader sustainability agenda (Wiff, 2022). The EU Taxonomy sets the criteria for identifying sustainable economic activities, while SFDR ensures transparency in financial products. CSRD complements these efforts by enhancing disclosure requirements for a wider range of companies, and potential CSDD could further extend the responsibility of companies regarding sustainability in their supply chains.

These regulations collectively contribute to a more comprehensive and standardized approach to sustainability in the EU (Envoria, 2023). They share the common goal of fostering sustainable practices, preventing greenwashing, and promoting transparency in financial and non-financial reporting.

In the past year, initiatives governing ESG have emerged as a strategic necessity for nearly all organisations. The heightened emphasis and scrutiny from investors, regulators, employees, and other stakeholders render ESG a matter that is not only vital at the board level but also fundamental to organisational operations. ESG is intricate. Reporting through several ESG standards that establish quantifiable criteria renders success or failure highly measurable and transparent. Meticulous control of the risks influencing success or failure is crucial for any significant strategic priority. Expectations about corporate sustainability performance and the demand for openness have consistently risen in recent years, and this trend is anticipated to continue in the future.

The source of the increase in requirements is partly the regulatory CSRD, which will come into effect in 2024 and will gradually be extended to all economic companies. Unlike voluntary frameworks, the directive imposes a much broader reporting obligation, covering the company's entire activity. The directive also requires the sustainability report to be published together with the financial report and verified by an auditor. The EU taxonomy regulation supplementing the CSRD requires the classification of the company's activities according to their sustainability impact, and the disclosure of data on activities considered sustainable.

The demand for transparency is also increasing on the part of customers and business partners, since their own sustainability performance is greatly influenced by their suppliers. This transparency will be regulated by the Corporate Sustainability Due Diligence Directive (EU) 2019/1937 on corporate due diligence and amending Directive (EU) 2019/1937 (Corporate Sustainability Due Diligence Directive, the hereinafter: CSDD, aka. CSDDD or CS3D), which will primarily require an environmental and human rights-based investigation. CSRD and CSDD are closely related and complementary. The CSDD complements the SuFi Disclosure Regulation (Sustainable Finance Disclosure Regulation, hereinafter: SFDR) and the taxonomy by requiring companies to provide data and knowledge about risks within their value chain that are human respect for rights or related to environmental impacts (Cassado Barral, 2023). This data and knowledge would be relevant for the assessment of ESG risks and the development of ESG investments.

The EU GBS provides issuers with the opportunity to introduce taxonomy-compliant green bonds, possibly with a lower capital cost. For investors, the standard provides an opportunity to invest in credible and easier to report green bonds. Last but not least, access to more favorable money in terms of the market will increasingly be tied to corporate transparency and sustainability performance, so it is in the well-understood interest of every business organization to improve and transparently convey its results of this kind.uthors should discuss the results and how they can be interpreted from the perspective of previous studies and of the working hypotheses. The findings and their implications should be discussed in the broadest context possible. Future research directions may also be highlighted.

The interconnections and synergies between the United Nations Sustainable Development Goals (UN SDGs) and the European Union's (EU) regulatory frameworks

The interconnections and synergies between the United Nations Sustainable Development Goals (UN SDGs) and the European Union's (EU) regulatory frameworks such as the EU Taxonomy, Sustainable Finance Disclosure Regulation (SFDR), Corporate Sustainability Reporting Directive (CSRD), and potential Corporate Sustainability Due Diligence (CSDD) are significant. These frameworks are designed to complement and reinforce each other, contributing to the broader global agenda of sustainable development. An overview of the connections:

1) EU Taxonomy and UN SDGs:

Environmental Objectives: The EU Taxonomy focuses on environmental sustainability, aligning with various UN SDGs such as SDG 13 (Climate Action), SDG 14 (Life Below Water), and SDG 15 (Life on Land).

Circular Economy: The taxonomy addresses aspects of the circular economy, supporting SDG 12 (Responsible Consumption and Production).

2) SFDR and UN SDGs:

Transparency and Accountability: SFDR emphasizes transparency regarding the integration of sustainability factors, contributing to SDG 17 (Partnerships for the Goals).

Social Characteristics: Financial products categorized under SFDR Article 8 and 9 may align with SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth), depending on their focus.

3) CSRD and UN SDGs:

Comprehensive Reporting: CSRD aims to expand the scope and quality of corporate sustainability reporting, enhancing transparency and accountability in line with SDG 12 (Responsible Consumption and Production).

Human Rights and Environmental Impact: Potential CSDD discussions align with SDG 8 (Decent Work and Economic Growth) and SDG 12, addressing human rights and environmental considerations in supply chains.

4) CSDD and UN SDGs:

Human Rights and Environmental Impact: A potential CSDD regulation could contribute to addressing human rights issues and environmental impact in global supply chains, aligning with various SDGs, including SDG 8 and SDG 12.

Cross-Cutting Synergies:

Private Sector Engagement: All these frameworks emphasize the role of the private sector in achieving sustainable development, supporting SDG 17 (Partnerships for the Goals).

Climate Action: The EU Taxonomy and SFDR contribute directly to SDG 13 (Climate Action) by promoting investments in climate mitigation and adaptation.

Decent Work: SFDR and potential CSDD address aspects of decent work, aligning with SDG 8 (Decent Work and Economic Growth).

Challenges and Considerations:

Balancing Objectives: While these frameworks aim to contribute positively to the SDGs, there may be challenges in balancing environmental, social, and economic objectives.

Global Reach: The EU's regulations primarily apply to EU entities, so global alignment and collaboration are crucial for addressing global challenges outlined in the SDGs.

5. Conclusion

In summary, the connection between the UN SDGs and the EU Sustainable Finance Package is evident in their shared objectives of promoting sustainable development, combating climate change, reducing inequality, and fostering responsible business practices. The EU's regulatory framework provides a structured approach to translating these global goals into actionable measures within the financial sector, contributing to the overall advancement of sustainable development on a global scale. The EU is at the forefront of global efforts to integrate sustainability into financial markets and corporate practices. The EU Taxonomy, EU Sustainable Finances, SFDR, CSRD, and discussions around CSDD represent a comprehensive and evolving framework aimed at aligning economic activities with sustainability objectives. The viability of the goal articulated by the European Union may be affected by other circumstances in the future, beyond the aforementioned instruments. Critical perspectives may also be found in political discourses, and the actions of the business sector can compel decision-makers to reevaluate.

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