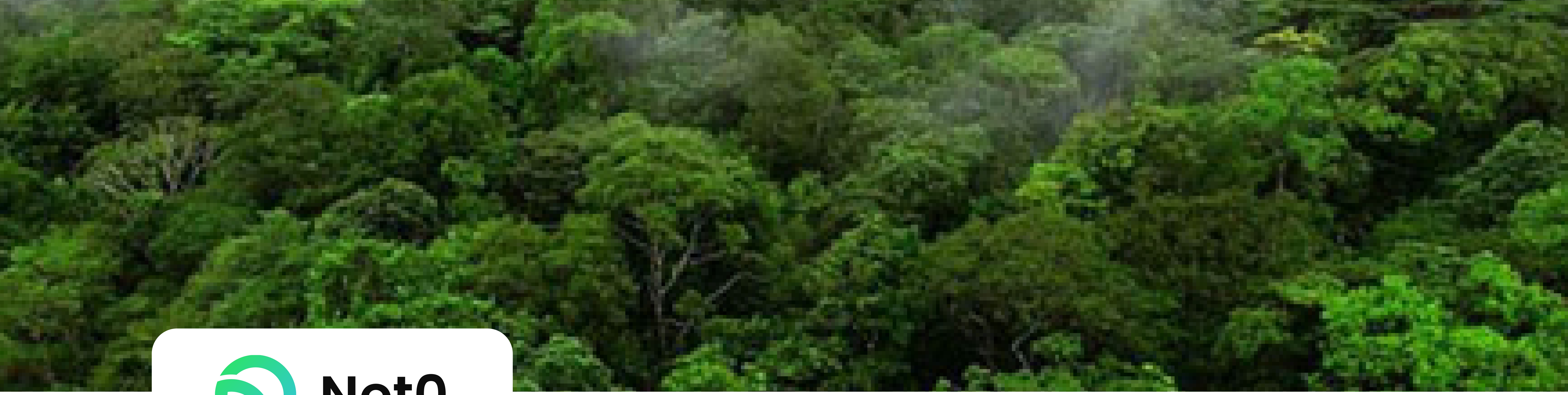

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SUSTAINABILITY

REPORTING CHECKLIST

The checklist helps companies and investors navigate EU sustainability laws and reporting requirements in 2023.

The European Union (EU) is at the forefront of implementing advanced, strict, progressive, and complex sustainability laws and reporting requirements. With the objective of achieving a climate-neutral continent by 2050, the EU has embarked on a transformative journey known as the 'European Green New Deal'. This initiative encompasses a wide range of measures aimed at combating climate change, promoting sustainable innovation, and driving the transition to a sustainable economy.

1 SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

- Understand the requirements for specific firm-level disclosures regarding sustainability risks, principal adverse impacts (PAI), and sustainable investment marketing.
- Determine the applicability of SFDR based on your organization type (large financial market participants, small financial market participants, or financial advisors).
- Classify your financial products as Article 6, Article 8, or Article 9, and ensure appropriate disclosures for each category.
- Collect and report mandatory and voluntary PAI factors as defined by the EU SFDR.

2 CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

- Determine if your organization falls under the scope of CSRD based on employee count, annual revenue, and total assets.
- Prepare to track and disclose relevant ESG information, including materiality process, sustainability targets, risks, impacts, policies, and governance practices.
- Familiarize yourself with the European Sustainability Reporting Standards (EU ESRS) defined by EFRAG.
- Ensure your financial statements and management statements are prepared in XHTML format and digitally tagged according to CSRD requirements.
- Consider seeking third-party assurance for sustainability information disclosure.

SFDR RULES AND REQUIREMENTS

- The EU SFDR (Sustainable Finance Disclosure Regulation) requires specific firm-level disclosures from EU asset managers and investment advisers.
- It takes effect on January 1, 2023, and applies to June 30, 2023 filings.
- The EU SFDR aims to transparently and accurately communicate sustainability risks, attributes, and data underlying investments.
- The SFDR has specific rules and requirements based on the type of organization it applies to, such as large financial market participants (FMPs), small FMPs, and financial advisors.
- The SFDR designates three different financial product categories: Article 6, Article 8, and Article 9 products, each with different disclosure requirements.
- Article 6 products must disclose how sustainability risks are integrated into their investment decisions and the likely impacts on returns.
- Article 8 and Article 9 products require more comprehensive reporting on sustainability and ESG topics.
- Principle adverse impacts (PAIs) are defined under SFDR and include negative effects on sustainability factors.
- There are 64 specific PAIs, with 18 mandatory and 46 voluntary to report, focusing on ESG KPIs.
- SFDR disclosures include pre-contractual and periodic disclosures, which must be publicly available and uploaded to the filer's website.
- The EU CSRD (Corporate Sustainability Reporting Directive) is a standard passed by the European Union Council to make corporate sustainability reporting more common, consistent, and standardized.
- It takes effect in 2023 and requires corporate sustainability reporting by 2025 based on the corporate fiscal year 2024.

The EU's SFDR is a set of sustainability laws and regulations that require EU asset managers and investment advisers to provide specific disclosures related to sustainability risks, principal adverse impacts (PAI), and sustainable investment marketing. It came into effect on January 1, 2023, with applicable filings due by June 30, 2023.

3 EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

- Understand the EU Taxonomy's classification system for environmentally sustainable economic activities.
- Align your financial products and investments with the EU Taxonomy criteria and disclose the extent to which they meet the criteria.
- Track green revenue and green expenditure to provide transparency on Taxonomy-aligned activities.

MANDATORY REQUIREMENTS FOR EU TAXONOMY DISCLOSURE

- Large Financial Market Participants (FMPs) meeting SFDR disclosure criteria must disclose the extent to which the activities funded by their financial products meet the EU Taxonomy criteria.
- Large corporate filers falling under the Corporate Sustainability Reporting Directive (CSRD) need to disclose the extent to which their activities meet the EU Taxonomy criteria.
- Companies must disclose the extent of investment, such as CAPEX, in Taxonomy-aligned actions and categories.

EU Taxonomy Macro Categories:

- Climate change mitigation
- Climate change adaptation
- Sustainable protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems
- Other (non-sustainable) investments or activities

4 EU SUPPLY CHAIN DUE DILIGENCE LAWS

- Stay informed about the progress of the Corporate Sustainability Due Diligence Directive (CSDDD) and country-specific laws like the German Supply Chain Due Diligence Law (LkSG)
- Assess if your organization falls under the scope of future due diligence rules based on employee count and economic power.
- Prepare to address negative human rights and environmental impacts in your supply chains.
- Comply with existing national laws if operating in countries that have already implemented supply chain due diligence requirements.

IMPORTANCE OF SUPPLY CHAIN SUSTAINABILITY

- Supply chains contribute significantly to a company's environmental impacts and carbon emissions (60-90%).
- Supply chain sustainability and due diligence are critical for the region's overall sustainable transition plan.
- Protection of human rights for workers is a key focus, ensuring access to safe and healthy work conditions.

NATIONAL LAWS AND EU PROPOSAL

- Germany has passed the Lieferkettensorgfaltspflichtengesetz (LkSG) for organizations with over 3,000 employees.
- The EU aims to introduce broader standards for corporate sustainability due diligence to address negative impacts.
- Proposed rules will apply to EU companies, high-impact sectors, and non-EU companies active in the EU.

ELIGIBLE COMPANIES AND SECTORS

- Group 1: EU companies with over 500+ employees and €150 million+ in net annual turnover or revenue worldwide.
- Group 2: Companies operating in defined high-impact sectors with over 250 employees and €40 million+ in turnover worldwide. Rules apply 2 years later than for Group 1.
- Group 3 (non-EU): Non-EU global companies meeting turnover thresholds aligned with Group 1 and 2, generated within the EU.
- Small and medium enterprises (SMEs) indirectly impacted as suppliers within larger corporate supply chains.

Proposal Approval and Transposition into National Law:

- **Expected proposal presentation to the European Parliament and the Council for approval by the end of 2023.**
- **EU Member States will have two years to transpose the directive into national law once adopted.**

5 KEY ESG REGULATIONS IN AUSTRALIA, CANADA, INDIA, SINGAPORE, UNITED STATES

AUSTRALIA

- Large Australian companies and financial institutions required to disclose carbon footprint, GHG emissions, and climate risk.
- Proposed in 2023, expected to take effect in 2024.

CANADA

- Canadian Securities Administrators (CSA) to require ESG reporting and climate disclosures from large Canadian banks, insurance companies, and federally regulated financial institutions.
- Proposed in 2021-2023, expected to take effect in 2024.

SINGAPORE

- Green Finance Action Plan - Includes environmental risk management guidelines, green taxonomy, green loan framework, and disclosure requirements for ESG funds.
- Phased roll-out from 2021 to 2023+. Green Taxonomy expected to be enacted by the end of 2023.
- Mandatory ESG disclosure requirements for financial institutions based on ISSB standards under development.

INDIA

- Business Responsibility and Sustainability Report (BRSR) - Mandatory for the top 1,000 listed companies to report on ESG metrics and principles outlined by SEBI.
- Enacted on May 5, 2021, takes effect after financial reporting year 2021-22.

UNITED STATES

- SEC's Climate Disclosure Requirements - Proposed mandatory climate disclosures for certain reporting organizations.
- SEC Announces Enforcement Task Force Focused on Climate and ESG Issues in April 2023.
- Other ESG-related laws and regulations at the federal and state level, including the Inflaction Reduction Act, Uyghur Forced Labor Prevention Act, and US Department of Labor Ruling on ESG Investment Factors.