



Interview on sustainability regulations with **Thomas Göricke**, Partner at Elvinger Hoss Prussen & ALFI/LSFI Study Advisory Committee member

Q: From your perspective, how and to what extent can regulation act as a catalyst for sustainable finance investment?

A: A well-functioning and coherent sustainable finance framework, which manifests through well-drafted regulation, is without doubt a key catalyst for sustainable finance. The importance of state and supranational actors (European Commission) as the authors of such regulation is crucial when

it comes to correcting the “market failures” and imbalances of our financial system, when it comes to avoiding harm and directing financial flows to environmental and social causes. The aim continues to be to move away from a financial system which mainly focuses on corporate short-termism and shareholder value to one where ESG integration, the need to consider stakeholders (the environment and the wider society) and have a positive impact become mainstream. Regulation that is fit for purpose can help break down the numerous barriers to sustainable finance and create a strong incentive for change. It follows that there is a lot at stake in respect of the ongoing efforts to reform and complete the EU sustainable finance framework.

Q: What are the most significant regulatory gaps and challenges currently faced by financial institutions in the sustainable finance space, and how are upcoming or proposed regulations seeking to address them?

A: In the EU, the most significant challenge, and source of considerable legal uncertainty, is the proposed changes to the sustainability reporting requirements of EU companies (the Corporate Sustainability Reporting Directive). The EU Commission has proposed* significant changes to this directive both in terms of reporting in accordance with the European Sustainability Reporting Standards (ESRS) and scope, which would be considerably reduced as regards the number of EU companies that would need to comply with the reporting requirements. While political agreement on the proposed changes appears to have been reached, the uncertainty as to the requirements and timing has had a detrimental effect on the entire EU sustainable finance ecosystem.

Important gaps continue to exist when it comes to effectively linking the sustainable finance rules applicable to financial market participants (such as investment funds), notably around ESG disclosure, to the sustainability expectations of end-investors and consumers in the EU. The current requirements in this regard, establishing investors’ so-called “sustainability preferences”, do not effectively engage with investors on the subject of sustainability.

Q: In equity and fixed income portfolios, how do you distinguish between companies that are genuinely transitioning and those that are merely adjusting disclosures or narratives in response to regulatory pressure?

A: On the investee side, assessing environmental and social impacts is key - using proprietary methodologies and public documents (e.g. regulatory reporting). Investors must verify if companies have robust and transparent ESG and transition methodologies or even appropriate transition plans, as detailed in the previous question. Transition, meaning enhancing, requires a frequent monitoring. Governance buy-in is also critical: they shall back and supervise this transition.