Opinion piece

Firms won't get away with greenwashing for much longer as new disclosure requirements are around the corner

The European market regulator is starting to call-out banks and investors for greenwashing just as Principle Adverse Impact (PAI) disclosure requirements begin to kick-in – are you prepared?

November 1, 2023

In early June 2023 the European Banking Authority (EBA) said there is a 'clear increase' in financial institutions overstating their climate credentials[1]. Among other things, the EBA criticized banks and investors for showcasing their support for renewable energy projects without mentioning that they also financed projects linked to fossil fuels and deforestation. Increasing transparency and establishing a common taxonomy will make greenwashing harder and allow investors to better compare investments across ESG factors.

The EU Sustainable Finance Disclosure Regulation (SFDR) is designed to push capital towards sustainable growth and help clients make informed investment decisions. Principal Adverse Impact (PAI) disclosures under the SFDR requires financial institutions to better quantify the negative effects on sustainability both, at an entity and product level. An even more granular reporting for the year 2023 will be required by June 2024.

Currently, non-standardized ESG reporting from the real economy and ESG rating agencies using proprietary data inputs, that collectively led to a divergence in the ESG ratings of financial products and services. Stakeholders are keeping a watchful eye on financial institutions as to how their discretionary mandates evolve considering ESG KPIs and year-on-year trends.

By 2025 the adoption of the European Single Access Point (ESAP) will begin to mitigate the current limitations stemming from non-standardized ESG reporting and divergent ESG ratings. The first iteration of the PAI report published in June of 2023 raised many questions about how, in practical terms, to quantify the required metrics. In the coming years, a convergence towards a shared definition of these metrics and a closing of data gaps through the ESAP are likely going take place.

To support this convergence, GEM Consulting will be sharing the findings of a comparative analysis of the Principal Adverse Impact (PAI) disclosures from a set of European banks – UBS, Vontobel, Edmond de Rothschild**,** LGT, VP Bank, Nordea, J. Safra Sarasin, HSBC and Deutsche Bank. *Stay tuned.*

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[1] Hancock, A., & Bryan, K. (2023, June 1). *EU regulators flag rising greenwashing practices by banks*. Financial Times. https://www.ft.com/content/5d236244-e073-412d-b981-0d2757f60b4b