British Embassy
Bucharest

ROSIF
Romanian Sustainable Investment and Finance Association

Romania's roadmap to a greener financial system

An analysis of Environmental, Social and Governance reporting on the Bucharest Exchange Trading Index

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List of Abbreviations

ASF - The Financial Supervisory Authority
BEIS - Department for Business, Energy and Industrial Strategy
BET - Bucharest Exchange Trading Index
BNR – National Bank of Romania
BREEAM - Building Research Establishment Environmental Assessment Methodology
BVB - The Bucharest Stock Exchange
CAPEX - Capital expenditure
CEE - Central and Eastern Europe
CSDD - Corporate Sustainability Due Diligence Directive
CSR - Corporate Social Responsibility
CSRD - The Corporate Sustainability Reporting Directive
DWP - The Department for Work and Pensions
EIOPA - The European Insurance and Occupational Pensions Authority
ESG - Environmental, social and governance
ESMA - European Securities and Markets Authority
ESRS - The European Sustainability Reporting Standards
EU - The European Union
FCA - Financial Conduct Authority
FCDO - The Foreign, Commonwealth and Development Office
FRC - Financial Reporting Council
GBS - Green Bond Standards
GHG - Greenhouse Gas
GRI - Global Reporting Initiative
GTAG - Green Technical Advisory Group
HM - His Majesty
HMT - His Majesty Treasury
ICMA - The International Capital Market Association
ISSB - International Sustainability Standards Board
LSE - Listing Rules and Disclosure Guidance and Transparency Rules
MPF - Ministry of Public Finance
NCMO - National Committee for Macroprudential Oversight
NFRD - Non-Financial Reporting Directive
OECD - The Organisation for Economic Co-operation
OPEX - Operating expense
PhD - Doctorate of Philosophy
SBTis - Science Based Targets initiative
SDR - Sustainability Disclosure Requirements
SFDR - Sustainable Finance Disclosure Regulation
TCFD - Task Force on Climate-related Financial Disclosures
UK - United Kingdom
UN - The United Nations
UNGC - The United Nations Global Compact

About RoSIF

The Romanian Sustainable Investment and Finance Association is an apolitical, nonprofit organisation that promotes sustainable institutional investment decision making in Romania and Central Eastern Europe. Led by academics and practitioners, ROSIF offers deep expertise on responsible investment for the benefit of current and future generations. We bring together people who are passionate about achieving the United Nations Sustainable Development Goals for a resilient planet and economy. We want to create a financial system that is environmentally and socially sustainable in the long term.
https://ro.rosif.org/

About FCDO, British Embassy in Bucharest

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The report is part of a wider portfolio of projects across Europe, which seek to advance the UK's green finance expertise and support the international transition to a net zero financial system.

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ROSIF
ROMANIAN SUSTAINABLE INVESTMENT AND FINANCE ASSOCIATION

Executive Summary

Key observations on Sustainable Finance Policy Environment & Practice:

- Attracting new foreign investment in Romania to support new sustainable infrastructure development is already dependent on the numerous sustainable finance regulations emerging worldwide, in particular the EU Sustainable Finance Action Plan.
- The UK's emerging sustainable finance regulatory landscape, including the upcoming Sustainability Disclosure Requirements (SDR) regime, are key for Romanian companies to follow towards unlocking further capital for green investments.
- Scope 1 GHG emissions reported by 9 out of 20 BET listed companies amount to a whopping 5.18 million tonnes CO2e, representing approximately 6.5% of Romania's emissions. This makes the BET companies highly important in the context of the net-zero transition.
- Around 40% of Romania's value add and 50% of corporate assets) stem from carbon intensive sectors, which add considerable disruptive climate related risks to the economy and making sustainable finance imperative in the short and medium term. (BNR data, 2021)
- Attracting green investments requires initial investments in robust data infrastructure for reporting and performance measurement of sustainability credentials, particularly towards demonstrating EU Taxonomy alignment, disclosing data to allow for seamless EU Sustainable Finance Disclosure Regulation (SFDR) principle-adverse impacts assessments as well as climate related risk disclosures under TCFD and UK legislation.
- Disclosure alone is insufficient, as many investors and sustainable finance policies require the improvement in performance over time. Progress is inherent in the design of new financial instruments which are self-enhancing over time (e.g. the EU Paris Aligned Investment Benchmarks which require year-or-year reduction in GHG emissions of minimum 7% at the portfolio level).
- Romanian financial regulators have already taken a proactive approach towards EU Taxonomy integration and reporting by the banking sector (BNR) as well as on climate risk integration in the asset management and insurance sector (ASF).
- Green bonds successes by Romanian commercial banks would welcome the scaling of the green bond market by a Romanian sovereign green bond issuance towards green infrastructure development.

BET ESG Disclosure Completeness Analysis:

- The 20 most liquid, well-known and best performing listed Romania companies (BET20) are still in the early stages of their sustainability journey. At this stage, low levels of disclosure pose significant risks to their ability to attract sustainable investments.
- Only 3 companies on the BET have third-party verified sustainability reports, which is worrisome in the light that all upcoming CSRD reporting requirements require third-party auditing.
- Reporting on GHG emissions is still very sparse, with coverage across the BET of 47% for Scope 1, 42% for Scope 2 and only 11% of companies reporting Scope 3.
- Only 4 companies have a net-zero target, with interim targets which are not compliant with a 1.5°C limited or no-overshoot transition pathway. An additional company has a carbon neutrality target without currently disclosing its consolidated carbon emissions.
- Only 5 companies have a net zero target. Among them, one does not disclose its consolidated GHG emissions. The rest of four commit to interim targets that are not compliant with a 1.5°C limited or no-overshoot transition pathway.
- Only 16% of the companies on the BET report their eligibility with the EU Taxonomy, and the fossil fuel intensive companies that do comply have a modest 6% capex eligibility alignment.
- While companies have experience calculating and monitoring their energy consumption (over 74% of them), only 37% of companies report their renewable energy consumption as a % of total energy consumption.
- We find a sharp decrease in the level of detail and disclosure to biodiversity issues (21% of companies overall), waste issues (32% of companies) or water (42%) on the BET.
- The average gender diversity of the board of companies on the BET is 19%. As of March 2023,no company achieves board gender balance.
- Board independence performance of BET companies varies from 0% to 100%, with the average board independence being 39%.

Recommendations:

- To ensure eligibility in sustainable investment portfolios, Romanian companies are advised to quantify, disclose and continuously improve on the list of principle-adverse impacts under SFDR, in particular the list of 14 mandatory indicators which have been integrated within our current analysis, and further consider TCFD reporting for a UK investor audience.
- We advise companies to report fully on their Scope 1,2 and 3 emissions as other climate pledges, or reporting on climate which are missing this basic disclosure are generally considered misleading by a wide range of investors and regulators.
- External auditing of sustainability reporting is strongly advised for all sustainability related disclosures, as it will be the required under CSRD.
- In terms of increasing attractiveness towards ESG and impact-oriented investors, BET20 companies need to improve their gender balance on board diversity and top management, for which will need to have 40% of the underrepresented sex among non-executive directors or 33% among all directors by 2026 according to EU law.
- Companies should strongly consider becoming signatories of the UNGC and observing and implementing closely the OECD Guidelines for multinational enterprises. These are highly important on the road to being fully eligible for sustainable investments, which require companies to demonstrate adherence to Minimum Social Safeguards.
- The truthfulness and accuracy of BVB Corporate Governance reporting should be double checked and ascertained by a third party or by BVB itself, especially on matters such as board and committee independence.
- We advise that the Ministry of Public Finance should publish data regarding companies' compliance with MPF Orders No. 1938/2016 and No. 2844/2016 and even make the reporting public. This would enhance transparency and attract foreign green investments in Romania.
- We advise Romanian companies to consider publishing climate transition plans which outline the CAPEX requirements for the achievement of interim and long-term net-zero targets, which investors can use in their assessments when companies fundraise, in particular from bond markets and through loans.

Introduction

The aims of this report are manyfold. First, we assess the sustainable finance landscape in the Romanian capital market, driven primarily by the EU Sustainable Finance Action Plan, and towards informing further developments inspired from the UK's sustainable investing policies and practices. Secondly, It provides a detailed overview of the environmental, social and governance (ESG) disclosure requirements across the EU and the UK, which Romanian issuers should observe in seeking to understand financial market expectations with respect to ESG data.

Additionally, the report provides a deep assessment of the overall quality and quantity of ESG corporate disclosures from the member constituents of Romania's Bucharest Exchange Trading Index. Looking under the hood of ESG corporate disclosures, we discovered significant variation in the definition, measurement and reporting of environmental, social and governance metrics.

Finally, the report also features a summary of the UK's sustainable finance leading ambitions, which is an important jurisdiction for Romanian companies looking to raise capital for green infrastructure, and is a complementary source of funding compared to capital markets falling under the EU Sustainable Finance Action Plan.

We hope this report prompts Romanian corporate issuers to consider reporting more meaningfully and reflect on the importance of deploying CAPEX towards sustainable projects, which is an important forward looking metric of commitment towards the SDGs.

This report is structured as follows: Section 1 summarises the Romanian corporate and investor practices shaped by EU regulation. Section 2 highlights the UK net zero timeline and its implications for the financial sector. Finally, Section 3 looks under the hood of Romanian ESG corporate disclosures and discusses the extent of their completeness and robustness.

1. Current drivers and practices of sustainable finance in Romania

1.1 Drivers of sustainable finance in Romania

There is no doubt that the EU spearheaded the sustainable finance policy agenda globally with the appointment of the High Level Expert Group on Sustainable Finance (2016) and the Action Plan on Sustainable Finance (2018). The EU's sustainable finance roadmap has three main aims: (1) reorient capital flows towards a more sustainable economy, (2) integrate sustainability into risk management and (3) foster transparency and long-termism. Thus, the current sustainable finance agenda in Romania has originated in the EU Action Plan, whose implementation and monitoring is carried out by the respective European bodies like the EU Commission, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) among other institutions.

There have been many developments since then, which are not entirely the scope of our report, but the early actions contributed to regulation affecting Romanian corporates, asset managers and asset owners. Taken together, the new reporting and labelling rules ensure investors and consumers alike have access to accurate, timely, fair and audited information. This gives visibility into the risks arising from climate change and other sustainability issues of corporations and inherently the risks embedded in different financial instruments. These will also create a culture of transparency and accountability about the impact of companies and investments on people and the environment, and it will promote a deep understanding of different asset classes and instruments that contribute to sustainability.

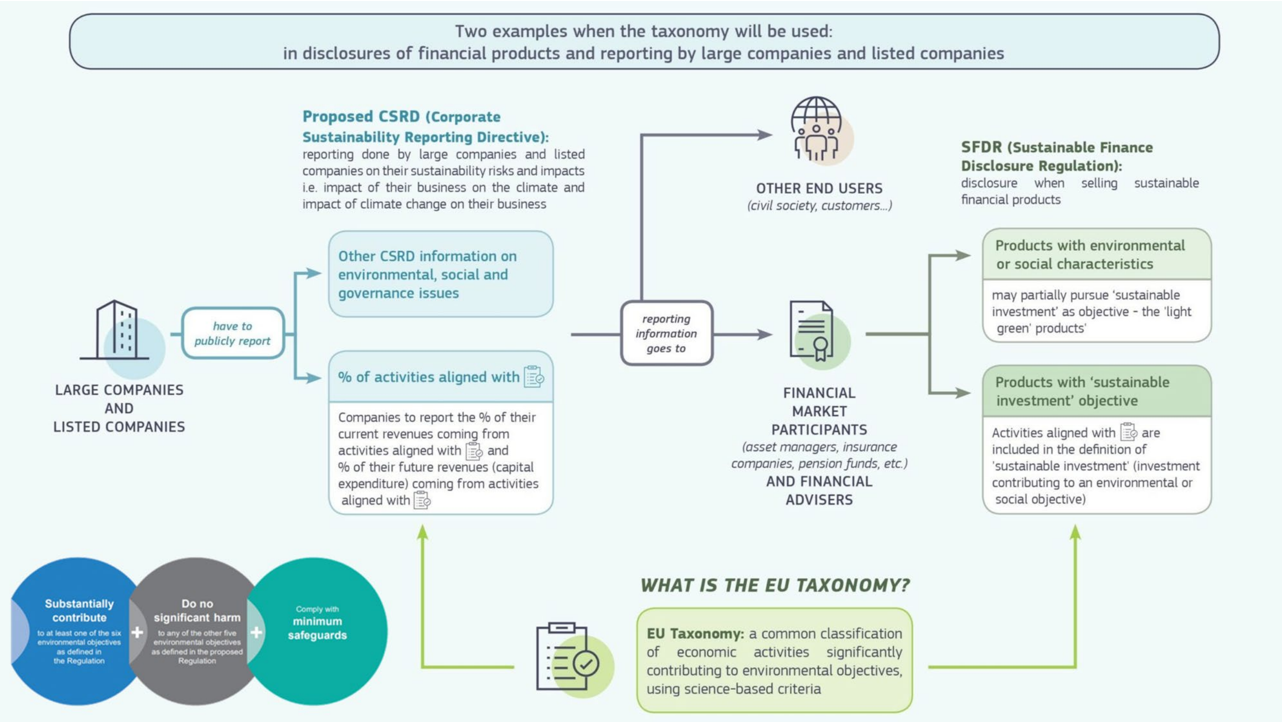
Romanian issuers are subject to two main directives, the Non-Financial Reporting Directive (NFRD) which will be replaced by the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDD). CSRD requires issuers to report on how sustainability issues, such as climate change, impact their business and how their operations in turn affect people and planet, effectively enacting the principle of 'double materiality'. Following the cycle of NFRD implementation, Romanian companies will continue reporting in 2024, more stringently, on environmental (SBTis, climate-risk) and social matters, human rights, anti-corruption and bribery policies, diversity on governance and the treatment of employees, in line with the European Sustainability Reporting Standards (ESRS). At the same time, significantly more companies will have to comply with this regulatory framework than at the moment. The data needs to be audited by a third party to ensure reliability and accuracy, in a similar spirit to financial reports. Another ESG initiative aimed at corporates is CSDD, expected to apply from 2025, and introduces requirements for companies to conduct detailed due diligence across their value chain. Listed Romanian companies could see disclosure requirements on how they audit their suppliers on environmental and social factors.

While CSRD requires mainly disclosures on sustainability at the corporate entity level, it also calls on companies to report in accordance with the EU Taxonomy legislation. The Taxonomy legislation applies at the level of economic activities within companies. This prompts the reporting of revenue, CAPEX and OPEX aligned with substantial contribution and do-no-significant harm criteria, which are set for individual economic activities, rather than at the level of the company. The taxonomy is hence a data dictionary which outlines a set of tests that economic activities need to pass in order to be able claim their sustainability status. For a company to be able to claim that some or all of its economic activities are green under the EU Taxonomy, it also needs to pass a test (this time at the entity level) of Minimum Social Safeguards (MSS) which ensure that environmentally sustainable economic activities must also meet criteria for responsible business conduct already outlined in:

- The OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines)
- The UN Guiding Principles on Business and Human Rights (UNGPs)
- The Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
- The International Bill of Human Rights

The Romanian financial sector (notably asset managers) has been exposed to EU ESG regulation through the Sustainable Finance Disclosure Regulation which mandates asset managers, pension funds and insurance firms to disclose whether their products have any sustainability claims, how they incorporate these considerations in their strategy and development and lastly, what environmental and social adverse impacts these products may have. It imposes comprehensive ESG disclosures covering a broad range of metrics at both entity and product level. A particular kind of disclosure is principle adverse impacts (PAIs) which consist of 14 key indicators (9 indicators related to the environment, and 5 covering social factors) which are considered mandatory for the proper assessment of adverse sustainability impacts across a range of ESG factors. These have been integrated in the assessment of disclosure of BET companies in the last chapter of this report.

Fig. 1: EU Taxonomy integration with CSRD and SFDR. Source: Adapted from EU Commission



Under the SFDR, a particular new financial innovation on the EU front are the Paris Aligned Investment Benchmarks (PABs), which incorporate specific objectives related to greenhouse gas (GHG) emission reductions and the transition to a low carbon economy through the selection and weighting of underlying index constituents. The innovation lies in the fact that funds who wish to track PABs require to decarbonise themselves at a reduction level of 7% year-on-year to net-zero by 2050. This has already prompted large pension funds in both the EU and the UK to shift their assets substantially to indices which reduce their carbon emissions substantially year-on-year and underweight their carbon intensive & slow to decarbonise constituents. Once such example is Brunel in the UK and which transitioned more than £3bn+ of passive funds into PAB-tracking funds[1] and half of the Swedish asset owners AP2's portfolio – AP2 has total assets of just over SEK360bn (€34.6bn)[2].

On a national level, for the purposes of this report, the Romanian Financial Conduct Authority (titled Autoritatea de Supraveghere Financiara and abbreviated ASF hereonforth) represents the regulatory body for the capital markets, insurance and the private pension markets. As of March 2023, ASF does not mandate

[1] https://bit.ly/42E0Zur

[2] https://bit.ly/3LGM8JA

sustainability reporting from issuers, asset managers and asset owners beyond what is already required by the EU and the Bucharest Stock Exchange Corporate Governance Code their compliance with the BVB Corporate Governance Code and publish the Apply or Explain statement.

1.2 In conversation with regulators

In researching the legislative landscape pertaining to sustainable finance, it became clear that although the importance of sustainability is appreciated, it is not consistently and thoroughly implemented at the core of the financial stability of Romanian markets. We did discover, in interviews with ASF, the Romanian National Bank (titled Banca Nationala Romana, abbreviated BNR hereonforth) and the Bucharest Stock Exchange (titled Bursa de Valori Bucuresti, abbreviated BVB hereonforth) that the narrative around ESG, from perception to adoption, is shifting.

Firstly, ASF has published its periodic multi-annual strategic objective for the 2023-2025 period[3] and sustainability features front and center on the list of priorities, however there is a disconnection between our interviews and the publicly available information. According to ASF strategy, recent European Union sustainability disclosures regulations and the wider integration of ESG principles in the operation and the products and services of asset managers and owners bring about structural uncertainties in the Romanian financial market. In this context, ASF takes on an enhanced role in maintaining financial stability. In conversations with ROSIF, ASF takes a proactive stance on the necessity of green finance, the tools the Romanian market needs to transition, the competitive advantages sustainable finance could generate in terms of financial performance, brand activation and a more transparent and efficient capital allocation. It also emphasised the drawbacks of greenwashing as ESG practices proliferate, rendering its consumer protection priority ever so timely.

ASF currently focuses on harmonising EU directives with national law, promoting the incorporation of ESG principles in disclosures and investments and offering the right tools for its members to understand and comply with the new disclosures regime. Thus, ASF released a series of guidelines[4] for the entities it regulates on compliance with EU reporting requirements and examples of best practices. This report was the first of its kind and according to ASF, it could set the stage for the revision and adoption of enhanced requirements at national level.

Secondly, while the ultimate authority lies with ASF, the institution takes a stakeholder approach to advocate and implement sustainability in finance. As such, it is part of the Working Group on Greening Finance under the National Committee for Macroprudential Oversight (NCMO) and collaborates with BNR, BVB and the Ministry of Finance to quantify the risks and opportunities brought

[3] https://bit.ly/3K5vzWE

[4] https://bit.ly/42BKu1H

by climate change within Romanian financial markets and the boosted structural benefits across the economy. The Working Group launched a landmark paper on green finance in June 2021[5], introducing a first assessment of sustainable finance in Romania, the challenges to a systematic adoption, the opportunities of the net zero transition and 16 key recommendations across 100 stakeholders for the uniform assimilation of findings and desirable next steps. Two main messages stood out for the purposes of this report. Firstly, the rapid allocation of capital towards green projects is of essence. Around 40% of Romania's value added and 50% of corporate assets (BNR data) stem from carbon intensive sectors, which add considerable disruptive climate related risks to the economy and making sustainable finance imperative in the short and medium term. Secondly, the low level and disparate quality of Romanian corporate ESG disclosures reverberate in the financial system, which itself displays a relatively discouraging level of awareness of physical and transition risk in their portfolios. As a result, the Working Group[6] recommends the enhancement of transparency in reporting and proposes that BNR and ASF communicate their expectations on governance, strategy, risk management and the analysis of climate risk scenarios and stress tests to the entities supervised.

Following on from the report's recommendations, BNR informed ROSIF that it took a first step in normalising and amplifying bank's disclosures on green credits starting with June 2022. The green credits are aligned with the EU Taxonomy and a first round of data collection shows that in 2022 alone, only a third of all new mortgages classify as green - more specifically the proceeds were allocated towards the acquisition of green buildings and increasing the building's energy efficiency, while the rest of green credits were spent on sustainable transport. BNR continues to research and raise awareness of climate risks and the impetus of stress testing as it is now a member of Central Banks' and Supervisors' Network for Greening the Financial System (NGFS)[7].

BVB is a key stakeholder in the Working Group and through the conversations with ROSIF, it shares ASF's and BNR's acknowledgement that the current level and quality of corporate ESG disclosures and initiatives in Romania is relatively low. BVB believes there is enough know-how and subject matter expertise for companies to bolster their sustainability-related disclosures but these practices could be hindered by the perceived effort and the comprehensive resources needed.. It also reinforces that local and international institutional investors are keen to understand the ESG risks and impacts of listed Romanian entities, however the companies grapple with the materiality of this information and how investors use the data in capital allocation decisions.

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[5] https://bit.ly/3yZPbVC

[6] https://bit.ly/3K2Ki4h

[7] https://bit.ly/3neZ7bl https://bit.ly/3neZ7bl

1.3 Practices of sustainable finance in Romania

Sustainable finance practices are increasingly prevalent in Romania, as the country works to transition to a more sustainable and low-carbon economy. This section looks to provide brief insights into whether asset managers and pension providers integrate sustainability in their investment strategies and reporting.

Green Bonds

Green bonds have achieved considerable development in the Romanian banking and financial sector in the past two years and given the demonstrable success, the demand for green bonds is projected to rise, opening up new investment opportunities.

On a sovereign level, Romania does not have an established national framework for green bonds and has not yet issued a sovereign bond with sustainability stipulations. The Ministry of Finance has only recently declared that it's considering issuing green bonds, but there are none to date[8]. Romania is one of the CEE region's few countries that has not yet issued such bonds. The facts are more favourable at corporate level. In the last two years, two Romanian systemic banks, notably Raiffeisen Bank and Erste Bank have each issued green bonds.

Raiffeisen Bank Romania has issued three green bonds and three sustainability bonds to date on the Bucharest Stock Exchange, with a total value of £574m. The bank listed the first of local currency denominated green and sustainability bonds to date on the Bucharest Stock Exchange, the first of their kind on the Romanian debt market. RBRO's green bonds amount to approximately £360m with 46% of proceeds allocated to green loans towards green commercial and residential buildings, clean transportation and sustainable agriculture. In 2022 and 2023, RBRO listed three sustainability bonds worth £214m on the Bucharest Stock Exchange, with at least 50% of proceeds directed to businesses investing in climate-smart initiatives (green buildings, renewable energy, energy efficiency and others), in addition to supporting social financing projects including health care, education, basic infrastructure and affordable housing. RBRO's Sustainability Bond Framework is verified by Sustainalytics and is aligned with the ICMA Green Bond Principles, ICMA Social Bond Principles, ICMA Sustainability Bond Guidelines and reflects guidelines from the EU Green Bond Standard (EU GBS) and the EU Taxonomy.

Erste Bank's Romanian arm, BCR, issued two green bonds in 2021 and 2022, worth £214m. For the first green bond, 96% of proceeds are assigned to loans with the purpose of financing the acquisition of buildings that are BREEAM certified with an 'Excellent' rating and have an A-labelled Energy Performance Certificate. All the acquired buildings are located in Romania. According to BCR reporting, the

[8] https://bit.ly/40bAniG

Green Portfolio has financed office buildings. There is currently no Green Bond Allocation and Impact Report for the 2022 financial year. Erste Bank's Sustainability Bond Framework is aligned with ICMA standards and audited by Pwc.

Sustainable Investment Funds

As described previously, SFDR, among others, pertains to the self classification of investment products across the EU as either: i) not integrating any kind of sustainability into the investment process (Article 6), ii) actively promoting sustainability characteristics (so called Article 8 funds) or iii) targeting sustainability outcomes, while monitoring and reducing their Principle Adverse Impacts over time (Article 9). Romanian asset managers are due to issue the first series of their periodic Principle Adverse Impact Indicators under SFDR by 2023. Many of the compliant funds do not advertise themselves as Article 8 or 9, instead they only disclose the Article status in the regulatory checklist. The fund descriptions are generally vague and it is trying for retail investors to discern whether a fund has an ESG objective or at least it integrates ESG considerations in the investment process.

A few self classified sustainable investment funds under SFDR are available in Romania:

Goldman Sachs Asset Management has taken over NN Investment Partners in March 2023 and out of the 31 funds it offers in Romania, only 3 have the Article 9 status with an impact investment approach: Global Climate and Environment Equity Fund, Global Equity Impact Opportunities and the Global Health and Wellbeing Equity fund.

Erste Asset Management offers a diversified suite of ESG funds, including 15 Article 8 and 9 funds, such as Erste Future Invest and Green Invest. OTP Asset Management provides an Article 8 investment fund titled OPT Innovation that follows ESG negative screening and apply ESG ratings. Alpha Asset Management is responsible for managing the Alpha Global Funds, which are classified as Article 8. These funds explore opportunities in areas such as climate change, breakthrough technology, shifting consumer preferences, and demographic shifts. Raiffeisen Asset Management markets two Article 8 funds, namely Sustainable Equity and Sustainable Equity Mix. Both are open-ended feeder investment funds and invest only 15% in liquid assets. The liquid part of the fund aims to invest in companies which have been rated as sustainable on the basis of social, ecological and ethical criteria. It has a negative screening approach, avoiding sectors such as armaments and plant-based genetic engineering, as well as companies that violate labour and human rights.

2. An overview of UK sustainable finance regulation and practices

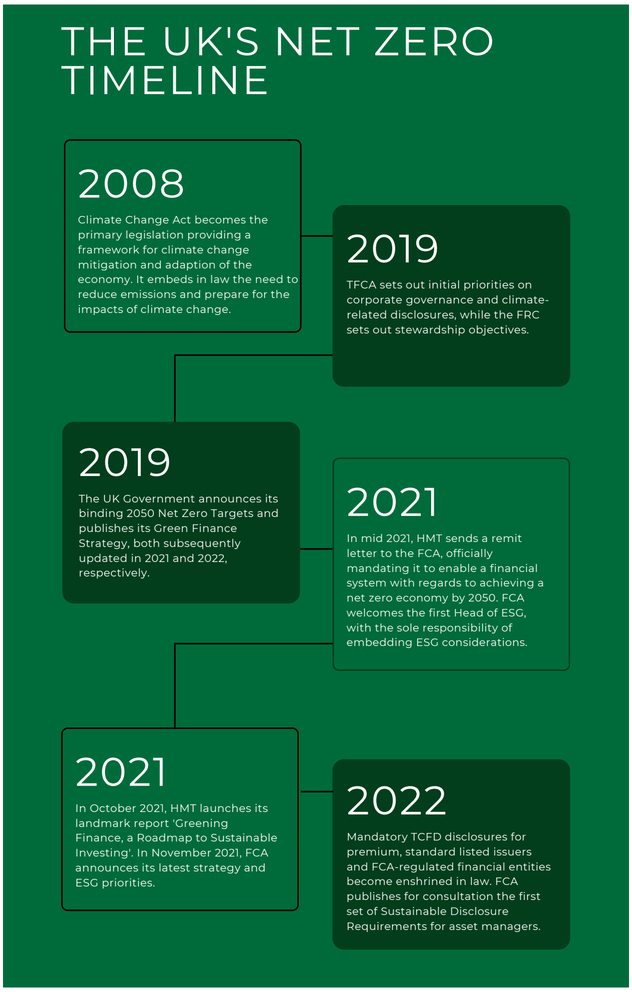

Fig. 2. UK Net Zero Timeline

Having reviewed the key EU policies which influence practices of the Romanian business and financial sector, we turn our attention to the financial and corporate regulatory environment on sustainable finance in the UK, which we hope will enable Romanian issuers, financiers and policymakers to understand how to attract green finance from the UK.

The UK Government plans to deliver its emissions targets of Net Zero in 2050 and a 78% reduction from 1990 to 2035, representing a 63% reduction from a 2019 baseline. It is committed to be the first country to make TCFD alignment mandatory across the economy and many studies report that the NZ commitments are the most ambitious to date. As the UK has historically sustained increased GHG emissions over the past three decades, a full reduction requires a tangible sector-based deliverable strategy and the financial sector has a crucial role to play.

According to an analysis by WWF and Greenpeace in 2021, the UK's financial institutions amounted to 805 million tonnes CO2e, almost 1.8 times the UK's domestically produced emissions. Added to that, out of £9.4trn of UK assets, approximately 49% integrate ESG in their investment process, a share that is exponentially increasing (IA, 2022). In September 2021, the UK Government raised £10 billion for green projects through the sale of the first green gilt, the largest inaugural green bond issuance by any sovereign.

This section explores the disclosure regime imposed by the FCA for its regulated entities and to what extent it overlaps with the European/Romanian frameworks.

2.1 UK ESG Disclosure Requirements for Corporates

A company listed in the UK is subject to continuing obligations imposed by the FCA and the LSE (Listing Rules and Disclosure Guidance and Transparency Rules). Naturally, these disclosure requirements focused on the transparency, fairness and accuracy characteristics of financial reports. Now, these principles are rolling out to non-financial metrics in a legal and binding manner.

This is not taking UK listed corporations by surprise. As globally operating entities with a wide and diversified investor pool, these companies have been subject to increasing disclosure pressures from NGOs and investor coalitions. In the absence of hard laws mandating specific disclosures, sustainability related reporting has been shaped and ultimately adopted by organisations such as GRI, SASB, TCFD and UN SDGs and even co-founded industry-specific forums and developed their own materiality matrices.

Although welcome and very much needed, these voluntary disclosures are not uniform, consistent and generally referred to as 'an alphabet soup' of ESG, confusing investors and the corporates themselves. As a result, through a remit letter by the then-Chancellor Rishi Sunak, FCA became in charge of increasing transparency on climate and wider sustainability risks and opportunities, aiming to improve the quality and quantity of disclosures across the wider economy. In 2021, climate-related disclosures were enshrined into law. TCFD-based reporting became mandated for more than 1,300 UK listed corporates and financial institutions, including premium and standard quoted companies, banks, insurers, asset managers and large private companies. It is a 'comply or explain' approach - entities will need to show their disclosures meet the recommendations of FSB's TCFD and if not, an explanation is required. In addition, FCA introduces rules for listed companies to disclose transition plans as part of the TCFD-aligned disclosures, initially on a comply or explain basis. The Chancellor established the Transition Pathway Taskforce[9] in November 2021 to aid companies in the transition to net zero.

Alongside TCFD, the UK issuers lead on corporate governance disclosures.

The governance code of conduct has been mandated early on in the evolution of UK sustainable finance.

In fact, the world's first formal Corporate Governance Code emerged in the UK in 1992, when the FRC, the LSE and the accounting industry called on the Cadbury Committee to consider 'the financial aspects of corporate governance' and was revised in 1995 within the Greenbury report. These disclosures and practices continue to be regulated by the FRC within the UK Corporate Governance Code.

However, TCFD reporting only represents a building block for the future sustainability reporting regime. The Sustainability Disclosure Requirements (SDRs), as firstly mentioned in the then-Chancellor's Mansion House speech and under development by HM Treasury, BEIS and DWP, will create an integrated

[9] https://transitiontaskforce.net/

framework for decision-useful disclosures on sustainability throughout the economy. While SDR's represent 'the next step in putting the UK's economy in a better position to achieve the goals of the Paris Agreement', they would go beyond climate metrics and encompass double materiality and a wide range of other environmental and social risks and impacts. At the time of writing, SDRs are suspected to largely absorb ISSB's requirements and are estimated to be adopted under UK law by 2024-2025. The Government signalled that it expects the ISSB's standards to 'form a core component of the SDR framework' in particular the 'backbone of its corporate reporting element'. It also committed to consulting on creating a mechanism to endorse and adopt the ISSB's standards in due course. ISSB's draft standards aim to be connected to and complement the financial statements, reinforcing the rationale for ESG reporting transitioning to finance, as it is at many financial services companies. As for next steps, FCA strongly supports the ISSB's proposals and envisages amending the TCFD-aligned disclosures to reference the ISSB standards.

Additional reporting requirements will be necessary on an industry basis. As a follow up to the UK's Net Zero Strategy, BEIS published decarbonisation pathways for each sector. This means corporates have their own industry specific net zero agenda and disclosures and how they intend to decarbonise their own operations and products and services.

2.2 UK ESG Requirements for the financial sector

As with any other industry depicted in the UK's Net Zero Strategy, the financial sector is subject to its own decarbonisation pathway. Its importance in the economy-wide transition became apparent when the HM Treasury published 'Greening Finance, a Roadmap to Sustainable Investing' in October 2021. This landmark document sets out the UK Government's ambition to become a world-leading centre for sustainable finance, supporting the transition to a net zero carbon economy.

The Roadmap aims to make climate and environmental considerations central to the decision-making process of every investor and every UK board, putting UK businesses in a better position to withstand climate-related risks and further seize the opportunities presented by the net zero transition. In doing so, standardised sustainability reporting under the SDR regime will help increase the UK's competitiveness, bolster a resilient financial system, tackle greenwashing and empower consumers to understand their financial products. As such, the Government agenda will be delivered in three phases:

- Ensuring decision-useful information on sustainability is available to financial decision-makers;
- Mainstreaming sustainability considerations into business and financial decisions;
- Shifting capital to align with a net zero and nature positive economy.

As the EU Taxonomy has been on-shored in UK legislation, the UK is currently exploring how it could itself design and launch a green taxonomy, the extent to which it will be based on the EU's own taxonomy, and how to make it interoperable with taxonomies around the world. While the UK has yet to publish a taxonomy, Romanian issuers are advised to take note of this upcoming development which has been reconfirmed by UK Chancellor Jeremy Hunt in his recent budget.[10]

2.2.1 UK Regulation for Asset Managers

The FCA is the Roadmap enabler for asset managers, certain FCA-regulated asset owners, listed financial companies and financial advisers. In its Business Plan and ESG Priorities, FCA is setting a strong message - trust and integrity in the market needs to be consolidated, consumers protected and the flow of capital to investments that can drive the transition to a more sustainable future fastened.

FCA currently achieves its objectives in two main ways: (1) TCFD disclosures for asset managers and (2) the new phase of SDR rules.

On top of the regular TCFD disclosures for listed financial companies, asset management houses are subject to TCFD disclosures at entity and fund level. At entity level, asset managers need to annually set out how they take climate-related risks and opportunities in managing or administering investments on behalf of clients and consumers. At product (or portfolio) level, investors need to disclose the product's sustainability impacts and the relevant risks and opportunities. As part of the TCFD regime, large asset managers will need to disclose their transition plans and how they intend to deliver on their net zero targets. In time, ISSB standards will be ratified and merged with existing TCFD guidelines. The SDR regime will extend disclosure requirements beyond climate change and, with its link to the planned UK Green Taxonomy, cover sustainability impacts in addition to sustainability risks and opportunities.

Although the current legislative environment for the UK asset managers is rather soft, the FCA is not stopping there. A new set of proposed SDR interventions and the first of their kind introduces general 'anti-greenwashing' rules, proposed fund labeling and marketing practices for sustainable investment products.

On greenwashing, the rule is imminent and already published in the ESG sourcebook. At a baseline, FCA would require asset managers to market their sustainable products and services in a fair, reasonable, transparent and proportional manner with the sustainability objective of the in-scope product. While this has more detailed implications along the process chain of the product (from initiation to creation and distribution), certain words such as sustainable, environmental, social, governance, ESG, impact, responsible, green, SDG, Paris-aligned will be restricted to only labelled products.

[10] https://bit.ly/3njjsfm

But greenwashing is not simply quantified in one rule, rather it bears testament to the new proposed labeling regime. Greenwashing can mislead retail and institutional investors alike and in the absence of a coordinated and comparable definition of a sustainable investment, asset managers or any institution with fiduciary duty could be tempted to use confusion to their advantage. With that, FCA proposes three labels for sustainable marketed funds: sustainable focus, sustainable improvers or sustainable impact. The three labels share two overarching criteria, notably that the sustainability fund needs to invest with an intentional and measurable ESG objective that is enacted through channels of active stewardship, pricing and cost of capital influencing or serving underserved markets. Each sustainable investment label will be underpinned by a set of reporting metrics covering investment policy and strategy, key performance indicators, firm-level attributes, and investor stewardship. They will also be voluntary and should only be used by firms for products that meet the prerequisite criteria.

Fig. 3. FCA's proposed sustainability fund labeling framework

Label	Sustainable Focus	Sustainable Improvers	Sustainable Impact
Objective	Invests in assets that meet a credible standard of sustainability or that align with a specified environmental and/or social sustainability theme.	Delivers measurable improvements in the sustainability profile of assets over time.	Contributes to positive sustainability outcomes in a pre-defined and measurable way.
Primary Channel	Influencing asset prices and reducing the relative cost of capital of sustainable economic projects.	Continuous company and system-wide stewardship directed at improving the environmental and/or social sustainability profile of assets.	Directing new capital to projects and activities that offer solutions to environmental and social problems.
Secondary Channel	Continuous stewardship activities.	Influencing asset prices and reducing the relative cost of capital of sustainable economic projects.	Continuous stewardship activities.

The consultation concluded in late January 2023 and the FCA is now reviewing market responses. We expect the FCA to legally enact the labeling framework in 2024/2025, depending on the size of the asset managers. We could also see the first ISSB standards representing the product-level KPIs for specific labelled funds.

2.2.2 UK ESG regulation for asset owners

In keeping with asset managers, asset owners are subject to the same principles - they need to be responsible stewards of capital, understand and assess their climate-related risks and opportunities and substantiate any ESG claims in a comparable manner across products. They will also need to disclose whether and how they take ESG-related matters into account in their governance arrangements, and in their investment policies and strategies. For the purposes of this report, the focus is on pension schemes, namely FCA-regulated and occupational pension schemes regulated by DWP.

TCFD remains the core reporting principle for pension schemes - trustees have been required to disclose how they embed climate change risk into their governance, strategy and risk management processes since 2021, but more requirements are on the way. Pension funds could see mandatory SDR disclosure requirements incorporating UK Taxonomy considerations, integrated ISSB standards and the FCA regulated pensions could be part of the labeling framework.

2.3 EU - UK regime synergies

The EU benefits from a first mover advantage in the consolidation of sustainable finance legislation within capital markets, which translates to a more advanced deployment of policies and strategies within the various fabrics of national financial systems. Notwithstanding the lag, the UK is catching up, meticulously and rigorously opening up the climate change conversation to its market participants.

The UK and EU ambitions share the same driver - the necessity of an economy-wide Net Zero transition. Although it is not a like-for-like comparison, both have legally binding targets and both are unpacking roadmaps for sustainable investing. They also share the same principles in setting sustainability disclosure policies and implementing standards - transparency, uniformisation, cohesion and comparability.

It is the tools and approaches that differ. SDR and SFDR are not fully aligned, and SDR is currently less developed. Firstly, there is a large gap between the defining criteria of the labels and cannot be translated across without significant assumptions and interpretations. SDR labels do not impose a hierarchy, while that represents the baseline for the Article 8 and 9 funds. Secondly, principal adverse indicator reporting is not required for SDR, unlike SFDR. At entity level, SDR builds on the existing TCFD disclosures and will revise the requirements to incorporate the ISSB disclosures At product level - both require pre-contractual and periodic reporting, however EU mandates the format, while the FCA does not.

3. ESG Disclosure Practices on the Bucharest Exchange Trading Index

The report explores in earlier chapters the state of the ESG regulation in the Romanian capital market and how asset managers and owners adopt it. The picture, however, is not complete without a detailed examination of the listed companies on the BVB and their importance cannot be underestimated. This section examines the sample of 20 most liquid companies listed on the BVB, which constitute the member holdings for the local capital market reference index, the Bucharest Exchange Trading Index (BET).

3.1. Disclosure analysis methodology

For each listed company member of the BET, we examined their websites in detail, by identifying and studying through targeted queries, among others, the following documents: the corporate strategy (usually, a ten-year strategy); the sustainability strategy; the sustainability yearly report; the annual company report; the report of the board (if different from the annual report); policies related to remuneration, governance, human rights, environment, and other material issues. To gauge the relative importance of these 20 companies in the local economy, we also synthesised information available in international databases, such as Bloomberg, the UN Global Compact and the Carbon Disclosure Project.

To determine and assess the relevant corporate reporting practices, we devised a set of 39 data points. The methodology borrows principles from international best practices such as GRI and regulatory requirements (e.g SFDR PAIs), but has been adapted to suit the regional characteristics. The list of datapoints[11] consists of qualitative and quantitative environmental, social and governance indicators, ranging from binary questions to absolute environmental metrics on tonnes of CO2 emitted, quantity of energy consumed, waste generated and others. Data sources are entirely public and do not rely on reporting that BET companies may undertake privately to regulators, which is the information data providers, domestic and foreign investors are able to collect. We focused instead on legally-mandated and voluntary sustainability reporting of these companies, intended for attracting sustainable finance. A layer of complexity is compounded by Fondul Proprietatea, BT and BRD, which are both corporate issuers and investors/lenders. To streamline the analysis, Fondul Proprietatea is the only entity discussed separately, and integrated mostly in the governance part of the analysis which applies more pertinently to an investment fund. As a result, the analysis covers corporates with a market capitalisation of over RON 105 billion, c. RON 37 billion in revenue, RON 36 billion total debt and over 90,000 employees.

To be able to relatively benchmark the disclosure completeness across companies and metrics, we mark each full disclosure on a particular datapoint as 1, and 0 otherwise. We then compute the average disclosure % across indicator types (e.g environment, social or governance) and across all indicators of individual companies to come to our overall disclosure completeness percentage.

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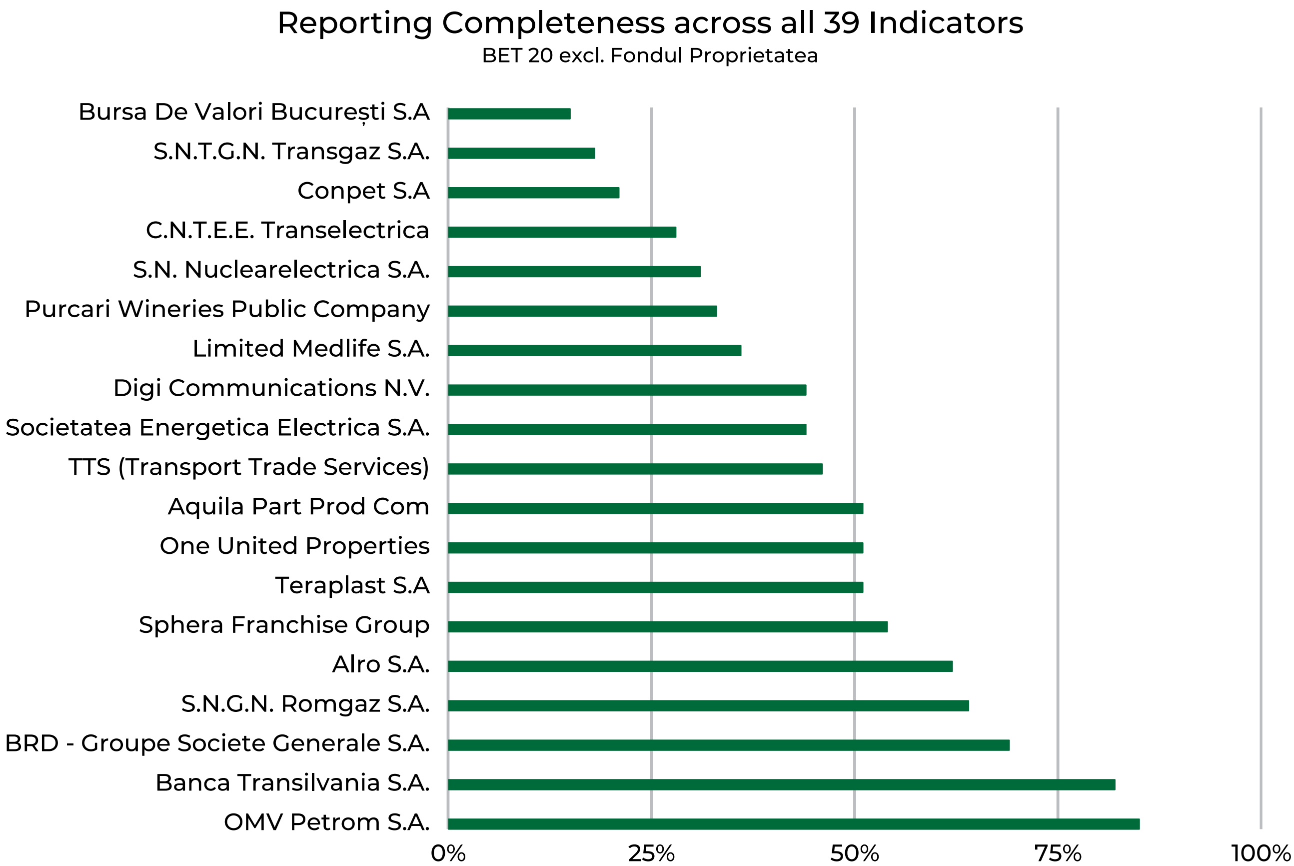
[11] For the full list of indicators, please refer to Annex 1.

3.2. ESG disclosure transparency results

Climate, Strategy and Risk Indicators

The key takeaway is that even the 19 most liquid, well-known and best performing listed Romanian companies are still in their early stages in their sustainability journey. This poses significant risks to their ability to attract sustainable investments. While it is encouraging to see that 95% (all except Conpet) publish a stand-alone sustainability report, only 63% of the companies in the BET20 follow-up with a sustainability strategy and Global Reporting Initiative (GRI) aligned sustainability reporting. Sustainability objectives are vaguely articulated and imprecise language reveals unclear targets and commitments. At best, GRI is only minimally respected - most companies attach a small GRI section pointing to the corresponding section in the report, without following the actual content of the disclosure standards.

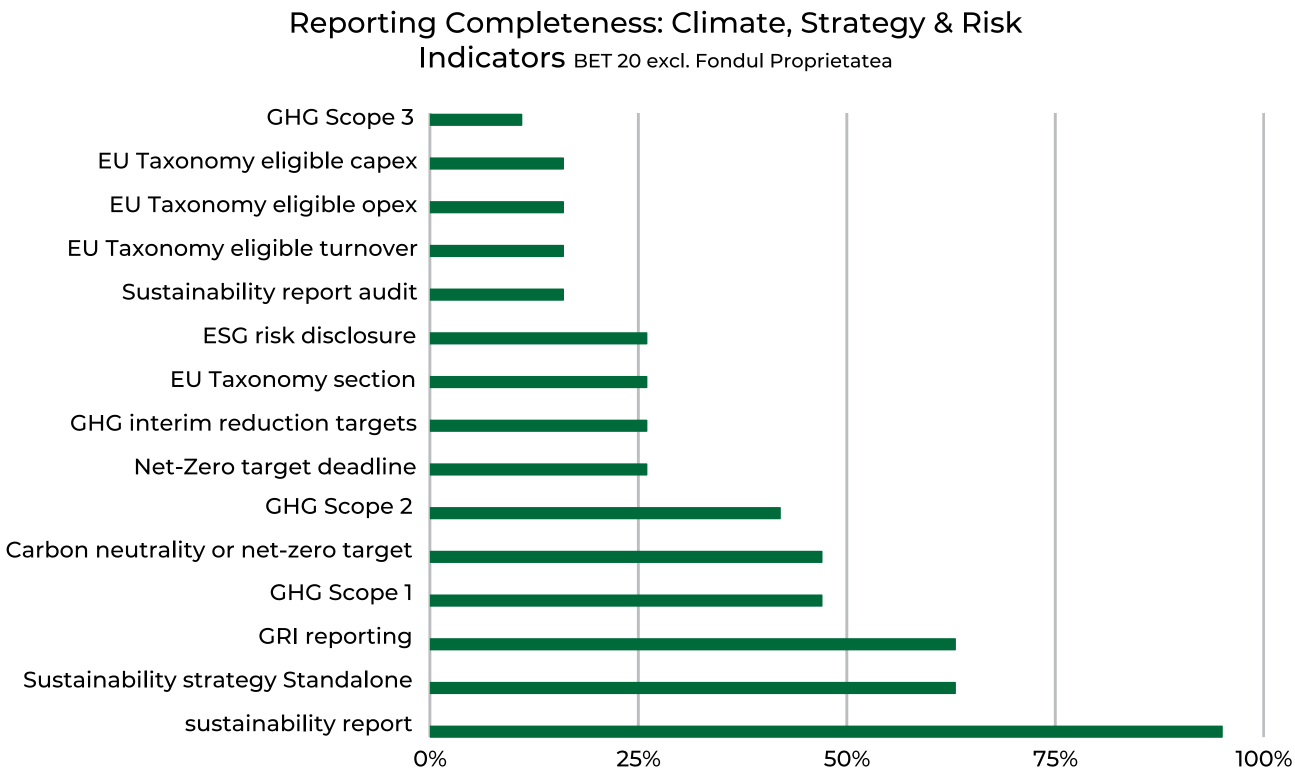
Fig. 4. Reporting completeness across the 39 ESG indicators by BET member constituents



Source: Company disclosures

What is worrisome nonetheless is that, with the exception of Banca Transilvania, BRD & OMV Petrom sustainability reports, none of the others are externally audited. ESG and, more specifically, climate-related risks, are addressed superficially. Even when climate and ESG-related risks are identified as holding a certain degree of importance (e.g.: in the case of OMV Petrom, Nuclearelectrica, Transgaz, One United Properties), no disclosures are made with regards to the magnitude of these risks. Out of the most at-risk companies, typically the ones in the energy sector, OMV Petrom has in place the most advanced climate risk evaluation metrics and is the only BET20 company to make an explicit risk between climate and financial reporting[12], although disclosures with regards to the actual prevalence and mitigation strategies in place are relatively scarce. For most other companies, including the very exposed ones in the energy sector, climate is not listed as a prominent risk. Point in case, for example, is Nuclearelectrica, which simply lists climate risk as being one among the 350 various other risks it is monitoring.

Fig. 5. Reporting completeness across the climate, strategy and risk indicators



Source: Company disclosures

[12] OMV Petrom states in its Sustainability Report that it addresses climate change-related risks according to the Task Force on Climate-related Financial Disclosures recommendations;

Close to half (47%) of the BET20 companies disclose Scope 1 GHG emissions. Some large players, unfortunately, report, fully or partially, only some type of emissions: both Nuclearelectrica and One United Properties, for instance, do not have a consolidated emissions reporting and report mostly asset level data. Out of the nine companies that disclose their GHG emissions, two report on all three Scopes (OMV Petrom and Electrica), six on Scopes 1 and 2 (Banca Transilvania, Romgaz, BRD Groupe Societe Generale, Teraplast, Aquila Part Prod, Sphera Franchise Groupe), and one on Scope 1 only (Alro). While BRD reports some part of Scope 3, it omits currently Scope 3 financed emissions, which is also the case for BT. Nonetheless, the absolute quantity of GHG emissions reported as having been emitted directly in the latest available year for reporting purposes by the 9/20 companies that do report direct emissions comes to a whopping 5.18 million tonnes CO2e, representing approximately 6.5% of Romania's emissions.[13] Out of these, approx. 4 million tonnes CO2e are attributable to OMV Petrom's direct emissions.
4 out of the BET companies (26%) have set a clear net-zero target by 2050 (Banca Transilvania, BRD, OMV Petrom and Romgaz), and one additional company (One United Properties) claims that its portfolio will become climate neutral in 2022 but without currently publishing its consolidated carbon emissions. The 4 companies with a net-zero target publish interim 2030 targets, but are not sufficient to achieve a 50% reduction in emissions 2020-2030[14]. This means the interim targets do not align with a limited to no-overshoot emissions pathway. OMV Petrom plans to reduce its Scope 1 emission by 30% by 2030, and its Scope 2 & 3 by 20% by 2030, while Romgaz plans to reduce its Scope 1 emissions by 10% by 2030, compared to 2020. The companies we examined also do not seem to be aware of the imperative to cut down emissions directly and to offset only residual, hard to abate emissions, as none of them have made a publicly available strategy as to the share of emissions it plans to reduce directly and the share of emissions it plans to abate.

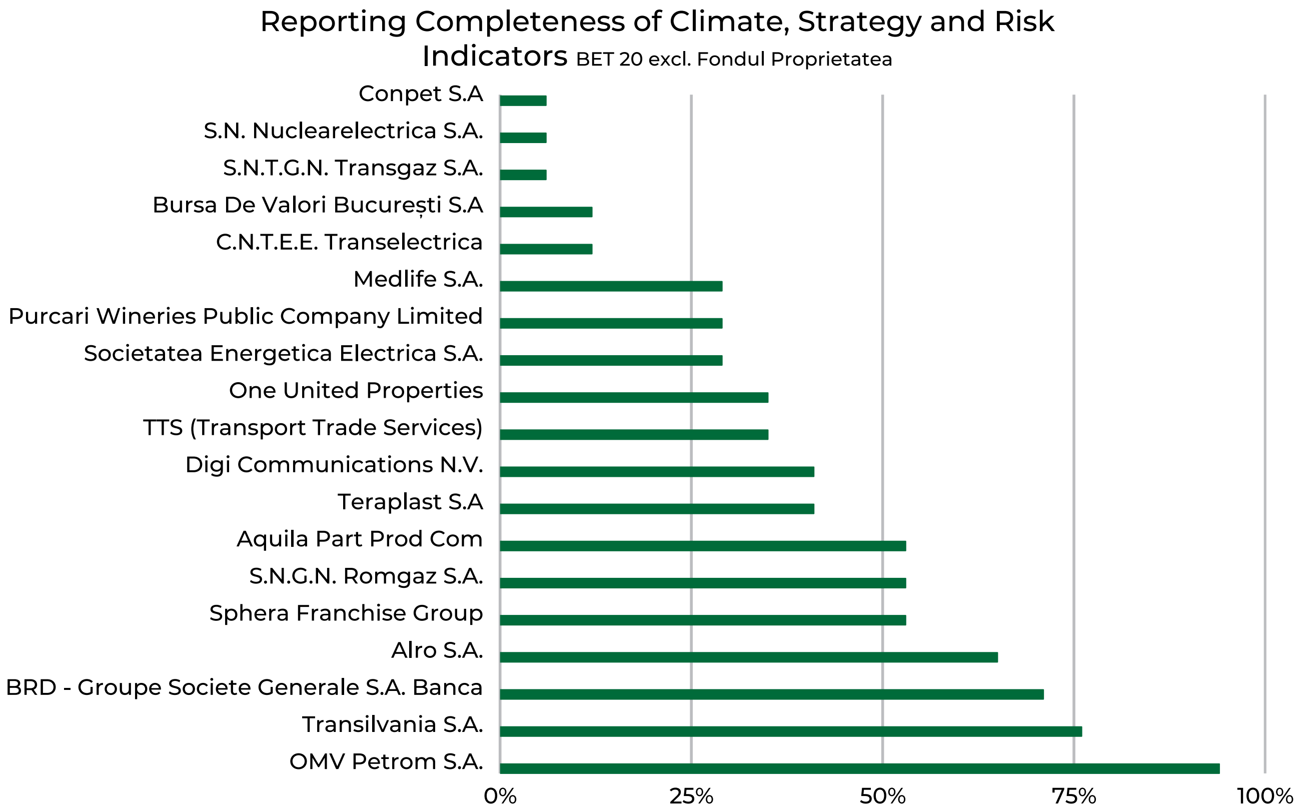
On energy consumption, close to 75% of BET companies communicate the yearly energy they consume. Surprisingly, large energy players like Transgaz and Conpet do not disclose this information. A breakdown between energy consumption from renewable and from non-renewable sources is not available even for the companies with the most advanced reporting (e.g.: OMV Petrom, Nuclearelectrica). The champions in terms of renewables as share of their own consumptions are Banca Transilvania and Electrica, with over 40% of their own energy consumptions being covered from renewable sources, closely followed by ONE United Properties, with 30%. The laggards, on the other hand, are Romgaz and Transgaz, with under 1% of internal energy consumption from renewable sources. Large players in terms of self-consumption, such as OMV Petrom or

[13] Expressed as a % of Romania's fossil emissions of 78.75 million tonnes of CO2e in 2021. Source: https://edgar.jrc.ec.europa.eu/report_2022#data_download

[14] UN HLEG on the Net Zero Emissions Commitments of Non-State Entities (2022): https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

Conpet, do not split consumption between renewables and non-renewables. So-called "creative accounting" in this area is also present. For instance, Transelectrica argues that, due to the nature of the local electricity market and the fact they purchase electricity for their own consumption on the day-ahead market, they cannot know the origin of the electricity they consume. However, based on the average national energy mix, they claim to be covering 44.2% of their own consumption from renewable sources. All examined companies claim they have energy consumption reduction objectives, yet even those companies that clearly measure and disclose their consumption do not disclose concrete targets for energy consumption reduction, listing instead general objectives in this direction and, in some cases, enumerating concrete investment plans.

Fig. 6. Reporting completeness across the individual BET member constituents



Source: Company disclosures

Only 16% of the BET report their eligibility to the EU Taxonomy. It becomes apparent that although OMV Petrom discloses well, a very small part of its CAPEX (under 6%) is eligible to be potentially called green under the EU Taxonomy, which begs the question - how will the largest emitter on the BET achieve its 2050 net-zero goal? Alro reports 81% turnover eligibility and 43% capex eligibility under the EU Taxonomy, which will be further enhanced by actual alignment figures later this year. On the banking side, Banca Transilvania however has a commendable policy to exclude new mining/fossil fuel-based energy production sector, having recently implemented a divestment of its entire debt exposure.

Recommendations on general usability of reporting:

- We advise companies to publish all documents pertaining to financial and non-financial information (e.g.: administrators report, annual report, sustainability report, etc.) in searchable PDF formats, not scanned photos. These documents should also be available in English and Romanian.
- The GRI index at the end of the sustainability reports should be replaced by GRI-themed sections inside the report and all GRI questions/ items pertaining to s standard should be answered or a plausible explanation be given why measurement was not possible.
- External auditing of sustainability reporting is strongly advised for all sustainability related disclosures, as it will be the required under CSRD.
- Sustainability objectives listed in corporate strategies should avoid imprecise language and contain instead clear targets and measurable objectives/ KPIs.
- Where subsidiaries exist, reporting data should be consolidated.[15]

Recommendations on climate reporting:

- Given the magnitude and economic impact of BET companies, all companies are advised to disclose their Scope 1,2 and 3 emissions, as well as energy consumption figures towards being considered as a viable investment opportunity by low carbon investors.
- All BET20 companies should commit to and demonstrate an investment plan in line with the 2050 goal, on a limited or no-overshoot transition pathway to 1.5°C.
- Interim carbon reduction targets should become the norm and be realistic, ambitious and congruent to the final objective of reaching net zero/ carbon neutrality.
- Even for companies that consider themselves to be "low carbon", quantifying GHG emissions resulting from operations is very relevant.[16] All GHG emissions should be accounted for and the sustainability reporting process should be aligned to the emissions measurement process.[17]

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[15] Nuclearelectrica, for instance, publishes disaggregated indicators for CNE Cernavodă and FCN Pitești, which require analysts to crunch and aggregate figures and targets.

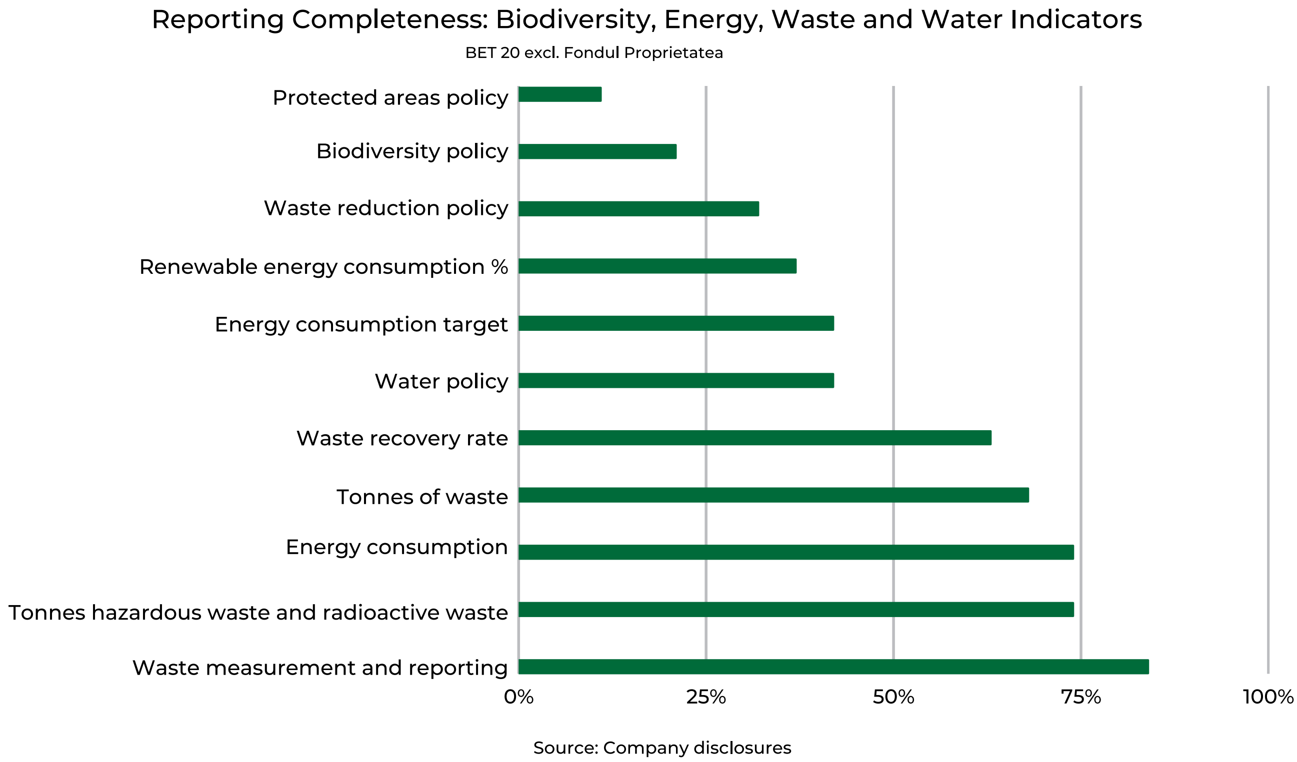
[16] Nuclearelectrica employs significant effort to calculate the CO_2 avoided due to their production of nuclear energy, yet does not measure the CO_2 emissions resulting from its own operations, let alone Scope 2 and 3.

[17] Transelectrica does not report, in its 2021 Sustainability Report, issued in the first months of 2022, its CO_2 emissions, arguing the measurement and reporting deadline is June 2022. At the time this present analysis was drafted (March 2023), this information had not been made public. The only GHG emissions it measures and reports on are SF6, making the reporting difficult to compare with peers..

Biodiversity, Energy, Waste and Water Reporting

Generally, transitioning from climate to biodiversity indicators, we see a sharp decrease in the level of attention and disclosure to biodiversity issues (21% of companies overall), waste issues (32% of companies) or water (42%). While companies have experience calculating and monitoring their energy consumption (over 74% of them), only 37% of companies report their renewable energy consumption as a % of total energy consumption.

Fig. 7. Reporting completeness across the biodiversity, energy, waste and water indicators

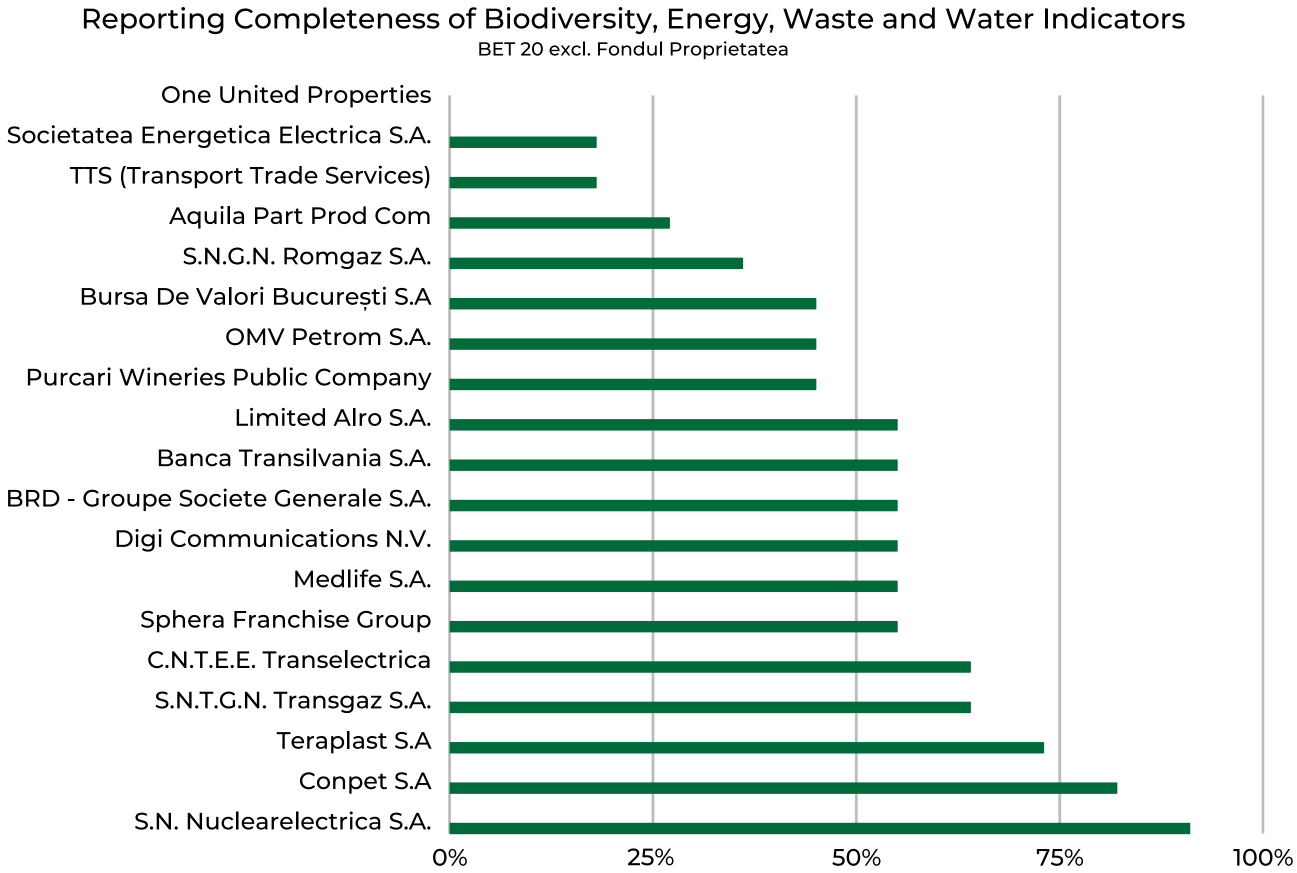


Out of the 18 BET companies that have a sustainability report in place, 13 are communicating the absolute amount of waste generated, yet only 5 have a publicly available waste reduction target in place. Unfortunately, the waste-related indicators companies report are very different and do not respect the GRI standards in place. Some report "eliminated waste" (without defining this concept, which is a non-standard indicator), others the recycling rate, while finally others the "valorisation rate of waste" (another non-standard, difficult to understand indicator). Furthermore, companies very often do not express straightforwardly the amount of waste they generate, by using standard units of measure - i.e. kilograms/ tonnes. For instance, Nuclearelectrica reports it generates 53 cubic metres of radioactive solid waste at CNE Cernavodă and 0.53 kilograms of radioactive solid waste that can be burnt/ number of nuclear fuel fascicles produced at FCN Pitești.

The recycling performance of BET companies is widely divergent: from a reported recycling rate of 77% at Electrica to approximately 2% at Conpet. The fact that almost all energy companies (with the notable exceptions of Transgaz and Transelectrica), plus Alro and pharma companies (Medlife, Teraplast) disclose the amounts of dangerous/ hazardous waste they generate is commendable.

With respect to biodiversity, 8/19 formulated a biodiversity policy, however very few report their full operations/policies in protected areas (2/19). We commend Banca Transilvania for having a policy which excludes lending in protected areas where the activities financed can have negative impacts on habitats. We are also delighted to see that the bank does not take as collateral properties that have been developed in protected areas or areas of high biodiversity value. Romgaz clearly mentions which part of their operations covers what protected areas, with Petrom and Electrica mentioning just the surface of operations within or in the proximity of protected areas. As a side note, 2% of OMV Petrom's operational surface is located in protected areas. Most companies with a clear impact on biodiversity have a biodiversity policy in place, yet in general it is disclosed only in broad terms.

Fig. 8. Reporting completeness across the biodiversity, energy, waste and water indicators by individual BET member constituent



Source: Company disclosures

Recommendations on environmental reporting other than climate:

- When reporting on waste, companies should follow GRI standard 306 in terms of the measured/ reported indicators and inspect the upcoming ESRS indicators on resource use and circularity underpinning CSRD. Data should be congruent and it should add up. The measurement unit used should be standard (kg or tonnes).
- Reduction targets (e.g.: for GHG emissions, for waste) are very rarely set, despite the best effort of companies to at least measure their impact. ESG target setting should be a core concern for the companies' boards. The targets should not be, in any case, less ambitious than existing performance, which is the case with Nuclearelectrica: it plans to increase by 50% the quantity of radioactive waste generated per MWh of electricity produced (from 5,09 cm^3/MWh in 2021 to 7,66 cm^3/MWh in 2022.)[18]
- When reporting on their biodiversity policy, companies should seek to disclose precisely what size of their operations is located in exactly which protected areas, how their operations are doing or avoiding harm to habitats and ecosystems.
- ESRS E3 Water and marine resources (underpinning CSRD), GRI standard 303 should be followed in terms of guidance with respect to water-related information disclosure. Where significant impacts on water do exist (e.g.: Nuclearelectrica even mentions that some radioactive residues end up in water) effluents should be clearly monitored and disclosed.

Social and Governance Reporting

As far as social issues are concerned, achieving gender equality is a highly important objective. While we were able to assess all companies on their gender diversity performance for their boards, their actual performance is less desirable with an average of 19% board gender diversity across the BET. 3 out of the 20 companies we examined have no women on their board (Electrica, Digi Communications, Sphera Franchise Groups), while 11 have a maximum of 20% women on board. Board gender balance is not achieved by any of the BET constituents, although a few are close to parity (BRD Groupe Societe Generale, Conpet and TTS).

Following international good practices with regards to transparency, c. 47% of BET20 companies are fully disclosing the remuneration of their board members. On the other hand, less than 21% publish their gender pay gap. The ones that did nonetheless published this data (Banca Transilvania, OMV Petrom, Romgaz, BRD Groupe Societe Generale) use a highly detailed format, breaking down the gender pay gap across hierarchical and functional levels.

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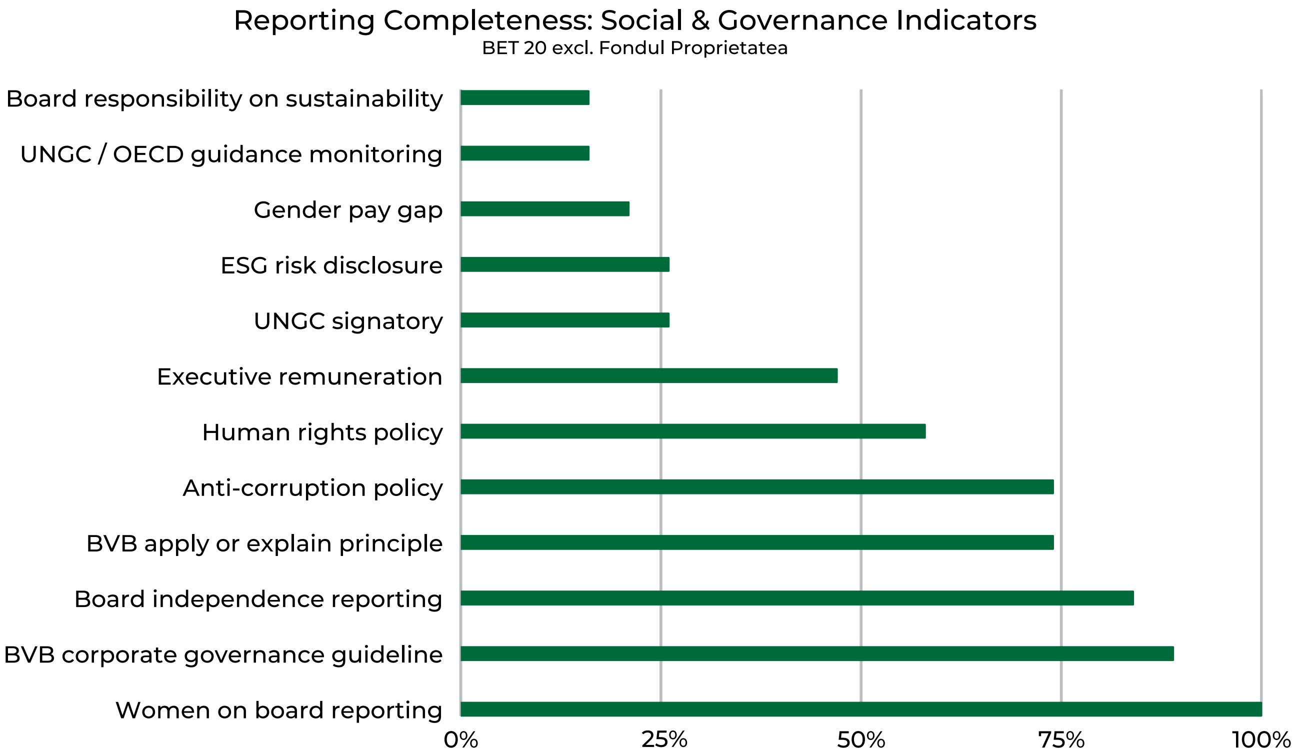
[18] Nuclearelectrica 2021 Sustainability Report, p. 91
https://www.nuclearelectrica.ro/wp-content/uploads/2022/04/2021.pdf

Fig. 9. Reporting completeness across social and governance indicators



Source: Company disclosures

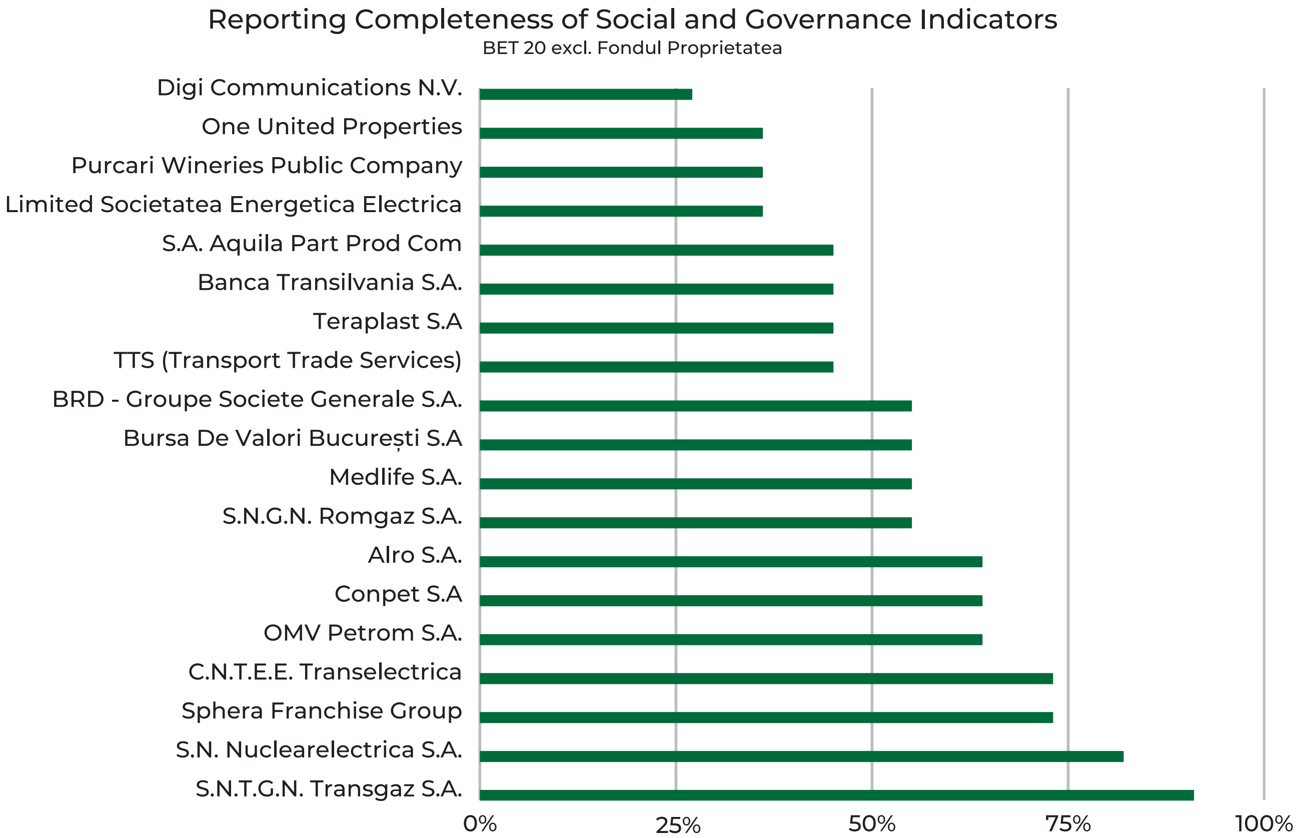
Many of the BET20 companies are reporting other social indicators, such as number of hours of training, and some even have distinct social involvement/ CSR reports, indicating the direction of corporate sponsorship and highlighting community involvement actions. The purpose of the current analysis is not these detailed matters, yet we could notice that sizable chapters of sustainability reports are dedicated to such issues. Over 58% of BET20 companies have a stand-alone human rights policy in place, and the others do report on diversity and discrimination policies and practices at company level in their corporate sustainability reports. Six out of the BET20 companies are recent members of UNGC (Nuclearelectrica, ONE United Properties, Teraplast, Aquila Part Prod Com, Sphera Franchise Group) and older members (OMV Petrom) are already submitting progress reports under UNGC. This is highly important as many SFDR Article 8 or 9 funds use the UNGC screen as a first qualifying condition to be part of their investment universe.

Based strictly on companies' reporting, the percentage of independent Board Members varies from 0% (Romgaz, Sphera Franchise Group) to 100% (Fondul Proprietatea). The average board independence across the BET is 39%. In general, companies in the energy sector tend to have lower percentages of independent board members (e.g.: OMV Petrom 33%, Transgaz 20%, etc.), while companies from non-energy sectors tend to have higher percentages (e.g.: One United

Properties, TTS and Aquila Part Prod Com at 60%). While in general reporting on the independence of board members is high, three companies do not report on this governance indicator: Transelectrica, Conpet and Medlife. Anecdotally, the truthfulness of the independence statement of the board can easily be questioned - for instance, the board member who claimed to be independent had occupied a managerial position in the last two years in one of the company's subsidiaries.[19]

When it comes to anti-corruption policies, a material risk for sustainability-oriented investors given Romania's track record on this matter, the encouraging aspect is that c.74% of BET20 companies disclose they have an anti-corruption policy in place and communicate, in their sustainability reporting, details regarding this policy. Many companies are also disclosing corruption incidents (zero in 2021) and quantify the corruption complaints investigated.

Fig. 10. Reporting completeness across the social and governance indicators for individual member constituents



Source: Company disclosures

[19] To evaluate board independence, we used the criteria for an administrator's independence from the BSB Corporate Governance Code.

From a governance perspective, it is unclear how much BET20 corporate boards are looking into ESG-related matters, as the responsibility of the board in sustainability matters is either not mentioned at all, in most cases, or very vaguely addressed. None of the examined companies discloses to have a board member or a board committee entrusted with monitoring sustainability matters and ESG risk.

As governance is closely related to compliance, most BET20 companies qualify for NFRD (and its national transposition) except companies with fewer than 500 employees - FP, BVB and ONE United Properties. Most companies, except for Conpet, do not report publicly on non-financial matters in the format mandated by (MPF) Orders No. 1938/2016 and No. 2844/2016. Some, such as Romgaz, Transgaz and Electrica state that their Sustainability Reports comply with these orders, while others make no such reference to them, despite having rich non-financial disclosures in their publicly available reports. A compliance status is not publicly available via the Ministry of Public Finance and companies' filings in this regard with MPF are not publicly available either. It is promising, nonetheless, that the vast majority of BET companies report their compliance with the BVB Corporate Governance Code and publish the Apply or Explain statement, usually in their annual reports. Yet, as mentioned earlier, the accuracy of the statements would need to be double checked, as our random examination proved.

Recommendations Social and Governance Indicators

- In terms of increasing attractiveness towards ESG and impact-oriented investors, BET20 companies need to improve on their diversity on both boards and in top management, primarily in terms of gender balance, for which will need to have 40% of the underrepresented sex among non-executive directors or 33% among all directors by 2026 according to EU law.[20]

- While most of the analyzed companies are transparent with regards to how Board remuneration is set, they do not fully report the actual remuneration package. We recommend an easy to follow table, in the Sustainability Report, disclosing not only that there is a remuneration policy in place, but also which have been the yearly remunerations for each board member, differentiated between fixed and variable components.

- Becoming signatories of the UNGC and observing and implementing closely the OECD Guidelines for multinational enterprises is highly important on the road to being fully eligible for sustainable investments which require companies to demonstrate adherence to Minimum Social Safeguards.[21]

- While having a stand-alone human rights policy in place is not necessarily a frequent practice among analysed companies, at least the references to human rights actions (existence of policy, monitoring mechanisms, Ombudsman structures, etc.) should be presented in greater detail in the Sustainability Reports.

- The truthfulness and accuracy of BVB Corporate Governance reporting should be double checked and ascertained by a third party or by BVB itself, especially on matters such as board and committee independence.

- The Ministry of Public Finance should publish data regarding companies' compliance with MPF Orders No. 1938/2016 and No. 2844/2016 and even make the reporting public.

- Companies should clearly designate a board member or a board committee in charge with sustainability/ ESG matters and disclose who that member is or who the members of the committee are, as well as the overall board responsibility in this regard.

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[20] EU Gender Equality Law: https://bit.ly/3yZLW0x

[21] EU Platform Report on Minimum Social Safeguards: https://bit.ly/40s6GcO

Concluding remarks

We hope this report serves the broader business, financial and policymaker community in Romania in navigating the most up-to-date sustainable finance policies and practices. By providing an extensive account of current ESG reporting completeness of BET constituents, the research aspires to link the Romanian, EU and the UK green business community and to raise the Romanian sustainability journey to its next level. We believe Romanian companies have an unprecedented chance to decarbonise their operations and economic activity, and boost their disclosure systems to attract sustainability minded investors in the medium and long term.

Looking ahead, the regulatory landscape is getting tighter, with the UK FCA proposing new rules against greenwashing. Numerous consultations launched by EBA, EIOPA and ESMA aim to gather evidence on the topic. All these signal that the foundation to success in sustainable and decarbonising capital markets is accurate reporting.

Annex 1. ESG Disclosure Completeness on the BET

Name of company	Did the company set an organisation wide carbon neutrality and net-zero target communicated publicly?	Which is the deadline for reaching carbon neutrality or net zero?	Is the company publishing a non-financial yearly report (also called a sustainability report)	Is the ustainability report externally audited?	If it is publishing a non-financial report, is it drafted according to GRI standards?
BANCA TRANSILVANIA S.A.	Yes	2050	Yes	Yes	Yes
OMV PETROM S.A.	Yes	2050	Yes	Yes	Yes
S.N.G.N. ROMGAZ S.A.	Yes	2050	Yes	No	Yes
BRD - GROUPE SOCIETE GENERALE S.A.	Yes	2050	Yes	Yes	Yes
S.N. NUCLEARELECTRICA S.A.	No	N/A	Yes	No	Partially
S.N.T.G.N. TRANSGAZ S.A.	No	N/A	Yes	No	Partially
SOCIETATEA ENERGETICA ELECTRICA S.A.	No	N/A	Yes	No	Partially
C.N.T.E.E. TRANSELECTRICA	No	N/A	Yes	No	Partially
BURSA DE VALORI BUCURESTI SA	No	N/A	Yes	No	No
CONPET SA	No	N/A	No	N/A	N/A
MEDLIFE S.A.	No	N/A	Yes	No	Yes
ALRO S.A.	Yes	N/A	Yes	No	Yes
DIGI COMMUNICATIONS N.V.	No	N/A	Yes	No	no
PURCARI WINERIES PUBLIC COMPANY LIMITED	No	N/A	Yes	No	Yes
ONE UNITED PROPERTIES	Yes	2022 (carbon neutrality)	Yes	No	Yes
TERAPLAST SA	No	N/A	Yes	No	Yes
TTS (TRANSPORT TRADE SERVICES)	Yes	N/A	Yes	No	Yes
AQUILA PART PROD COM	Yes	N/A	Yes	No	Yes
SPHERA FRANCHISE GROUP	Yes	N/A	Yes	No	Yes

Name of company	Does the company have a sustainability strategy in place?	GHG Scope 1 (t CO2 eq)	GHG Scope 2 (tCO_2e)	GHG Scope 3 (tCO_2e)	Does the company have in place a GHG or carbon emissions reduction target?	If yes, what are the interim targets?
BANCA TRANSILVANIA S.A.	Yes	4307.25	524.67	No	Yes	Scope 1 - 20% by 2023 compared to 2018 base year.
OMV PETROM S.A.	Partially	4040000	94000	23330000	Yes	Scope 1 - 30% by 2030. Scope 2 & 3 - 20% by 2030.
S.N.G.N. ROMGAZ S.A.	Partially	406980	614	No	Yes	10% to 2030 (compared to base year 2020)
BRD - GROUPE SOCIETE GENERALE S.A.	yes	5941	9892	Partially (3422)	Yes	2030 reduction of 50% just for HQ and IT part of the business.
S.N. NUCLEARELECTRICA S.A.	No	No	No	No	No	No
S.N.T.G.N. TRANSGAZ S.A.	No	No	No	No	No	No
SOCIETATEA ENERGETICA ELECTRICA S.A.	No	18403	444247	9968027	No	No
C.N.T.E.E. TRANSELECTRICA	No	No	No	No	No	No
BURSA DE VALORI BUCURESTI SA	Yes	No	No	No	No	No
CONPET SA	No	No	No	No	No	No
MEDLIFE S.A.	Yes	No	No	No	No	No
ALRO S.A.	Yes	678824.87	No	No	Yes	No
DIGI COMMUNICATIONS N.V.	Yes	No	No	No	No	No
PURCARI WINERIES PUBLIC COMPANY LIMITED	Yes	No	No	No	Yes	No
ONE UNITED PROPERTIES	Yes	No	No	No	Yes	No
TERAPLAST SA	Yes	2669	22494	No	No	No
TTS (TRANSPORT TRADE SERVICES)	Yes	No	No	No	Yes	No
AQUILA PART PROD COM	Yes	19471.42	2390.28	No	Yes	0.1
SPHERA FRANCHISE GROUP	Yes	1371.34	14015.69	No	No	No

Name of company	Does the company measure and report the waste it produces?	Tonnes of waste	Tonnes of hazardous waste and radioactive waste
BANCA TRANSILVANIA S.A.	Yes	117.28	2.39
OMV PETROM S.A.	Yes	605172	333157
S.N.G.N. ROMGAZ S.A.	Yes	2377	195
BRD - GROUPE SOCIETE GENERALE S.A.	Yes	212	0
S.N. NUCLEARELECTRICA S.A.	No	No	Reporting at facility level only
S.N.T.G.N. TRANSGAZ S.A.	No	No	No
SOCIETATEA ENERGETICA ELECTRICA S.A.	Yes	18532	185
C.N.T.E.E. TRANSELECTRICA	Yes	10519.56	No
BURSA DE VALORI BUCURESTI SA	No	No	No
CONPET SA	Yes	4928	No
MEDLIFE S.A.	Yes	No	301.87
ALRO S.A.	Yes	652276	1961.34
DIGI COMMUNICATIONS N.V.	Yes	No	0
PURCARI WINERIES PUBLIC COMPANY LIMITED	Yes	No	0
ONE UNITED PROPERTIES	Yes	162063.8	0
TERAPLAST SA	Yes	1723311.71	16931
TTS (TRANSPORT TRADE SERVICES)	Yes	586771.488	0
AQUILA PART PROD COM	Yes	594.2	0
SPHERA FRANCHISE GROUP	Yes	8895.23	No

Name of company	Waste recovery rate (%)	Does the company have a waste reduction target in place?	Does the company have a water policy?	Does the company have a biodiversity policy?	Does the company disclose any operations in protected areas?
BANCA TRANSILVANIA S.A.	No	Yes	Yes	Yes	Yes
OMV PETROM S.A.	83	No	Yes	Yes	Partially
S.N.G.N. ROMGAZ S.A.	19	No	Yes	Yes	Yes
BRD - GROUPE SOCIETE GENERALE S.A.	12.7	Partially	No	Yes	No
S.N. NUCLEARELECTRICA S.A.	No	No	Yes	Partially	No
S.N.T.G.N. TRANSGAZ S.A.	98	No	No	Partially	No
SOCIETATEA ENERGETICA ELECTRICA S.A.	77	No	No	Partially	Partially
C.N.T.E.E. TRANSELECTRICA	96.3	No	No	No	No
BURSA DE VALORI BUCURESTI SA	No	No	No	No	No
CONPET SA	No	No	No	No	No
MEDLIFE S.A.	No	Yes	Yes	No	No
ALRO S.A.	30.6	Yes	Yes	No	No
DIGI COMMUNICATIONS N.V.	100	no	No	No	No
PURCARI WINERIES PUBLIC COMPANY LIMITED	No	Yes	No	No	No
ONE UNITED PROPERTIES	No	No	Yes	No	No
TERAPLAST SA	13.7	No	No	No	No
TTS (TRANSPORT TRADE SERVICES)	1	No	Yes	No	No
AQUILA PART PROD COM	94.5	Yes	No	No	No
SPHERA FRANCHISE GROUP	13.7	Yes	No	No	No

Name of company	Board's responsibility on sustainability	Anti-corruption policy	Human rights policy	Remune-rations of board members	% of women in board	% of inde-pendent board members	Gender pay gap
BANCA TRANSILVANIA S.A.	Yes	Yes	Yes	Partially	14	71	Yes
OMV PETROM S.A.	Partially	Yes	Yes	Yes	11	33	Yes
S.N.G.N. ROMGAZ S.A.	No	Yes	No	Yes	10	0	Yes
BRD - GROUPE SOCIETE GENERALE S.A.	Yes	Yes	Yes	Partially	44	33	Yes
S.N. NUCLEARELECTRICA S.A.	Partially	Yes	Yes	Yes	20	40	No
S.N.T.G.N. TRANSGAZ S.A.	No	No	No	Yes	20	20	No
SOCIETATEA ENERGETICA ELECTRICA S.A.	Partially	Yes	No	Yes	0	57	No
C.N.T.E.E. TRANSELECTRICA	No	No	No	Yes	28	No	No
BURSA DE VALORI BUCURESTI SA	No	No	No	No	22	78	No
CONPET SA	No	Yes	No	Yes	42	No	No
MEDLIFE S.A.	No	No	No	yes	16	No	No
ALRO S.A.	No	Yes	Yes	No	27	27	No
DIGI COMMUNICATIONS N.V.	No	Yes	Yes	Partially	0	29	No
PURCARI WINERIES PUBLIC COMPANY LIMITED	No	Yes	No	No	20	20	No
ONE UNITED PROPERTIES	Yes	Yes	Yes	No	14	60	No
TERAPLAST SA	No	Yes	Yes	Partially	2	40	No
TTS (TRANSPORT TRADE SERVICES)	No	Yes	Yes	Yes	4	60	No
AQUILA PART PROD COM	No	No	Yes	No	2	60	No
SPHERA FRANCHISE GROUP	No	Yes	Yes	No	0	0	No

Name of company	Does the company respect the BVB corporate governance guideline?	Does the company publish the Apply or Explain principle, in accordance to the BVB corporate governance guideline?	Does the company have policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises	Is the company part of UNGC?
BANCA TRANSILVANIA S.A.	Yes	Yes	Yes	No
OMV PETROM S.A.	Yes	Yes	Yes	Yes
S.N.G.N. ROMGAZ S.A.	Yes	Yes	No	No
BRD - GROUPE SOCIETE GENERALE S.A.	Yes	Yes	No	No
S.N. NUCLEARELECTRICA S.A.	Partially	No	No	Yes
S.N.T.G.N. TRANSGAZ S.A.	Partially	Yes	No	No
SOCIETATEA ENERGETICA ELECTRICA S.A.	Yes	Yes	No	No
C.N.T.E.E. TRANSELECTRICA	Yes	Yes	No	No
BURSA DE VALORI BUCURESTI SA	Yes	Yes	No	No
CONPET SA	Yes	Yes	No	No
MEDLIFE S.A.	Yes	No	No	No
ALRO S.A.	Yes	No	No	No
DIGI COMMUNICATIONS N.V.	Yes	Yes	No	No
PURCARI WINERIES PUBLIC COMPANY LIMITED	Yes	Yes	No	No
ONE UNITED PROPERTIES	Yes	Yes	No	Yes
TERAPLAST SA	Yes	No	Yes	Yes
TTS (TRANSPORT TRADE SERVICES)	Yes	No	No	No
AQUILA PART PROD COM	Yes	Yes	No	No
SPHERA FRANCHISE GROUP	Yes	Yes	No	Yes