Navigating UK and EU Sustainability Rules: A Guide for BCC Members

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Introduction

Environmental, Social, and Governance (ESG) regulations are **reshaping corporate responsibilities across Europe, with Luxembourg playing a key role in driving sustainability initiatives**. Post-Brexit, the UK and EU have developed distinct ESG frameworks, requiring businesses operating in both regions to navigate differing compliance requirements. This paper compares the UK and EU regulatory landscapes, focusing on key directives such as the **CSRD, SFDR, and EU Taxonomy**, and their implications for UK businesses with operations in Luxembourg.

It also highlights Luxembourg's proactive approach to ESG compliance, including regulatory oversight, financial incentives, and dedicated sustainability programmes. With the anticipated **EU Omnibus Regulation** set to streamline and harmonise existing ESG rules, businesses must remain agile to ensure compliance and competitiveness. By understanding these evolving requirements and leveraging Luxembourg's support mechanisms, companies can turn ESG compliance into a strategic advantage.

A concise comparison between the UK and EU regulatory system and how they differ

Post-Brexit, the United Kingdom and the European Union have developed distinct approaches to ESG regulations, leading to notable divergences in policy and implementation. In the European Union, three key regulations shape the ESG landscape.

The Corporate Sustainability Reporting Directive (**CSRD**) requires European companies, both private and public, and non-EU companies with significant EU presence to report on their environmental and social impact, with mandatory audits. It expands the Non-Financial Reporting Directive (**NFRD**) with broader requirements.

The Sustainable Finance Disclosure Regulation (**SFDR**) requires financial market participants to disclose how they integrate sustainability risks into their investment decisions, aiming to enhance transparency and prevent greenwashing.

The **EU Taxonomy** provides a classification system to identify environmentally sustainable economic activities, serving as a benchmark for investors.

In the United Kingdom, the regulatory framework is evolving separately. The EU's CSRD does not apply in the UK but may affect certain UK companies.

The UK Government plans to introduce UK Sustainability Disclosure Standards (**UK SDS**) by Q1 2025. Based on the IFRS Sustainability Disclosure Standards (IFRS SDS), UK SDS aims for global comparability but may include UK-specific adjustments. Differences between IFRS

SDS and EU CSRD, such as in materiality, could create challenges for interoperability and unified reporting[1].

The Sustainability Disclosure Requirements (**SDR**), introduced by the Financial Conduct Authority (FCA), include **specific ESG labels for investment products**. However, adoption has been gradual, with major fund houses yet to fully embrace the new labels.

The **UK Green Taxonomy** is also under development and may diverge from the EU's criteria, particularly concerning the inclusion of nuclear energy and hydrogen.

The UK's decision to develop its own ESG framework, distinct from the EU's, has led to regulatory divergence. This separation allows the UK to tailor its regulations to domestic priorities but increases complexity for businesses operating across both jurisdictions. Companies must navigate differing disclosure frameworks, labelling standards, and compliance requirements, potentially leading to higher operational costs and the need for more robust compliance strategies. **Particularly important are the thresholds that trigger the application of EU reporting rules to the global operations of UK parent companies**. These are detailed, and legal advice is essential to navigate them correctly.

The following is general "educative" guidance only and should in no circumstances be relied upon without seeking specialist, tailored advice.

The main EU regulations impacting UK businesses with subsidiaries or business partners in the EU – Guidance for BCC Members

Non-Financial Reporting and the Corporate Sustainability Reporting Directive (CSRD)

Going back to 2014, through the adoption of the Non-Financial Reporting Directive (also known as the NFRD), the EU started by requiring large public-interest companies (such as listed firms and financial institutions) to publish non-financial information about how they address social and environmental issues. This initial directive paved the way for an expanded version called the Corporate Sustainability Reporting Directive (CSRD). The CSRD broadens the scope to include more companies and demands **more detailed reports on topics like climate change, labour practices, and anti-corruption measures**. Crucially, these **disclosures will need to be verified by external auditors, increasing both transparency and accountability**.

For UK companies with a branch, subsidiary, or major business in Luxembourg

- If your Luxembourg entity meets the CSRD thresholds, it must follow these reporting rules, even if your UK parent company is subject to different regulations. Importantly, non-EU companies will be subject to CSRD reporting at the ultimate parent level on a consolidated basis if the thresholds are crossed. The thresholds are based on multiple criteria, not just

[1] https://www.brightest.io/uk-sustainability-reporting

turnover, and great care is needed to measure your business and its needs against these. Implementation is also staggered in the next few years so that some businesses that were exempt in the previous year will be caught by the next.
- In the reverse case, the activities of non-EU entities under an EU parent company will also need to be reported on a consolidated basis.
- A holding company based in the EU (*e.g.* Ireland or Luxembourg) must account for all its subsidiaries when assessing size and incorporate their operations into its CSRD report.
- If a parent company publishes a CSRD-compliant sustainability report that covers the entire group, its in-scope subsidiaries would not be required to produce separate reports. However, this exemption does not apply to large subsidiaries with listed securities that meet the general scoping criteria. These entities must still prepare their own sustainability reports.
- Ultimately, aligning data collection and reporting standards between the UK and Luxembourg can streamline compliance and reduce duplication.

Sustainable Finance Disclosure Regulation (SFDR)

SFDR primarily targets **financial-market participants like fund managers, banks, and insurers.** They must explain how they incorporate sustainability into their products and manage related risks. This often means they will ask for more ESG data from the companies they invest in or lend to.

For UK companies with a branch, subsidiary, or major business in Luxembourg

- Even if your main business is in the UK, your Luxembourg subsidiary may need to provide additional ESG metrics to local banks or investors who are subject to SFDR.
- Establish a clear reporting framework that covers both UK and EU requirements so you can respond effectively to such data requests.

Defining "Green" through the EU Taxonomy Regulation

The EU Taxonomy defines what qualifies as environmentally sustainable, covering sectors like renewable energy, manufacturing, real estate, and transport. It helps businesses avoid "greenwashing" by setting consistent criteria.

For UK companies with a branch, subsidiary, or major business in Luxembourg

- If you market any part of your operation as "green" within the EU, ensure your subsidiary's activities conform to the EU Taxonomy.
- When seeking EU-based sustainable financing, your Luxembourg subsidiary's adherence to these definitions can boost credibility and access to funding.

A Future Rule on Supply Chain Responsibility

The Corporate Sustainability Due Diligence Directive (also known as **CS3D**) requires companies with an EU footprint, including operations of subsidiaries and business partners, to **address human rights and environmental impacts in their value chains, with civil liability for due diligence failures resulting in causing or contributing to harm**. It also **aims to provide a harmonised legal framework for corporate due diligence across Europe**.

For UK companies with a branch, subsidiary, or major business in Luxembourg

- If your Luxembourg subsidiary is part of a broader supply chain spanning multiple countries, you may need to enhance oversight of your sourcing and production practices.
- Planning ahead by mapping suppliers and identifying risks will help you comply swiftly when this rule becomes law.

At the time of writing this article, the European Commission is preparing what is dubbed as the **'EU Omnibus Regulation' designed to simplify and streamline its corporate sustainability rules (in particular the CSRD, CS3D and the EU Taxonomy)**. The goal is to reduce the compliance burden on companies, and consequently contribute to increasing economic competitiveness within the EU, while continuing to address the very pressing challenges of climate change and its associated impacts.[2]

One of the objectives, aside from simplifying and harmonising the three regulations is to delay some compliance deadlines to give businesses, particularly smaller and medium-sized companies, more time to prepare.

However, the easing of sustainability disclosure requirements for SMEs should not be seen as the EU stepping back from its commitments. ESG reporting is here to stay, and **being CSRD-ready offers a competitive edge, given its alignment with the UK and International Sustainability Standards Board (ISSB) standards that influence global regulations**[3]. Companies that stay ahead will **enhance their reputation, attract partners, and improve access to capital** as financial firms increasingly prioritise sustainability credentials.

Proactive preparation will also help **mitigate financial risks, strengthen organisational resilience, and drive operational efficiencies**. Improved sustainability data will support **better communication strategies and long-term business positioning**. Additionally, highlighting the commercial and strategic benefits of compliance can help gain internal buy-in. As companies increasingly assess their supply chains, early preparation could unlock future business opportunities[4].

The need for certainty and continuity has already made a group of 'heavy-weight' investors to urge the EU not to backlash on pushing ahead with the ESG reporting, according to Bloomberg quoted by Luxembourg Times. Investors and asset managers need to make choices on where to allocate funds, and they need a stable regulatory framework that ensures they can do that with confidence, aligning investments with long-term sustainability goals.

The current discussions relating to an omnibus regulation should also be seen as an opportunity for UK corporates and financial industry players, to engage with the EU and work on aligning their ESG reporting policies, thus strengthening the continent's competitiveness further. Now

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[2] https://www.erm.com/insights/the-eu-omnibus-regulation-preparing-for-changes-to-european-sustainability-disclosure-regulations/
[3] https://www.responsible-investor.com/eu-omnibus-issb-pushes-eu-to-align-csrd-with-global-disclosures/
[4] https://www.abeautifulgreen.com/en/everything-about-csrd/

is the time when the businesses should collect data and share their views with the industry groups and the EC, to contribute to the process of public consultation on the omnibus.

How the Luxembourg ecosystem leads the way by providing support to your business to be sustainable

Like the UK (before the Brexit), Luxembourg has a good track record of implementing EU directives into national law quite efficiently. Its government and regulatory bodies are well known for promoting high standards of transparency and innovation. This approach extends to ESG obligations.

For instance, Luxembourg has updated its company reporting rules to reflect EU standards on non-financial disclosure. It was preparing to incorporate the stricter obligations of the CSRD until the entire process was put on hold by EC President Ursula von der Leyen's announcement that an omnibus regulation would likely replace the current relevant regulations.

How has Luxembourg so far implemented the ESG regulations?

Monitoring by the Financial Regulator

Luxembourg's financial regulator, the *Commission de Surveillance du Secteur Financier* (**CSSF**), has issued guidance for local financial institutions to fulfil their obligations under the SFDR. The **CSSF also keeps a close eye on how banks, fund managers, and investment firms communicate about green products**, working to prevent any misleading claims.

Luxembourg Stock Exchange Leadership

The Luxembourg Stock Exchange has a special platform, the **Luxembourg Green Exchange (LGX), dedicated to listing green and sustainable financial products**. By doing so, it boosts transparency and encourages global investors to support genuinely sustainable projects.

If your business plans to issue bonds or other financial instruments to fund green initiatives, LGX can offer valuable visibility and credibility.

Overall, these measures underscore Luxembourg's desire to position itself as a leading centre for sustainable finance and responsible business practices. Companies here need to be aware of the evolving rules, but they can also benefit from the country's supportive ecosystem for ESG.

Grants and Government Initiatives in Luxembourg

Many businesses worry about the cost of becoming more sustainable. Fortunately, Luxembourg provides various forms of support – funds, advice, and networking opportunities – that make the transition more affordable and strategic. Here are a few notable programs:

- **Fit 4 Sustainability**

This initiative, managed through the national innovation agency (**Luxinnovation**), is designed to help companies assess where they stand in terms of energy usage, waste management, and resource efficiency. **Participating firms get expert guidance, develop practical improvement plans, and may receive financial support to reduce the cost of audits or consulting services**. It is a hands-on way to identify sustainability gaps and start improving.

- **State Aid for Environmental Projects**

Luxembourg has made **funding available for businesses that invest in green technology, renewable energy systems, or energy-saving measures**. This can take the form of grants or rebates that help offset installation costs, such as putting solar panels on your office roof or upgrading to more energy-efficient machinery. Whether you are a small enterprise or a larger company, these incentives can lower your upfront expenses and accelerate a return on investment.

- **Support for Circular Economy and R&D**

The government strongly promotes the circular economy, where waste is minimised, and materials are reused. Through partnerships with research institutions or direct support from Luxinnovation, companies may receive grants for projects that develop circular products, improve recycling methods, or revamp manufacturing processes to produce less waste. **This kind of funding can help you experiment with eco-friendly business models and bring innovative products to market faster**[5].

- **Luxembourg Sustainable Finance Initiative (LSFI)**

While not a direct grant scheme, LSFI is a public-private platform that connects businesses, investors, and policymakers. Through networking events, training sessions, and guidance materials, LSFI helps companies learn about ESG expectations and discover collaboration opportunities. By getting involved, **you can stay informed about funding prospects and regulatory shifts in sustainable finance, ensuring you remain a step ahead**.

Additionally, the government provides **tax incentives to support the green transition, including investment tax credits for digital and sustainable technologies**, with further adjustments planned to align with EU climate goals.

Institutions driving these initiatives include **Luxinnovation**, **House of Sustainability, and Luxembourg Chamber of Commerce**, along with sector-specific support from various other 'houses', such as **Luxembourg House of Financial Technology (LHoFT), House of Start-ups**, **House of Entrepreneurship**, etc. These efforts align with Luxembourg's ambition to attract innovative businesses and position itself as a European hub for start-ups in tech, healthcare, space, and defence.

[5] https://gouvernement.lu/dam-assets/documents/actualites/2021/02-fevrier/08-strategie-economie-circulaire/Strategy-circular-economy-Luxembourg-022021.pdf
https://guichet.public.lu/en/entreprises/financement-aides/aides-recherche-developpement/rdi/aides-rdi.html

Conclusion

The regulatory divergence between the UK and EU post-Brexit has created distinct ESG compliance landscapes, impacting businesses that operate across both jurisdictions. While the EU maintains a structured and mandatory ESG framework through the CSRD, SFDR, and Taxonomy, the UK is shaping its own approach with UK SDS and SDR. This separation allows for tailored regulations but increases complexity for companies navigating both markets.

For UK businesses with EU operations or subsidiaries, understanding these differences is crucial to ensure compliance and maintain access to European markets. The evolving nature of ESG regulations, including the anticipated EU Omnibus Regulation, highlights the importance of proactive engagement and adaptability. **Businesses that align their ESG strategies with both UK and EU frameworks will not only meet compliance obligations but also gain a competitive advantage in attracting investment, enhancing transparency, and driving sustainable growth**.

The rise of ESG requirements in the EU – and their adoption in Luxembourg – reflects broader global trends toward more responsible, transparent, and sustainable business practices. Although keeping track of new rules can seem challenging, Luxembourg offers an environment rich in support and incentives, from government grants to expert-led initiatives, that can help businesses navigate these shifts.

By focusing on the underlying goals – protecting the environment, supporting strong social policies, and maintaining robust governance – companies can do more than merely comply. They can position themselves as **trustworthy and forward-thinking, attracting new customers, talented employees, and long-term investors**. Ultimately, **treating ESG as an opportunity rather than an obligation can lead to innovation, efficiency gains, and an enhanced reputation** – vital ingredients for sustained success in a rapidly changing world.

Resources

https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

https://lsfi.lu/regulations/corporate-sustainability-reporting-directive-csrd/

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https://www.brightest.io/uk-sustainability-reporting

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https://www.luxtimes.lu/europeanunion/investors-with-6.6-trillion-warn-eu-not-to-bow-to-esg-backlash/37606784.html?utm_source=luxtimes&utm_medium=newsletter&utm_content=subteasers&utm_term=0-1&utm_campaign=morning_edition

https://www.erm.com/insights/the-eu-omnibus-regulation-preparing-for-changes-to-european-sustainability-disclosure-regulations/

ANNEX

List of guides and regulations (EU-wide, Luxembourg-specific, international)

European Regulations

1. Corporate Sustainability Due Diligence Directive **(CSDDD)** (2024): Introduces requirements for companies to incorporate sustainability into governance and to perform due diligence on environmental and social impacts. It provides for phased implementation depending on company size and turnover.

2. Corporate Sustainability Reporting Directive **(CSRD)** (2022, pending transposition into national law): Expands upon the Non-Financial Reporting Directive (NFRD) and mandates sustainability reporting for a wider range of companies, focusing on transparency around ESG impacts. It provides for phased implementation depending on company size and turnover.

3. Circular Economy Action Plan (2015, updated in 2023): Encourages a shift from a linear to a circular economy to reduce waste and resource use, targeting industries like electronics, packaging, and plastics.

4. The Green Deal Industrial Plan (2023): Provides a roadmap for sustainable, digitalised, and resilient industries across the EU.

5. Sustainable Finance Disclosure Regulation **(SFDR)** (2021): Requires financial market participants to disclose how they consider sustainability risks in their decision-making processes.

6. EU Taxonomy Regulation (2020, effective 2021): Establishes a classification system for environmentally sustainable economic activities to guide sustainable investment decisions.

7. European Green Deal (2019): Aims to make the EU climate-neutral by 2050, including policies and regulations that impact energy, transport, agriculture, and biodiversity.

8. Shareholder Rights Directive II **(SRD II)** (2017, effective 2019): Encourages long-term shareholder engagement, requiring companies to provide greater transparency on ESG-related issues.

National References (Luxembourg)

1. National Sustainable Development Plan (PNDD) (2019): Aligns Luxembourg's sustainability efforts with the UN's Sustainable Development Goals (SDGs), guiding national policies toward 2030 targets.

2. Climate Law and Integrated National Energy and Climate Plan (PNEC) (2019): Establishes Luxembourg's national climate objectives, including a net-zero target for 2050 and significant emissions reductions by 2030.

3. Circular Economy Strategy (2020): Luxembourg's approach to building a circular economy, including waste reduction and sustainable resource management.

4. **"Null Offall Lëtzebuerg" Strategy** (2020): A zero-waste policy to encourage waste reduction and recycling across the country.

5. **INDR's ESR Guide** (2019): Offers guidelines for Corporate Social Responsibility (CSR), supporting companies in embedding social and environmental practices.

6. **Diversity Charter (IMS Luxembourg)**: Promotes diversity and inclusion in Luxembourg's businesses, fostering a fair and diverse work environment.

7. **"Third Industrial Revolution" Strategy** (2015): Luxembourg's roadmap for economic transition towards a sustainable, digital economy with reduced resource consumption.

International References

1. **Science-Based Targets Initiative (SBTi)** (2023)**:** Helps companies set science-based targets to reduce greenhouse gas emissions, aligning with the Paris Agreement.

2. **Global Reporting Initiative (GRI) Standards** (2021, took effect in 2023): Provides a global standard for sustainability reporting, covering topics like environmental impacts, human rights, and economic performance.

3. **World Economic Forum's Stakeholder Capitalism Metrics** (2020): Offers a set of common metrics for companies to measure and report on their sustainable value creation.

4. **Paris Agreement** (2015, entered into force in 2016): Global commitment under the United Nations to limit global warming to below 2°C, with efforts to reach 1.5°C by 2050.

5. **UN Sustainable Development Goals (SDGs)** (2015): 17 global goals aimed at ending poverty, protecting the planet, and ensuring prosperity for all by 2030.

6. **Task Force on Climate-related Financial Disclosures (TCFD)** (2015; fulfilled its remit, now disbanded): Provided a framework for companies to disclose climate-related financial risks to improve transparency and resilience.

7. **OECD Guidelines for Multinational Enterprises (MNE Guidelines)**: Sets principles for responsible business conduct, including human rights, environmental protection, and ethical business practices.

8. **ISO 26000 (CSR Guidance)** (2010)**:** An international standard for Corporate Social Responsibility, guiding companies on how to operate in a socially responsible manner.

9. **UN Guiding Principles on Business and Human Rights** (2011): Establishes guidelines for businesses to prevent, address, and remedy human rights abuses connected to business activities.

10. **Responsible Research and Innovation (RRI) Tools** (2010): European framework promoting responsible innovation that aligns with societal needs and ethical standards.

UK Rules

1. **Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations** (2022): This regulation obliges certain companies to include climate-related financial disclosures in their strategic reports.

2. **Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations** (2022): This regulation extends climate-related financial disclosure requirements to qualifying limited liability partnerships.

3. **Streamlined Energy and Carbon Reporting (SECR) Regulations** (2019): Implemented through the Companies (Directors' Report) and Limited Liability Partnerships (Amendment) Regulations 2018, SECR requires large companies to report on their energy use and carbon emissions.

4. **UK Corporate Governance Code** (2018): Issued by the Financial Reporting Council, this code sets standards of good practice in relation to board leadership and effectiveness, remuneration, accountability, and relations with shareholders.

5. **Environment Act 2021**: This act provides a framework for environmental governance and includes provisions on air quality, water resources, waste management, and biodiversity.