

SUSTAINABILITY

NEWSLETTER – FEBRUARY 2026

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FEBRUARY UPDATE

01 CSRD simplification commentaries

Major EU organizations have commented on the CSRD simplification propositions validated in February:

- **European Banking Authority:** The EBA warns that simplifying ESRS would create data gaps that weaken banks' ability to assess climate risks and meet prudential requirements. Reduced granularity would undermine comparability and increase reliance on estimates.
- **European Securities and Markets Authority:** ESMA supports targeted simplification but insists core investor-relevant indicators must remain mandatory. Excessive flexibility in materiality would harm transparency and raise the cost of capital for issuers.
- **European Central Bank:** The ECB argues that simplification would impair climate-risk assessment, monetary-policy analysis and financial-stability monitoring. Fewer datapoints would increase model uncertainty and reduce the EU's credibility in sustainable finance.
- **European Insurance and Occupational Pensions Authority:** EIOPA stresses that insurers need detailed ESRS metrics for underwriting and investment decisions; optional disclosures would force reliance on third-party estimates. Simplification risks mispricing climate risks and fragmenting EU regulatory coherence.

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EU Climate law adoption

EU Climate Law: New Binding 2040 Target of -90% Emissions

- The European Parliament has approved a **binding 2040 climate target requiring the EU to cut net greenhouse gas emissions by 90% compared with 1990 levels**, reinforcing the path to climate neutrality by 2050.
- The revised law introduces flexibility for Member States, including the controlled use of international carbon credits and domestic permanent removals, alongside delayed entry into force of ETS2 to 2028.
- The Commission will review progress every two years, assessing scientific evidence, competitiveness, energy prices and net removals, with the possibility of adjusting the 2040 target or strengthening the policy framework.
- Once endorsed by the Council, the amended Climate Law will enter into force, building on **existing binding targets of -55% by 2030 and full climate neutrality by 2050**.

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EUROPE SUSTAINABILITY REGULATION

FEBRUARY UPDATE

02 ECB issues its first fine for insufficient climate risk identification

This February, the ECB issued its first fine for failure to meet climate risk modelling, marking the end of the multi-year grace period:

- **ECB's Penalty on Crédit Agricole** ECB imposed a €7.55 million penalty for failing to meet climate risk supervisory deadlines in 2024.
- **Climate Risk Supervisory Requirements:** ECB requires banks to rigorously identify, assess, and document climate and environmental risks.
- **Supervisory Escalation and Enforcement:** ECB escalated from guidance to binding decisions due to persistent climate risk management shortcomings.
- **Broader Implications for Banking Sector:** Penalty highlights the critical need for climate risk integration as a core prudential requirement.

ECB proposed guidance on integrating climate risks

1. Define physical and transition risks

2. Assess business model resilience and adapt long term planning

3. Reflect climate risks in risk appetite frameworks

4. Identify material risks and metrics

5. Integrate climate risks into risk management processes

6. Develop scenarios and stress tests

7. Disclose data, metrics, and plans

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ESG MARKET INSIGHTS

01

Relaunch of the Net Zero Asset Managers (NZAM) Initiative

Context and Relaunch

- The NZAM initiative officially relaunched in February 2026 after a one-year pause. The pause followed heightened political and regulatory scrutiny in the United States, including antitrust allegations and pressure from anti-ESG policymakers.

Scale and Participation

- The initiative now includes more than 250 signatories, representing a broad global base, although U.S. participation is reduced.
- Several major U.S. firms that had previously participated did not rejoin, while European and non-U.S. managers now dominate the membership.

Revised Commitment Framework

- NZAM introduced a revised signatory commitment designed to reduce legal and political risk.
- The updated framework removes explicit references to aligning portfolios with net zero emissions by 2050 eliminating mandatory interim targets.

Purpose of the Initiative

- NZAM is repositioned as a voluntary disclosure and transparency platform, rather than a prescriptive or collective target-setting framework.
- The initiative aims to enable asset managers to communicate how they address climate-related financial risks and opportunities, while respecting fiduciary duties and regional regulatory constraints.

Drivers of Change

- The relaunch reflects lessons learned, including claims that participation in climate initiatives could imply collusion or conflict with fiduciary obligations.
- A multistate lawsuit in the U.S. cited NZAM participation in broader allegations against major asset managers, accelerating the initiative's redesign.
- The softer framework increases participation flexibility but may also reduce comparability and ambition across signatories.
- For asset owners and allocators, **NZAM membership alone may no longer be a sufficient indicator of net-zero alignment** and requires deeper due diligence on individual manager commitments

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ESG MARKET INSIGHTS

02 Celebrating the achievements of Sustainability work in markets

Jefferies published its assessment of sustainability trends, naming it the **Glory Days of Sustainability**.

Sustainability is structurally embedded in markets

- Over 10,000 companies now have SBTi-validated targets, representing >40% of global market capitalization, confirming sustainability as a mainstream corporate strategy rather than a niche trend..

Climate risks are increasingly priced by markets

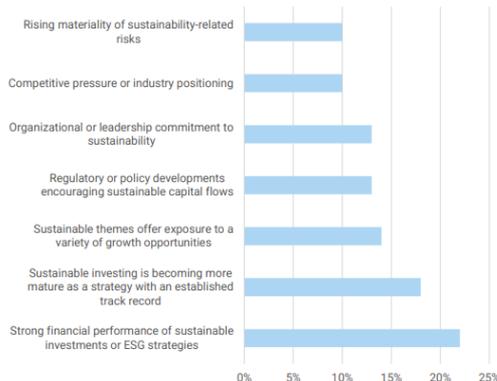
- Physical climate risk is impacting the cost of capital, particularly in infrastructure-heavy sectors such as utilities and materials, where higher risk exposure translates into higher WACC.
- Asset owners and managers broadly expect climate risk to affect specific assets, not just portfolios in aggregate.

Asset owners remain supportive of sustainable investing

- A large majority of asset owners expect allocations to sustainable funds to increase over the next two years. Key drivers include the financial materiality of sustainability risks, regulatory developments and exposure to long-term growth themes

Top reasons for increased asset allocation in sustainable investing over the next two years

(Asset owners that expect sustainable allocations to increase (n=570))



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NEW IN RESEARCH

01 ESG Ratings, News, and Market Reactions

Harvard Business School researchers George Serafeim and Aaron Yoon published a study on stock price reactions to ESG news:

Core results:

- Consensus on ESG ratings' ability to predict future ESG developments especially for financially material ESG issues.
- However, high disagreement between ESG rating providers significantly weakens this predictive power.

Market reaction to ESG news

- Markets react positively to positive ESG news and negatively to negative news.
- Positive ESG news is less price-impactful for firms with high ESG ratings, as good news is already priced in.
- Negative ESG news triggers similar negative reactions regardless of ESG rating.

Role of disagreement:

- When rating disagreement is high, ESG news is less efficiently incorporated into prices.
- In high-disagreement cases, markets struggle to interpret ESG signals, reducing price responsiveness.

Practical implications

- ESG ratings act as expectation-setting tools, not just descriptive scores.
- Rating disagreement can lead to mispricing when positive ESG outcomes are not yet priced in.
- ESG information is financially relevant, particularly when aligned with industry materiality.

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Can Aviation Fly Without Oil? A new paper from the Shift Project

Context: a sector under dual constraint

- Commercial aviation is fully dependent on fossil fuels and faces a double constraint: rapid decarbonization requirements and growing geopolitical and physical limits to oil supply.
- Aviation accounts for ~3% of global CO₂ emissions, rising to ~5% of total climate forcing when non-CO₂ effects are included.

Limited levers for decarbonization

- Emissions are driven by three factors: carbon intensity of energy, energy efficiency, and traffic volume. Expected efficiency gains (~1–1.5%/year) are outpaced by projected traffic growth (~3%/year.), and breakthrough technologies (e.g. hydrogen aircraft) are not available at scale before 2050.

Sustainable Aviation Fuels (SAF): necessary but insufficient

- SAF are indispensable to reduce aviation's carbon intensity, but biomass-based SAF are resource-constrained, and e-fuels require massive amounts of low-carbon electricity.
- Even under optimistic assumptions, SAF could at best cover around half of aviation fuel needs by 2050.

Key points



Replacing today's global kerosene consumption with e-SAF would require electricity volumes comparable to ~20% of current global power generation, illustrating the scale of the constraint.



BioSAF production is limited by competition on other soil usage: agriculture, biodiversity, wood production (e.g. for construction), non-aviation bioenergy demands.



Flying without oil is technically possible; flying ever more is not in a world constrained by climate and energy limits. The aviation transition to a reduced number of flights should be treated as a collective challenge and policy issue.

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IN FOCUS: ECONOMIC GROWTH AND GLOBAL HEATING

Key Takeaways from The Guardian's summary of current research

- **Growth and emissions remain closely linked.** At the global level, rising GDP continues to coincide with rising carbon emissions, despite decades of climate negotiations. In 2024, both global GDP per capita and annual carbon emissions reached record highs, reinforcing concerns that current growth models are incompatible with climate goals.
- **Growing challenge to GDP-centered economics,** faith in “growth for growth’s sake” is weakening among policymakers and economists. The UN Secretary-General has called for economies to “move beyond GDP” as the primary measure of progress, arguing that current accounting systems incentivize environmental destruction.
- **Post-growth vs green growth debate:** The article contrasts “green growth” (continued growth through efficiency and clean technology) with “post-growth” or “degrowth” approaches that prioritize wellbeing, planetary limits and reduced material throughput and which are gaining traction in some cities and countries.
- **Implications for climate action:** The evidence suggests that technological efficiency alone is unlikely to deliver emissions reductions at the scale and speed required. Addressing global heating requires structural economic changes including how prosperity, success and progress are defined.

Proposed solutions

Move beyond GDP as the primary measure of progress.

Accept limits to “green growth” alone as relative local decoupling has not led to global emission reductions.

Explore post-growth economic models as new models emerge e.g. the doughnut economics in Amsterdam and New Zealand’s consideration of a Wellbeing Budget.

Redesign economic systems to internalise environmental damage.

Reduce material and energy throughput in rich economies.

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