Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe

# SAFE Finance Blog

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# The SAFE Regulatory Radar in May

## Updated rules to strengthen non-financial reporting framework and to facilitate sustainable investment

*At the end of each month, the SAFE Regulatory Radar highlights a selection of important news and developments on financial regulation at the national and EU level.*

### Sustainable finance: Commission proposes new rules for non-financial reporting for banks, insurance companies, and large firms

On 21 April, the European Commission presented a broad legislative package to implement the EU action plan on sustainable finance.

To increase the effectiveness of sustainability reporting, the Commission published a proposal for a Corporate Sustainability Reporting Directive (CSRD) replacing the Non-Financial Reporting Directive (NFRD). The legislative act strives to ensure that investors and stakeholders get reliable information on the environmental, social and corporate governance (ESG) factors, and to establish comparable reporting across the EU.

The Taxonomy Regulation sets out the reporting requirements for two groups of actors, falling within the scope of NFRD and the Sustainable Finance Disclosure Regulation (SFDR), respectively. The latter refers to all financial market participants, including institutional investors, alternative investment fund managers (AIFM), and insurance undertakings.

Under the NFRD rules, banks and insurance companies with more than 500 employees as well as large listed companies are subject to the reporting obligation regarding ESG factors. The CSRD proposal removes the employee threshold and criteria for large firms. Therefore, it extends the scope of reporting to all large companies - whether they are listed or not - and to all companies listed on EU regulated markets, excluding only listed micro-enterprises. Affected companies will have to disclose climate change impacts for their investors as well as how sustainability issues affect their businesses. The Commission is going to prepare separate reporting standards for large companies and SMEs .

Currently, many companies have to meet numerous requirements under the different reporting standards and frameworks. The CSRD proposal foresees a "one-stop-shop" system that provides companies with a single solution and simplifies the disclosure process for businesses.

The CSRD proposal will be scrutinized by the European Parliament and Council. When adopted, the Directive will be applicable to the disclosures published in 2024, covering the financial year 2023.

### New regulation establishing technical screening criteria for defining sustainable economic activities

At the present time, the European Parliament and Council scrutinize the EU Taxonomy Climate Delegated Act that supplements the Taxonomy Regulation.

The delegated act sets out technical screening criteria to find out if an economic activity may contribute substantially to the first two environmental objectives of the Taxonomy Regulation: climate change mitigation and adaptation. The delegated act covers economic activities in such branches as transport, forestry, manufacture, and real estate. Depending on a concrete economic activity, technical screening criteria can be established in a form of a threshold, a relative improvement, or a set of qualitative performance requirements.

The delegated act will apply from 1 January 2022. As a dynamic act, it will be regularly updated, reflecting technological progress. In terms of next steps, the Commission is drafting a complementary delegated act covering agriculture and energy sectors as well as another delegated act that will focus on activities making a substantial contribution to the other four environmental objectives: sustainable use of water, transition to a circular economy, pollution prevention and protection of biodiversity.

### Sustainable finance: new obligations for insurance and investment advisors

As a part of a legislative package on sustainable finance, the Commission published six amending Delegated Acts on fiduciary duties, investment and insurance advice. The legislative acts propose targeted changes to the Markets in Financial Instruments Directive (MiFID II), the Directive on undertakings for collective investment in transferable securities (UCITS), the Alternative Investment Fund Managers Directive (AIFMD), Solvency II Directive, and the Insurance Distribution Directive (IDD). The amendments will have an impact on the financial market participants, e.g. investment firms, advisers, asset managers, and insurers.

The proposals introduce a definition of “sustainability preferences” into the respective regulation or directive that are the client’s choice to integrate financial instruments promoting ESG characteristics or sustainable objectives into the investment strategy. The delegated acts explain for each affected market participant how sustainability preferences must be considered in the product oversight and governance process. Market participants have to carry out a necessary assessment and prove if the financial instrument’s sustainability characteristics are suitable for the target market. Moreover, sustainability risks are to be estimated when establishing and implementing risk management procedures as well as complying with the organizational requirements.

The delegated act on the integration of sustainability factors into the product governance obligations under MiFID II has to be incorporated into national law by member states.The other delegated acts will be directly applicable in all EU countries in 12 months after their publication in the Official Journal of the European Union.

**Public consultations:**

- **European Commission**: public consultation on a draft Delegated Regulation specifying the disclosure obligations under Article 8 of the Taxonomy Regulation. The deadline is Wednesday, 2 June 2021.
- **European Commission**: public consultation on a roadmap for a strategy on supervisory data collection in EU financial services. The deadline is Tuesday, 15 June 2021.
- **European Commission**: public consultation on the updated rules for the non-financial reporting by large companies. The deadline is Tuesday, 13 July 2021.
- **European Commission**: public consultation on non-financial reporting by large companies. The deadline is Tuesday, 20 July 2021.
- **European Commission**: public consultation on the EU strategy for retail investors. The deadline is Tuesday, 3 August 2021.
- **European Banking Authority (EBA)**: public consultation on draft regulatory technical standards on a central database on anti-money laundering and countering the financing of terrorism in the EU. The deadline is Thursday, 17 June 2021.
- **EBA**: public consultation on draft guidelines on the delineation and reporting of available financial means of deposit guarantee schemes. The deadline is Wednesday, 28 July 2021.
- **EBA**: public consultation on draft implementing technical standards on supervisory reporting with respect to Additional Liquidity Monitoring Metrics. The deadline is Wednesday, 28 July 2021.
- **EBA**: public consultation on draft regulatory technical standards specifying the types of factors to be considered for the assessment of appropriateness of risk weights and the conditions to be taken into account for the assessment of appropriateness of minimum loss given default (LGD) values for exposures secured by immovable property. The deadline is Thursday, 29 July 2021.
- **The European Securities and Markets Authority (ESMA)**: public consultation seeking views from market participants on its MiFID II / MiFIR annual review report. The deadline is Friday, 11 June 2021.
- **The European Insurance and Occupational Pensions Authority (EIOPA)**: public consultation on the Interbank Offered Rates (IBOR) transitions. The deadline is Friday, 23 July 2021.

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**BACK**

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