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## The SAFE Regulatory Radar in July

New European sustainable finance strategy, introduction of a green bond standard and a carbon border tax, and the ECB's latest monetary policy decisions



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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.

### European Commission presents its Renewed Sustainable Finance Strategy

On 6 July 2021, the European Commission published its [Renewed Sustainable Finance Strategy \(RSFS\)](#) that contains ambitious commitments aiming to reach the goals laid down in the [Paris Agreement](#) and the [UN's 2030 Agenda for Sustainable Development](#). These policies follow the changes in climate and environmental legislation over the last years.

The Commission proposes six targeted legislative and regulatory initiatives. First, to extend the sustainable finance toolbox, the Commission will consider broadening the scope of the [Taxonomy Regulation](#) for economic activities with an intermediate level of environmental performance as well as continue its work on the technical screening criteria for all environmental objectives. The details of the recently adopted [EU Taxonomy Climate Delegated Act](#) covering the first two environmental objectives were outlined in the [Regulatory Radar](#) in May 2021. Elaboration of an Environmental, Social, and Governance (ESG) Benchmark Label that will be a uniform standard for climate transition investment portfolios is also a part of the strategy. Second, to enhance the inclusiveness of the sustainable finance framework, the [RSFS](#) foresees a work on a definition of and support for green loans and mortgages and addressing the data gap in the area of sustainable finance. Third, to strengthen the resilience of the economic and financial system to sustainability risks, the Commission will introduce targeted amendments to the [Capital Requirements Regulation \(CRR\)](#), [Capital Requirements Directive \(CRD\) IV](#), and [Solvency II Directive](#) to integrate sustainability risks in risk management systems of financial and insurance undertakings by the end of 2021. Fourth, to foster the contribution of the financial sector to sustainability, improvement of financial institutions' disclosures of sustainability targets and the reliability and comparability of [ESG](#) ratings are necessary. Fifth, to ensure an orderly transition, the Commission will observe greenwashing risks and elaborate a monitoring framework to measure capital flows. Finally, to promote international sustainable finance initiatives and standards, the Commission will deepen the work within the [International Platform on Sustainable Finance \(IPSF\)](#) launched in October 2019.

By the end of 2023, the Commission will provide a report on the implementation of the [RSFS](#).

### Introduction of a legislative framework for the European green bonds

On 6 July 2021, the European Commission published a legislative proposal on [European green bonds \(EuGB Regulation\)](#). The proposed framework strives to make it easier for investors and firms to identify environmentally sustainable investments and to promote the further development of the European market for green bonds. The regulation foresees high standards for green bonds to avoid the risk of "greenwashing".

The EuGB designation will be available for both EU and third-country issuers that meet all requirements until the maturity of the bond. All types of bond issuers, including financial and non-financial companies and public bodies, may voluntarily use the [EuGB](#) standard. To be called "green" the use of bond proceeds must comply with the criteria for environmentally sustainable economic activities in the sense of the [Taxonomy Regulation](#) within a defined period that cannot be longer than ten years. Green bonds may be offered to the public only after prior publication of the European green bond factsheet on the issuer's website and after the pre-issuance review by an external reviewer that must

be registered by the European Securities and Markets Authority (ESMA). The issuers of green bonds are required to disclose annual allocation reports and reports on the environmental impact of the use of the bond proceeds as well as to obtain a post-issuance review by an external reviewer. To ensure compliance with transparency rules, the national competent authorities (NCAs) of member states will be granted supervisory powers to apply administrative measures.

The [EU Emissions Trading System \(ETS\) Regulation](#) was sent for scrutiny by the European Parliament and the Council. Once it is formally adopted, this proposed Regulation will be binding and directly applicable in all member states.

### European proposal for a carbon border tax

On 14 July 2021, the Commission adopted a proposal for a new Carbon Border Adjustment Mechanism (CBAM) introducing a carbon price on imports of carbon-intensive steel, aluminum, cement, fertilizers, and electricity. The proposal aims to reduce the risks of 'carbon leakage' that takes place when polluting manufactures are transferred to countries with less stringent climate frameworks.

In detail, EU importers will be required to buy digital carbon certificates for the carbon price that would have been paid if the goods would be manufactured under EU carbon pricing rules. The price of the certificates will depend on the average price of permits auctioned in the EU carbon market, expressed in euro per ton of CO<sub>2</sub>. Under the proposal, EU importers must report embedded emissions and the number of goods imported on an annual basis. In contrast, once a non-EU manufacturer can prove the payment of carbon price in a third country, that cost can be fully deducted for the EU importer.

The carbon border tax will be phased in gradually. As of 2023, importers will be required to disclose emissions embedded in their goods, while other rules will be applicable as of 2026.

### ECB approves its new monetary policy strategy

On 8 July 2021, the Governing Council, the main decision-making body of the European Central Bank (ECB), approved its updated monetary policy strategy and decided to upgrade its inflation target to a symmetric two percent over the medium term. The [ECB](#) will also consider a transition period in which the rate of inflation is moderately above the target. Besides, the [ECB](#) Governing Council adopted a roadmap incorporating climate change considerations into its monetary policy framework. In detail, the [ECB](#) will develop new models to monitor the implications of climate change for the economy and experimental indicators to green financial instruments as well as new disclosure requirements for private-sector assets.

On 22 July 2021, the [ECB](#) Governing Council held a meeting on monetary policy and revised its guidance on interest rates. Interest rates will remain unchanged at -0.5 percent for the rate on the main deposit facility, 0 percent for the benchmark refinancing rate, and 0.25 percent for the marginal lending facility.

#### Current public consultations:

- **The European Banking Authority (EBA):** public [consultation](#) on supervisory reporting with regards to COREP and asset encumbrance reporting as well as the reporting for the purposes of identifying global systemically important institutions. The deadline is Thursday, 23 September 2021.
- **EBA:** public [consultation](#) on credit risk adjustments in the context of the calculation of the risk weight of defaulted exposures under the Standardised Approach. The deadline is Friday, 24 September 2021.
- **EBA:** public [consultation](#) on revised guidelines on common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing. The deadline is Tuesday, 28 September 2021.
- **EBA:** public [consultation](#) on the requirements for originators, sponsors, original lenders and servicers related to risk retention, in line with the Securitisation Regulation. The deadline is Thursday, 30 September 2021.
- **EBA:** public [consultation](#) on the limited network exclusion under the revised Payment Services Directive. The deadline is Friday, 15 October 2021.
- **EBA:** public [consultation](#) on currencies with constraints on the availability of liquid assets. The deadline is Saturday, 16 October 2021.
- **The European Securities and Markets Authority (ESMA):** public [consultation](#) on delayed disclosure of inside information under the Market Abuse Regulation. The deadline is Friday, 27 August 2021.
- **ESMA:** public [consultation](#) on the clearing obligation and derivatives trading obligation. The deadline is Thursday, 2 September 2021.
- **ESMA:** public [consultation](#) papers on the implementation of the central counterparty (CCP) recovery mandates. The deadline is Monday, 20 September 2021.
- **ESMA:** public [consultation](#) on derivatives reporting under the European Market Infrastructure Regulation. The deadline is Thursday, 30 September 2021.
- **ESMA:** public [consultation](#) on the review of transparency requirements under MiFIR. The deadline is Friday, 1 October 2021.
- **ESMA:** public [consultation](#) on certain aspects of the MiFID II remuneration requirements. The deadline is Tuesday, 19 October 2021.
- **The European Central Bank (ECB):** public [consultation](#) on harmonised policies for exercising the options and discretions that it is allowed to exercise under EU law when supervising banks. The deadline is Monday, 23 August 2021.
- **The International Organization of Securities Commissions (IOSCO):** public [consultation](#) on recommendations for sustainability-related practices, policies, procedures and disclosure in asset management. The deadline is Sunday, 15 August 2021.
- **The Financial Stability Board:** public [consultation](#) on money market fund resilience, including with respect to the appropriate structure of the sector and of underlying short-term funding markets. The deadline is Monday, 16 August 2021.
- **Platform on Sustainable Finance** (a permanent expert group of the European Commission): public [consultation](#) on the [draft report on social taxonomy](#) and on the [draft proposal for an extended taxonomy to support economic transition](#). The deadline is Friday, 27 August 2021.





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