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## The SAFE Regulatory Radar in June

Agreement on Basel III implementation, new Sustainable Finance Package, and first international disclosure standards



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.

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### CRR and CRD: Banking package for more resilience

The European Parliament and the Council agreed on measures to boost the resilience of EU banks and strengthen their supervision and risk management. On 26 June 2023, the negotiators reached a [provisional agreement](#) on the EU banking package comprising amendments to the [Capital Requirements Regulation](#) and the [Capital Requirements Directive](#). These amendments reflect international standards agreed by the EU and its G20 partners in the Basel Committee on Banking Supervision, the so-called Basel III reforms. The EU banking package is described in more detail in a special edition of the [SAFE Regulatory Radar in November 2021](#).

The two parties agreed on

- How to implement the “output floor”, which limits the banks’ variability of capital levels computed with internal models
- Improved rules regarding credit, market, and operational risk proportionate to the institution’s size and complexity
- A harmonized “fit and proper” framework to assess the suitability of members of the institutions’ management bodies and key function holders
- A minimum cooling-off period for staff and members of governance bodies of competent authorities before engaging in a new position in supervised institutions
- A limited time in office for the members of the governance bodies
- A transitional prudential regime for crypto assets
- Amendments to enhance banks’ management of ESG risks
- Harmonized minimum requirements for branches of third-country banks with activities in the EU and their supervision.

The agreement is provisional and will be formally adopted after being confirmed by the European Council and Parliament.

### Sustainable Finance Package: New measures to support transition and enhance transparency

Proposed measures will support companies in their transition to sustainability and increase transparency on the market for sustainable investments. On 13 June 2023, the European Commission published a [sustainable finance package](#) comprising multiple measures, which aim at strengthening and extending the EU sustainable finance framework.

First, the package includes amendments to the EU Taxonomy, in particular a new set of technical screening criteria for economic activities making a substantial contribution to one or more of the four remaining Taxonomy objectives. These objectives are sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. The [draft Taxonomy Environmental Delegated Act](#) outlines altogether 35

economic activities in 8 economic sectors that contribute to these objectives. In addition, the Commission proposed to amend the [Taxonomy Climate Delegated Act](#) by expanding it by 12 new economic activities covering 6 sectors contributing to the objectives of climate change mitigation and adaptation.

Second, the package includes a proposal for a Regulation on the transparency and integrity of ESG rating activities. It requires EU-based ESG rating providers to use rating methodologies that are rigorous, systematic, objective, subject to validation, and reviewed at least annually. Furthermore, new organizational rules aim to prevent and mitigate potential conflicts of interest, and ESG ratings are required to be independent, objective, and of adequate quality. By additionally extending disclosure requirements to the methodologies used, the regulation aims to increase market transparency and enable market participants to make informed decisions.

Aiming at facilitating transition finance, the package also provides guidance and practical examples for various tools of the sustainable finance framework. It further enhances its usability through a series of targeted measures and initiatives, including the [EU Taxonomy User Guide](#).

## ISSB: First international sustainability disclosure standards

Published standards aim to establish a comprehensive global baseline for investor-focused sustainability reporting. On 26 June 2023, the International Sustainability Standards Board (ISSB) published its first two sustainability-related disclosure standards, in particular, General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2). These standards have been designed using concepts from IFRS accounting standards to help build connections to financial statements and to deliver a holistic reporting package.

IFRS S1 is the foundational document, establishing key concepts such as connected information, value chains, and what sustainability- and climate-related risks and opportunities to report on. It further provides guidance on assessing materiality and the qualitative characteristics of the information required. In addition, it sets out requirements for reporting, such as the reporting entity, the timing and location of reporting, and connections and comparatives in reporting.

Based on these general requirements, IFRS S2 asks for disclosure of material information about climate-related risks and opportunities, in particular. It fully incorporates recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD), which has developed a framework on climate-related disclosure. The industry-based disclosure requirements have been derived from standards of the Sustainability Accounting Standards Board.

This global baseline by the ISSB can be mandated and combined with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors. This is the case with the EU Sustainability Reporting Standards (ESRS), which will become effective for the first companies, which are subject to the [Corporate Sustainability Reporting Directive \(CSRD\)](#) from 1 January 2024.

### Public consultations

- **European Commission:** [Call for feedback](#) on the first set of European sustainability reporting standards. The deadline is 07 July 2023.
- **European Commission:** [Call for feedback](#) on a Proposal for a regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities. The deadline is 22 August 2023.
- **European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs):** [Public consultation](#) on the first batch of policy products under the Digital Operational Resilience Act (DORA). The deadline is 11 September 2023.
- **European Securities and Markets Authority (ESMA):** [Call for evidence](#) on integrating sustainability preferences into suitability assessment and product governance arrangements under the Markets in Financial Instruments Directive (MiFID) II. The deadline is 15 September 2023.
- **European Banking Authority (EBA):** [Public consultation](#) on amendments to the Guidelines on money laundering and terrorist financing risk factors to include crypto-asset service providers. The deadline is 31 August 2023.
- **EBA:** [Public consultation](#) on draft Regulatory Technical Standards (RTS) and draft Implementing Technical Standards (ITS) on the functioning of supervisory colleges under the Capital Requirements Directive (CRD). The deadline is 30 August 2023.
- **European Central Bank (ECB):** [Public consultation](#) on the revised ECB Guide to internal models. The deadline is 15 September 2023.
- **Financial Stability Board (FSB):** [Public consultation](#) on toolkit for enhancing third-party risk management and oversight. The deadline is 22 August 2023.

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