## Basic information

| | |
|---|---|
| **2018/0179(COD)**<br><br>COD - Ordinary legislative procedure (ex-codecision procedure)<br>Regulation | Procedure completed |
| Disclosures relating to sustainable investments and sustainability risks<br><br>Amending Directive (EU) 2016/2341 2014/0091(COD)<br>See also 2018/0180(COD)<br>See also 2018/0178(COD)<br><br>**Subject**<br><br>2.50.03 Securities and financial markets, stock exchange, CIUTS, investments<br>3.70.20 Sustainable development | |

## Key players

### European Parliament

| Committee responsible | Rapporteur | Appointed |
|---|---|---|
| ECON Economic and Monetary Affairs | TANG Paul (S&D) | 31/05/2018 |
| | Shadow rapporteur<br>PIETIKÄINEN Sirpa (PPE)<br>KAMALL Syed (ECR)<br>WIERINCK Lieve (ALDE)<br>CARTHY Matt (GUE/NGL)<br>SCOTT CATO Molly (Verts/ALE) | |

| Committee for opinion | Rapporteur for opinion | Appointed |
|---|---|---|
| EMPL Employment and Social Affairs | The committee decided not to give an opinion. | |
| ENVI Environment, Public Health and Food Safety | VĂLEAN Adina (PPE) | 21/06/2018 |
| FEMM Women's Rights and Gender Equality | The committee decided not to give an opinion. | |

### Council of the European Union

| Council configuration | Meetings | Date |
|---|---|---|
| Economic and Financial Affairs ECOFIN | 3725 | 2019-11-08 |

| European Commission | Commission DG | Commissioner |
|---|---|---|
| | Financial Stability, Financial Services and Capital Markets Union | DOMBROVSKIS Valdis |
| European Economic and Social Committee | | |

## Key events

| Date | Event | Reference | Summary |
|---|---|---|---|
| 24/05/2018 | Legislative proposal published | COM(2018)0354 | Summary |
| 05/07/2018 | Committee referral announced in Parliament, 1st reading | | |
| 05/11/2018 | Vote in committee, 1st reading | | |
| 05/11/2018 | Committee decision to open interinstitutional negotiations with report adopted in committee | | |
| 09/11/2018 | Committee report tabled for plenary, 1st reading | A8-0363/2018 | Summary |
| 12/11/2018 | Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 72) | | |
| 14/11/2018 | Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 72) | | |
| 01/04/2019 | Approval in committee of the text agreed at 1st reading interinstitutional negotiations | PE637.263<br>GEDA/A/(2019)002927 | |
| 18/04/2019 | Decision by Parliament, 1st reading | T8-0435/2019 | Summary |
| 18/04/2019 | Results of vote in Parliament | | |
| 18/04/2019 | Debate in Parliament | | |
| 08/11/2019 | Act adopted by Council after Parliament's 1st reading | | |
| 25/11/2019 | End of procedure in Parliament | | |
| 27/11/2019 | Final act signed | | |
| 09/12/2019 | Final act published in Official Journal | | |

## Technical information

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|---|---|
| **Procedure reference** | 2018/0179(COD) |
| **Procedure type** | COD - Ordinary legislative procedure (ex-codecision procedure) |
| **Procedure subtype** | Legislation |
| **Legislative instrument** | Regulation |
| **Amendments and repeals** | Amending Directive (EU) 2016/2341 2014/0091(COD)<br>See also 2018/0180(COD)<br>See also 2018/0178(COD) |
| **Legal basis** | Treaty on the Functioning of the European Union TFEU 114 |
| **Other legal basis** | Rules of Procedure EP 165 |
| **Mandatory consultation of other institutions** | European Economic and Social Committee |

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|---|---|
| **Stage reached in procedure** | Procedure completed |
| **Committee dossier** | ECON/8/13229 |

## Documentation gateway

### European Parliament

| Document type | Committee | Reference | Date | Summary |
|---|---|---|---|---|
| Committee draft report | | PE626.716 | 02/08/2018 | |
| Amendments tabled in committee | | PE627.830 | 17/09/2018 | |
| Committee opinion | ENVI | PE628.607 | 11/10/2018 | |
| Committee report tabled for plenary, 1st reading/single reading | | A8-0363/2018 | 09/11/2018 | Summary |
| Text agreed during interinstitutional negotiations | | PE637.263 | 27/03/2019 | |
| Text adopted by Parliament, 1st reading/single reading | | T8-0435/2019 | 18/04/2019 | Summary |

### Council of the EU

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Coreper letter confirming interinstitutional agreement | GEDA/A/(2019)002927 | 27/03/2019 | |
| Draft final act | 00087/2019/LEX | 27/11/2019 | |

### European Commission

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Legislative proposal | COM(2018)0354 | 24/05/2018 | Summary |
| Document attached to the procedure | SWD(2018)0264 | 24/05/2018 | |
| Document attached to the procedure | SWD(2018)0265 | 24/05/2018 | |
| Commission response to text adopted in plenary | SP(2019)440 | 08/08/2019 | |

### National parliaments

| Document type | Parliament /Chamber | Reference | Date | Summary |
|---|---|---|---|---|
| Contribution | ES_PARLIAMENT | COM(2018)0354 | 03/10/2018 | |

### Other institutions and bodies

| Institution/body | Document type | Reference | Date | Summary |
|---|---|---|---|---|
| EESC | Economic and Social Committee: opinion, report | CES2766/2018 | 17/10/2018 | |

| Additional information | | |
|---|---|---|
| **Source** | **Document** | **Date** |
| European Parliament | Briefing | |
| European Commission | EUR-Lex | |

| Final act | |
|---|---|
| Regulation 2019/2088<br>OJ L 317 09.12.2019, p. 0001 | Summary |

| Delegated acts | |
|---|---|
| **Reference** | **Subject** |
| 2022/2634(DEA) | Examination of delegated act |
| 2022/2920(DEA) | Examination of delegated act |

# Disclosures relating to sustainable investments and sustainability risks

2018/0179(COD) - 09/12/2019 - Final act

PURPOSE: to introduce transparency requirements on how financial companies integrate environmental, social and governance factors into their investment decisions.

LEGISLATIVE ACT: Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainabilityrelated disclosures in the financial services sector.

CONTENT: in the absence of harmonised rules on transparency, it is difficult for end-investors to effectively compare different financial products in different Member States in terms of their environmental, social and governance risks and the sustainable investment objectives they pursue. It is therefore necessary to establish a transparency framework to ensure that investors are well informed about the environmental and social impact of their investments.

***Subject matter***

This Regulation lays down harmonised rules for financial market participants and financial advisers on transparency as regards the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability information in relation to financial products. It requires financial market participants and financial advisers to act in the best interests of investors by exercising due diligence before making the investment.

***Transparency obligations***

The Regulation provides for the obligation for financial market participants and financial advisers who provide investment advice or insurance advice to make known:

- their policies on the integration of sustainability risks into their investment decision-making process or investment advice;

- the procedures in place to integrate environmental and social risks into their investment and advisory processes and the extent to which these risks could affect the profitability of the investment;

- the reasons why they do not take into account the adverse impacts of investment decisions on sustainability factors, including, where appropriate, information on whether and when they intend to take such adverse impacts into account ;

- where a financial product promotes environmental or social features, information on how those features are met;

- where a financial product has the objective of reducing carbon emissions, information including the low carbon exposure in view of achieving the long term global warming objectives of the Paris Agreement;

- the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product.

Financial market participants and financial advisers shall include in their remuneration policies information on how these policies are adapted to the integration of sustainability risks and publish this information on their websites.

*Derogations*

This Regulation shall neither apply to insurance intermediaries which provide insurance advice with regard to insurance-based investment products nor to investment firms which provide investment advice that are enterprises irrespective of their legal form, including natural persons and selfemployed persons, provided that they employ fewer than three persons.

By 10 September 2022, and annually thereafter, the European Supervisory Authorities shall report to the Commission on best practices and make recommendations towards voluntary reporting standards. The Commission shall evaluate the application of the Regulation by 30 December 2022 at the latest.

ENTRY INTO FORCE: 29.12.2019.

APPLICATION: from 10.3.2021.

# Disclosures relating to sustainable investments and sustainability risks

2018/0179(COD) - 18/04/2019 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 508 votes to 24, with 19 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341.

The European Parliament’s position adopted at first reading under the ordinary legislative procedure amended the Commission proposal as follows:

*Transparency obligations for the publication of sustainability information*

The amended Regulation lays down the obligation on the financial market participants and financial advisers which provide investment advice or insurance advice with regard to IBIPs respectively, regardless the design of the financial products and the target market, to publish written policies on the integration of sustainability risks and ensure the transparency of the integration of sustainability risks.

The Regulation shall maintain the requirements for financial market participants and financial advisors to act in the best interests of investors by exercising due diligence before making the investment. It would also require financial market participants to integrate into their procedures and continuously assess not only all relevant financial risks, but also all sustainability risks that could have a significant negative impact on the financial performance of an investment and an advisory, respectively.

Therefore, under the proposed Regulation, financial market participants and financial advisors shall specify in their policies how they integrate these risks and publish these policies. Where they do not take into account the adverse impacts of investment decisions on sustainability factors, they shall publish on their website clear information on why they do not, including, where appropriate, information on whether and when they intend to take these negative impacts into account.

The proposed Regulation also requires financial market participants to:

- include in their remuneration policies information on how their remuneration policies are consistent with the integration of sustainability risks and publish this information on their website;

- include in the published pre-contractual information how sustainability risks are integrated into their investment decisions and the result of the assessment of the likely impact of sustainability risks on the performance of financial products;

- publish information on how environmental or social characteristics are respected when a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of these characteristics;

- publish, where a financial product aims to reduce carbon emissions, information including the low-carbon exposure target for achieving the long-term global warming targets set by the Paris Climate Agreement;

- publish information on the methodologies used to assess, measure and monitor the environmental or social characteristics or impact of the sustainable investments selected for the financial product, including data sources;

- describe, in particular in the periodic reports, the overall sustainability impact of the financial product, using relevant sustainability indicators.

*Competent authorities*

Each Member State shall ensure that the competent authorities designated in accordance with sectoral legislation, also monitor compliance with requirements placed by this Regulation on financial market participants and financial advisers. The competent authorities shall have all the supervisory and investigatory powers that are necessary for the exercise of their functions under this Regulation.

Exemptions

This Regulation shall not apply to insurance intermediaries which provide insurance advice with regard to IBIPs and investment firms which provide investment advice that are enterprises irrespective of their legal form, including natural persons or self-employed persons, provided that they employ fewer than three persons.

# Disclosures relating to sustainable investments and sustainability risks

2018/0179(COD) - 24/05/2018 - Legislative proposal

PURPOSE: to strengthen the protection for end-investors and improve the disclosure of information on sustainable investments to them.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: in the absence of harmonised Union rules on sustainability-related disclosures to end-investors, it is likely that diverging measures will continue to be adopted at national level and different approaches in different financial services sectors might persist.

In ensuring compliance with the Paris Climate Agreement, Member States are likely to adopt divergent national measures which could create obstacles to the smooth functioning of the internal market and be detrimental to financial market participants and financial advisors.

This proposal is part of a wider Commission initiative on sustainable development. It aims to bring institutional investors (management companies of undertakings for collective investment in transferable securities (UCITS), alternative investment fund managers (FIA), insurance companies, institutions for occupational retirement provision (IORP), European venture capital fund managers (EuVECA), European social entrepreneurship fund managers (EuSEF) and investment firms) to integrate environmental, social and governance (ESG) criteria into their internal processes and to inform their clients.

The proposal is presented in parallel with a proposal to help investors compare the carbon footprint of investments.

This should ensure that **financial market participants** — undertakings for collective investment in transferable securities (UCITS) management companies, alternative investment fund managers (AIFMs), insurance undertakings, institutions for occupational retirement provision (IORPs), European venture capital fund (EuVECA) managers, European social entrepreneurship funds (EuSEF) managers and investment firms - that receive a mandate from their clients or beneficiaries to take investment decisions on their behalf would **integrate environmental, social and governance (ESG) considerations into their internal processes and inform their clients in this respect**.

The proposal is presented in parallel with a proposal to help investors compare the carbon footprint of investments.

IMPACT ASSESSMENT: a **clear and coherent approach on integration of ESG risks** would have the following economic impacts: end-investors will have more information on how financial market participants and financial advisors integrate ESG risks in their investment decision-making or advisory processes. ESG risks would be more systematically taken into account in financial modelling, leading to an optimal risk-return trade-off at least in the long-term, thereby fostering market efficiency. This will encourage financial market participants and financial advisors to be innovative in investment strategies or in their recommendations.

CONTENT: the proposed Regulation establishes **harmonised rules on transparency to be applied by financial market participants**, by insurance intermediaries providing advice on insurance-based investment products and by financial advisers in relation to:

- **the integration of sustainability risks in their investment decision-making processes** or, where relevant, advisory processes;
- **transparency as regards financial products** which target sustainable investments, including reduction in carbon emissions.

The **term 'sustainable investments'** covers: (i) investments in an economic activity that contributes to an environmental objective; (ii) investments in an economic activity that contributes to a social objective, and in particular an investment that contributes to tackling inequality, an investment fostering social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities; (iii) investments in companies following good governance practices, and in particular companies with sound management structures, employee relations, remuneration of relevant staff and tax compliance.

Specifically, the proposal:

- requires financial market participants to **publish written policies** on the integration of sustainability risks in investment decision making process;
- obliges financial market participants to **publish them on their websites** and maintain the policies up-to-date. This obligation also extends to financial advisors.
- obliges financial market participants and financial advisors market financial products or services claim that such products or services pursue sustainable investment objectives, obliging them to disclose information on the contribution of the investment decisions to the sustainable investment objectives (ex-post disclosure in regular reporting);

- provides that financial market participants and financial advisors must ensure that marketing communications do not contradict the information disclosed pursuant to this Regulation.

This proposal amends Directive (EU) 2016/2341. It empowerments the Commission to adopt **delegated acts** specifying the 'prudent person' rule with respect to the consideration of ESG risks and the inclusion of ESG factors in internal investment decisions and risk management processes.

# Disclosures relating to sustainable investments and sustainability risks

2018/0179(COD) - 09/11/2018 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Paul TANG (S&D, NL) on the proposal for a regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341.

The committee recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure should amend the Commission's proposal as follows.

**Objectives:** the proposed Regulation would establish **harmonised rules on transparency** to be applied by financial market participants, insurance intermediaries providing advice on insurance-based investment products, investment firms providing investment advice and end-investors concerning:

- the **integration of sustainability risks and performance** into investment decision-making or advisory processes; and
- the **transparency of financial products or services**, whether or not they have a targeted sustainability impact.

The objectives of the Regulation would be to (i) strengthen end-investor protection and investor information, (ii) improve disclosure and broaden their investment choices, and (iii) help financial market participants, investment advisors and publicly traded companies to integrate environmental, social and governance risks (ESG factors) into their investment decisions.

**Definitions:** It is proposed to introduce a clear and harmonised definition of the concepts of "sustainable investments" and "sustainability risks" avoiding any overlap where not in line with the principles of better regulation and proportionality. **Sustainable investments** would be defined as products associated with strategies to generate **environmental, social and governance benefits**, including one or a combination of the following investment categories:

- investments in an economic activity that significantly contributes to an environmental objective, including key resource efficiency indicators, such as use of energy, use of renewable energy, use of raw materials, production of waste, emissions, CO2 emissions, use of water, use of land and impact on biodiversity;
- investments in an economic activity that contributes significantly to a social objective,
- investments that promote or support good governance practices in companies, and in particular companies with sound and transparent management structures and due diligence procedures, employee relations, transparent remuneration policies of relevant staff and tax compliance.

**Transparency regarding sustainability risk policies:** the amended text requires financial market participants, insurance intermediaries providing insurance advice on insurance-based investment products and investment firms providing investment advice to adopt **due diligence policies** for sustainability risk assessment and to communicate them annually to the competent authorities.

A **brief summary** of these policies would be made public, while respecting confidentiality and protecting know-how and trade secrets. The disclosure requirement would be **proportionate** to the size and systemic importance of the entity.

Credit institutions and insurance companies should also have policies in place to integrate sustainability risks into their investment and credit risk management processes.

Financial market participants and insurance intermediaries should ensure that the **detection and management of sustainability risks** is sufficiently integrated into their due diligence processes and investment decision-making, so that investors are required to avoid or mitigate ESG factors, explain them and publish them in written form on their websites.

The Commission would adopt delegated acts to lay down **a comprehensive and mandatory framework** setting out minimum standards for written policies and due diligence processes, as well as guidance on disclosure requirements and on how to the proportionality principle is to be applied.

**Transparency in periodical reports:** financial market participants offering financial products or services should provide a description in audited and integrated reports, **conducted at least annually** and containing both financial and non-financial information, the overall impact and performance of the financial product or service in terms of sustainability, using harmonised and comparable sustainability **risk indicators**.

**Publicly traded companies** should include in their annual financial statements and consolidated financial statements a description of how they have integrated sustainability performance and risks into their management processes and investment strategy.

The amended text invites the **European Banking Authority (EBA)** to investigate the feasibility and appropriateness of introducing technical criteria for the Supervisory Review and Evaluation Process (SREP) of risks related to exposures to activities associated mainly with environmental, social and governance (ESG) objectives.