

29 April 2021

Sustainable Finance and EU Taxonomy

European Commission takes further steps to channel money towards sustainable activities

Introduction

This MFSA circular intends to inform Financial Market Participants and Financial Advisors that on 21 April 2021, the European Commission [adopted](#) a package of measures and initiatives related to the EU Sustainable Finance Agenda. The package aims to put the European financial sector at the heart of a sustainable and inclusive economic recovery from the COVID-19 pandemic and the longer-term sustainable economic development of Europe.

Background

The package comprises a political [communication](#) on directing finance toward the Green Deal and a proposal for a Corporate Sustainability Reporting Directive (CSRD), which was previously referred to as the Non-Financial Reporting Directive (NFRD) review.

The Commission proposal for a Directive on Corporate Sustainability reporting ([CSRD](#)) builds on and revises the sustainability reporting requirements set out in the [NFRD](#) in order to enhance the consistency of sustainability reporting requirements with the broader legal framework on sustainable finance, including the Sustainability-related Disclosures [Regulation](#) and the Taxonomy [Regulation](#), and to reflect the objectives of the European Green Deal.

Overall, the CSRD proposes amendments to several existing legislations including the Accounting [Directive](#), The Transparency [Directive](#), the Audit [Directive](#), and the Audit [Regulation](#).

In summary, the CSRD proposal:

- Extends the scope to all large companies and all companies listed on EU regulated markets.
- Introduces a general EU-wide audit (assurance) requirement for reported sustainability information. Also allows Member States to open up the market for sustainability assurance services to so-called '*independent assurance services providers*' to allow for the possibility for firms other than the usual auditors to assure sustainability information.
- Introduces more detailed reporting requirements as part of the firm's management report (e.g. information about their strategy, targets, the role of the board and management, principal adverse impacts of the undertaking, intangibles, and how firms have identified the information that they report), and a requirement to report according to a mandatory EU sustainability reporting standard. The Commission is proposing to develop standards for large companies and separate, proportionate standards for SMEs.
- Requires companies to prepare their financial statements and their management report in XHTML format and to digitally 'tag' the reported information, according to a digital categorisation system (to be developed together with the sustainability reporting standards)

The CSDR will now be up to the European Parliament and the Member States in the Council to negotiate the legislative text on the basis of the Commission's proposal.

The package also contains the Delegated Acts incorporating sustainability into existing financial legislation with respect to sustainability preferences and fiduciary duties including [UCITS](#), [Mifid II](#) (product governance and sustainability factors), [MiFID II](#) (organisational requirements), [AIFMD](#), [IDD](#), [Solvency II](#). These Delegated Acts have not entered into force yet as they are subject to scrutiny period. Insofar as the IDD is concerned, the Delegated Act contains certain requirements with respect to the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice (suitability assessment) for insurance-based investment products.

Separately, the Commission adopted the final [Delegated Act](#) for climate change mitigation and adaptation under the Taxonomy Regulation ([Annex 1 - mitigation](#) , [Annex 2 - adaptation](#)).

Overall, several criteria have been further amended compared to recent drafts, reflecting the incredibly politically contentious nature of some criteria, most notably the energy criteria. Specifically, criteria have been amended for several economic activities including relating to forestry, bioenergy, hydropower, buildings, transport, and some manufacturing activities. In addition to the criteria outlined in this Delegated Act, further amendments are expected to be proposed later this year to address outstanding areas including nuclear, gas, agriculture, biofuels and forestry.

The Commission has been continually negotiating with Member States and MEPs in attempt to ensure the Delegated Act will pass the scrutiny period, during which the co-legislators could object to the adoption of the final Delegated Act.

The Delegated Act will now be subject to scrutiny by the European Parliament and Council (three-month periods + extendable once by three additional months if requested). Following scrutiny, the Delegated Act will be published in the Official Journal and will apply from 1 January 2022.

Conclusion

The MFSA will continue to monitor the developments related to the EU Sustainable Finance Agenda.

The Authority encourages all Financial Market Participants and Financial Advisors to keep themselves up to date with all the information being disseminated.