

POLICY BRIEFING

EU REGULATION ON SUSTAINABILITY-RELATED DISCLOSURES IN THE FINANCIAL SERVICES SECTOR

AT A GLANCE

Organisation	Requirements
Financial Institutions	<p>At entity level, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ Details of their policies on the integration of sustainability risks into investment decision-making and sustainability in remuneration policies. ■ Whether and how they consider the principal adverse impacts of their investments on sustainability (comply or explain for smaller firms). <p>For all products, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ How sustainability risks are integrated in investment decisions, their likely impact on the financial product (comply or explain). ■ Whether and how a financial product considers principal adverse impacts on sustainability factors (comply or explain). <p>For funds targeting sustainability objectives, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ A description of the sustainability objectives of the product, details of how they are met, and the overall sustainability impact of the product.
Financial advisors	<p>At entity level, financial advisors must disclose:</p> <ul style="list-style-type: none"> ■ Details of their policies on the integration of sustainability risks into investment and insurance advice, and how sustainability is integrated into remuneration policies. ■ Whether and how adverse sustainability impacts are considered. <p>For all products, financial advisors must disclose:</p> <ul style="list-style-type: none"> ■ How sustainability risks are integrated into their investment or insurance advice, their likely impact on the financial product (comply or explain).

DEVELOPMENT AND TIMELINE

The European Commission published a 'proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341'¹ on 24 May 2018. It implements key actions announced in its action plan on sustainable finance² relating to enhanced transparency of asset managers and institutional investors on sustainability risks and the integration of sustainability into investor duties.

A political agreement between the European Parliament and the European Council³ was reached on 25 February 2019. Following the adoption of the agreement by the European Ambassadors and the European Parliament, the text will be translated by linguist lawyers and published in the Official Journal, likely in Q4 2019. This briefing refers to the published compromise text and will be updated following publication in the Official Journal. The main body of the regulation will enter into force in 2020, with some clauses phased in later.

WHO IS AFFECTED?

- Financial institutions defined as:
 - Insurance undertakings making available Insurance-Based Investment Products (IBIPs);
 - Institutions for Occupational Retirement Provision (IORPs);
 - Manufacturers of pension products,
 - Pan-European Personal Pension Product (PEPP) providers;
 - Alternative Investment Fund Managers (AIFMs);
 - Undertakings for Collective Investment in Transferable Securities (UCITS) management companies; and
 - Investment firms or credit institutions providing portfolio management.
- Financial advisers.

SUMMARY OF THE REGULATION

Transparency requirements for investors and financial advisers

Financial institutions and financial advisers shall publish on their website:

- Policies on the **integration of sustainability risks** in their decision-making or advisory processes (Article 3, Paragraph 1, 2);
- A **statement** on how they consider **principal adverse impacts of investment decisions on sustainability factors** (Article 3gamma, Paragraph 1). This is on a **comply or explain** basis for firms below 500 staff and mandatory for those above. For investors, it would include (Article 3gamma, Paragraph 2):

¹ [Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive \(EU\) 2016/2341](#)

² [Action plan on financing sustainable growth](#)

³ [Final compromise text on the proposal for a regulation on sustainability-related disclosures in the financial services sector](#)

- Policies on the identification and prioritisation of principal adverse sustainability impacts,
 - A description of the principal adverse sustainability impacts, and, of the actions taken,
 - Summaries of engagement policies,
 - A summary of adherence to standards for due diligence and reporting, and where relevant, the degree of alignment with the Paris Climate Agreement.
- Information on how their **remuneration policies** are consistent with the integration of sustainability risks (Article 3a, Paragraph 1).

The European Supervisory Authorities (ESAs) will develop regulatory technical standards setting out **sustainability indicators** on adverse impacts (Article 3gamma, Paragraph 6,7):

- **climate and other environment-related adverse impacts**, within a year of the Regulation's entry into force;
- adverse impacts in the field of **social and employee matters, respect for human rights, anti-corruption and bribery matters**, within two years of the Regulation's entry into force.

Transparency requirements for financial products

Financial institutions and financial advisers shall disclose, for each financial product (Article 4, Paragraph 1, 2):

- On a comply or explain basis, **how sustainability risks are integrated** into investment decisions or advice, and the likely impacts of sustainability risks on the financial products;
- On a comply or explain basis, three years after the Regulation's entry into force, **whether and how a financial product considers principal adverse impacts of the investment approach on sustainability factors**.

For financial products targeting sustainability objectives, financial institutions shall disclose:

- **How the sustainability objectives are met**, and, if an **index** has been designated as a reference benchmark, whether and how it is consistent with the sustainability objectives (Article 4a, Paragraph 1);
- The **extent to which sustainability objectives are attained**, the **overall sustainability-related impact of the financial product**, and where an index has been designated as a reference benchmark, a comparison through sustainability indicators of the respective impacts of the financial product and a broad market index (Article 7, Paragraph 1);
- A **description of the sustainability objectives** of the product, information on the methodologies used to assess, measure and monitor the sustainability objectives (Article 6, Paragraph 1).

The European Supervisory Authorities (ESAs) shall develop regulatory technical standards on the details of the content and the presentation requirements. The ESAs are also tasked with drafting a report taking stock of the implementation of the Regulation 18 months after its entry into force.

POLICY CONTEXT

In 2018, the European Commission adopted an [Action Plan on Financing Sustainable Growth](#), building from the recommendations of the [High-Level Expert Group on Sustainable Finance](#). The action plan included a package of legislative proposals. In addition to a proposal for enhanced disclosures requirements on sustainable investment and sustainability risks for financial institutions, the package included a proposal for a unified classification system of sustainable economic activities and a proposal for new categories of low carbon benchmarks.

PRI POSITION

Through its work with the [Fiduciary Duty in the 21st Century Programme](#), the [High-Level Expert Group on sustainable finance](#), and [response to the consultation on the legislative proposals](#), the PRI demonstrated that ambiguity around investor duties has been a key barrier to the systematic ESG integration by investors. The PRI welcomes the creation of disclosure requirements for sustainability risks. In conjunction with [proposed legal changes](#), these provide clarity that ESG is required by fiduciary duties.

The regulation will also encourage investors to understand and mitigate the potential adverse impacts of their investment on society and the environment. This is consistent with the direction of the broader sustainable finance agenda, as investors increasingly work to understand non-financial investment outcomes.

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- For more information on the PRI's policy activities, [click here](#).
- To receive regular updates on global responsible investment policy, register for the [PRI's global policy briefing](#).

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