



TOPICS:
ESG, TAXONOMY, SFDR

SOURCE:
 European Supervisory Authorities (ESAs - EBA, EIOPA and ESMA)

ESAs Propose New Rules for Taxonomy-related Product Disclosures

RTS Regarding Disclosures Under the SFDR

- **The three European Supervisory Authorities** (EBA, EIOPA and ESMA – ESAs) **have delivered to the European Commission** (EC) their Final Report with draft **Regulatory Technical Standards (RTS) regarding disclosures under the Sustainable Finance Disclosure Regulation (SFDR)** as amended by the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). The disclosures relate to financial products that make sustainable investments contributing to environmental objectives.
- In particular, ESAs have developed draft **RTS with regard to the content and presentation of disclosures under Articles 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088 (SFDR)**. The abovementioned Articles were inserted in the SFDR through Article 25 of Regulation (EU) 2020/852 (the 'Taxonomy Regulation' or the 'TR') which amends the SFDR. Following this amendment, the ESAs have been empowered to develop draft RTS on taxonomy-related product disclosures. Specifically, the ESAs have been empowered to develop further obligations to the SFDR product disclosures where the product makes sustainable investments contributing to environmental objectives.
- The draft **RTS contain templates for pre-contractual and periodic product disclosures**. The ESAs agreed to amend the existing finalised draft RTS and their accompanying templates in order to minimise duplication and complexity, thus creating a single ruleset. The ESAs' finalised draft RTS (the 'SFDR RTS'), which were published 4 February 2021, have already established the content, methodology and presentation of other disclosures to be made under the SFDR in accordance with the ESAs' empowerments under Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) SFDR.

Next Steps

The EC will scrutinise the draft RTS and decide whether to endorse them within 3 months of their publication. The Commission has informed the European Parliament and Council that it intends to incorporate all the SFDR RTS, meaning both the original ones submitted to the Commission in February 2021 as well as the ones covered in this Final report, in one instrument.

Main Proposals

- In line with the ESAs' empowerments, the draft RTS have been developed in the following areas:
 - According to Article 8(4) SFDR: **Development of additional pre-contractual disclosures** relating to the content and presentation of Article 8 SFDR products subject to Article 6 TR, concerning climate objectives and other environmental objectives under Article 9 TR respectively.
 - According to Article 9(6) SFDR: **Development of additional pre-contractual disclosures** relating to the content and presentation of Article 9 SFDR products subject to Article 5 TR, relating to disclosures concerning climate objectives and other environmental objectives under Article 9 TR respectively.
 - According to Article 11(5) SFDR: **Development of additional rules on the content and presentation of information** required under Article 5 and 6 TR for periodic disclosures relating to climate objectives and other environmental objectives under Article 9 TR respectively.

Treatment of Sovereign Bonds

- Regarding the specific issue of the treatment of sovereign bonds in the representation of the taxonomy-alignment of investments, the ESAs decided **to require the disclosure of the taxonomy-alignment of investments in two ways**: one including sovereign exposures and one excluding sovereign exposures from the calculation. To protect investors from the risk of greenwashing, the draft RTS contain a graph which includes all the investments of the financial product in the calculation. As there is no appropriate methodology to assess the taxonomy-alignment of sovereign bonds, the ESAs added a second graph showing the taxonomy-alignment of the financial product where all sovereign exposures are excluded from the calculation.

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