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, CO_2 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.