ESG Reporting and Disclosure

European main regulations and standards

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Background and regulatory context

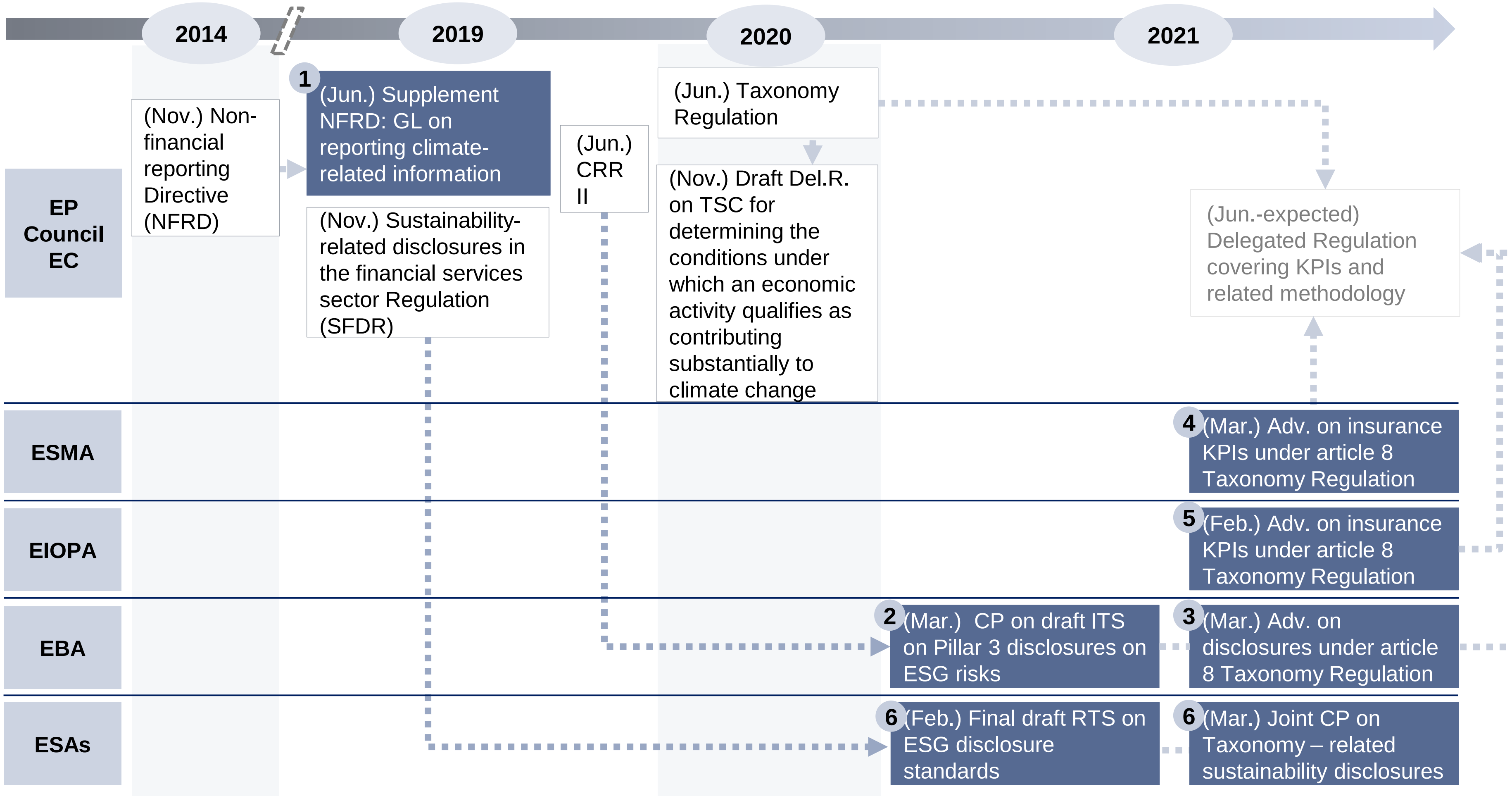
After the publication by the EC of the European Green Deal, a regulatory tsunami on transparency in relation to climate risk and Environmental, Social and Governance (ESG) risks has taken place

- The **Paris Agreement** was signed in 2015. Its mission is to reinforce the international response to the threat of Climate change. Since its signature, the EU has been making strides to promote the transition towards a sustainable economy, set in the **EC´s Green Deal**.
- The EP and the Council, published in November 2019, the Regulation on **sustainability-related disclosures in the financial services sector** (SFDR), which lays down harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks.
- The EC presented in December 2019 the **European Green Deal,** which aims to promote a circular and sustainable economy, as well as to reduce the Union´s net emissions to zero in 2050.

- In this context, the **capital requirements regulation (CRR)** as amended in June 2019, includes article 449a **on disclosure of ESG risks**. This article requires large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, to disclose information on ESG risks, including physical risks and transition risks.
- In addition, the publication by the European Parlament (EP) and the Council of the **Taxonomy Regulation** stands out:
  - It establishes a **common classification system of environmentally sustainable economic activities** at Union level and its main objective is to set out relevant criteria for determining whether an economic activity qualifies as environmentally sustainable.
  - It **empowers the EC to develop delegated acts to supplement the disclosure requirements, as established by the Non-Financial Reporting Directive** (NFRD). The EC's Call for Advice (CfA), addressed to the European Supervisory Authorities (ESAs), requests the ESAs to provide input to develop future delegated acts in relation to Article 8 of the Taxonomy Regulation.

Background and regulatory context

NFRD, SFDR, CRR II and the Taxonomy Regulation, involve reporting requirements that institutions and insurance companies must comply with. In relation with this requirements, the ESAs have published relevant documents on reporting and disclosure standards



Key papers for reporting and disclosure purposes.

Main ESG reporting rules and GL

EC GL on reporting climate-related information

The EC guidelines on reporting climate-related information consist of a new supplement to the existing guidelines on non-financial reporting. GL Annex I develops the guidelines for banks ands insurance companies

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Regulator	Context and scope	Relevant dates
European Commission	• The NFRD requires large listed companies, banks and insurance companies to disclose ESG related non-financial information The Directive requires the EC to publish guidelines to help companies and financial institutions (hereafter entities) disclose this information in a more consistent and more comparable manner. • In this context, the EC published this GL, which are not binding. Annex I is specific for entities.	• **Publication**. June 19 • **Application**. Since publication

Summary of disclosure requirements

These Guidelines propose to disclose a range of climate-related data in each of the five areas listed in the NFRD:

- **Business model**. Entities shall disclose the impact of climate-related risks and opportunities on the business model, consideration of counterparties' awareness of climate-related risk and opportunities, and interactions of this risk and opportunities with entities' strategy.
- **Policies and due diligence**. Entities shall disclose how the financial institution encourages better disclosure and practices related to climate-related risks to improve data availability, any stewardship activities related to the financial institution's climate strategy, and any investment, lending and insurance underwriting portfolio contributing to climate change mitigation and adaptation.
- **Outcome**. Entities shall disclose the development trend of the amount of carbon-related assets in the different portfolios and of the weighted average carbon intensity for the different portfolios against any relevant target set and the related risks over time.
- **Principal risks and their management**. Entities shall disclose whether risk management processes, including internal stress testing, consider climate-related risks and any exposures in the different lending, investment and underwriting activities to sectors perceived as contributing to climate change, which might create reputational risks for the financial institution.
- **KPIs**. Entities shall disclose KPIs such as the amount or percentage of carbon-related assets in each portfolio, the weighted average carbon intensity of each portfolio and volume of exposures by sector of counterparty.

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CP on draft ITS on Pilllar 3 disclosures on ESG

This CP puts forward the tables, templates, and instructions that institutions shall use in order to disclose relevant qualitative information and quantitative information related to ESG risks

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Regulator	Context and scope	Relevant dates
EBA European Banking Authority	• CRR II requires large institutions with securities traded on a regulated market of any Member State to disclose prudential information on ESG risks and mandates the EBA to develop draft ITS specifying these disclosure requirements. • This CP puts forward the tables, templates, and instructions that institutions shall use in order to disclose relevant qualitative information and quantitative information.	• **Consultation due date**. 1 June 21 • **Application**. 28 June 22

Summary of disclosure requirements

Quantitative disclosures on climate change transition risk

- Institutions should show information on: i) exposures towards non-financial corporates (NFCs); ii) the energy efficiency of the underlying real estate collaterals; and iii) plans and potential methodology to implement disclosures on scope 3 emissions.

Quantitative disclosures on climate change physical risk

- Information on exposures in the banking book towards non-financial corporates, on loans collateralized with immovable property and on repossessed real estate collaterals, exposed to chronic and acute climate-related hazards.

Quantitative information on mitigation actions

- Templates with quantitative information on assets and exposures that are contributing and enabling climate change mitigation and adaptation : i) assets for the calculation of the Green Asset Ratio (GAR); ii) GAR KPIs; iii) Other climate change mitigating actions.

Qualitative disclosures

- The qualitative disclosure requirements are expected to complement the quantitative information and are organized by risk category: i) environmental; ii) social; and iii) governance. Under each risk category, the disclosure requirements target governance, business model and strategy, and risk management.

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Advice to EC on disclosures under Article 8 Taxonomy Regulation

The EBA advice puts forward its opinion on KPIs and related methodology for the disclosure on activities that are environmentally sustainable, and the qualitative information that institutions should disclose in accordance with the Taxonomy Regulation

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Regulator	Context and scope	Relevant dates
EBA European Banking Authority	• Taxonomy Regulation requires that any undertakings subject to disclosure obligations under NFRD shall disclose information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. • In Mar.21 the EBA issues its advice to the EC to determine the content and presentation of relevant KPIs and associated methodology to be used by banks and investment firms under NFRD.	• In **June 2021**, the EC is expected to publish a Delegated Act raking into account the CfA that the ESAS have issued.

Summary of disclosure requirements

Advice for credit institutions

- The EBA explains: i) **the scope of application of the disclosures** that credit institutions should provide in application of Article 8 of the Taxonomy Regulation; ii) **the economic activities** that should be included in those disclosures; iii) on the **KPIs numerator and denominator items KPIs**.
- **The main alternative KPI´s** recommended for credit institutions' disclosures is the **GAR**, that shows the proportion of taxonomy aligned exposures (green assets) compared to total eligible exposures. The EBA specifies in detail the **methodology for the estimation of the GAR**.

Advice for investments institutions

- EBA recommends the scope and the methodology for the computation of the KPIs for investment firms' disclosures related to **'dealing on own account**' activities, **others than dealing on own account** and **ancillary services**.

Qualitative disclosures by credit institutions and investment firms:

- The disclosure of the quantitative KPIs should be accompanied by qualitative information to support institutions' explanations and the markets' understanding of these KPIs.

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Advice to EC on Article 8 of the Taxonomy Regulation

The ESMA advice puts forward its opinion on KPIs and related methodology for the disclosure on activities that are environmentally sustainable, and the qualitative information that institutions should disclose in accordance with the Taxonomy Regulation

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Regulator	Context and scope	Relevant dates
esma European Securities and Markets Authority	• Taxonomy Regulation requires that any undertakings subject to disclosure obligations under NFRD shall disclose information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. • In Feb.26 the ESMA issues its advice to the EC to determine the content and presentation of relevant KPIs and associated methodology to be used non-financial undertakings and asset managers under the NFRD.	• In **June 2021**, the EC is expected to publish a Delegated Act raking into account the CfA that the ESAS have issued.

Summary of disclosure requirements

Advice relating to non-financial undertakings

- The ESMA explains: i) the **content of KPIs** to be disclosed by non-financial undertakings (Turnover KPI, CapEx KPI and OpEx KPI); ii) the **methodology** to report the KPIs to be disclosed by non-financial undertakings; iii) the requirements as regards the **presentational aspects** of KPIs.

Advice for asset managers. The ESMA explains:

- The **content** of the KPI to be disclosed by asset managers, which should consist of a **ratio of investments** that are Taxonomy-aligned.
- The **methodology** for preparing and reporting the KPI to be disclosed by asset managers. The EC should consider the feasibility of developing a methodology to allow KPI calculation to cover also investments in companies not reporting under the NFRD.
- Requirements as regards the **presentational aspects** of KPIs.

Review clause

- ESMA recommends the inclusion of a review clause in order to assess whether the Level 2 provisions remain appropriate in terms of achieving the objectives of the Taxonomy Regulation as well as whether any amendments are necessary at a later point in time.

Access the entire Document

Main ESG reporting rules and GL

Technical advice on KPIs under the Taxonomy Regulation

The EIOPA develops the relevant ratios to be mandatorily disclosed by the insurance or reinsurance undertakings falling within the scope of the NFRD

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Regulator	Context and scope	Relevant dates
EIOPA	• Taxonomy Regulation requires that any undertakings subject to disclosure obligations under NFRD shall disclose information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. • In Mar.21 the EIOPA issues its advice to the EC to conclude about whether the mandatory ratios for non-financial undertakings are relevant and appropriate to depict insurance and reinsurance activities.	• In **June 2021**, the EC is expected to publish a Delegated Act raking into account the CfA that the ESAS have issued.

Summary of disclosure requirements

EIOPA suggests requiring **two most relevant key performance indicators** on sustainability:

- To measure insurer´s and reinsurer´s sustainable investments, based on the current funding and financing of economic activities that qualify as environmentally sustainable under the Taxonomy Regulation, it is suggested to mandatorily disclose the ratio:

  Sustainable Investments. Ratio of the proportion of the insurer´s or reinsurer´s investments in relation to total investments that are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable.This KPI is expected to form the basis for cross-sectoral comparison of insurers and reinsures with financial institutions for sustainability reporting.

- To assess insurer´s and reinsurer´s business activities that are identified as environmentally sustainable following the EU taxonomy, it is suggested to mandatorily disclose the ratio:

  Sustainable Underwriting Activities. The proportion of the non-life gross premiums written in relation to total non-life gross premiums written corresponding to insurance activities identified as environmentally sustainable in the EU taxonomy. This KPI is expected to provide important insights to investors into the non-life underwriting of insurers and reinsurers regarding their taxonomy aligned business activities and allows for the comparison between insurers and reinsurers as well as on the extent to which the underwriting activities foster environmental objectives.

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Final Report on Joint RTS on ESG disclosure standards

The ESAs' RTS aim to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts and the promotion of sustainable investment

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Regulator	Context and scope	Relevant dates
esma European Securities and Markets Authority; EBA European Banking Authority; eiopa	• SFDR lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. • The main objective of the RTS is to increase transparency and comparability of disclosures for end investors. In addition, the ESAs have published a Joint CP with the aim of modifying this RTS to update it with the new features introduced by the Taxonomy Regulation on SFDR.	• **Application**. 1 January 2022

Summary of disclosure requirements

The draft RTS relate to several disclosure obligations under the SFDR regarding the publication of:

- The details of the **presentation and content of the information** in relation to the principle of "*do not significantly harm"*
- A statement on an **entity's website relating to their due diligence policy** on their sustainability impact assessment
- The content and presentation of **pre-contractual information on products with environmental or social characteristics**:
  - On how a product may meet those characteristics and if it has a designated index
  - When a product has sustainable investment objectives, it must show a designated index, or in its absence, an explanation on how those objetives are to be attained without an index.
- **Regular reports with transparency obligations** on the sustainability impact of financial products, specifying:
  - The extent to which products with environmental and/or social characteristics meet those characteristics.
  - For products with sustainable investment objectives and products which objective is a reduction in carbon emissions: i) the overall sustainability-related impact of the product by means of relevant sustainability indicators and; ii) where an index has been designated as a reference benchmark, a comparison between the overall impact of the financial product with the designated index and a broad market index through sustainability indicators.