
Press release

AFME welcomes EC legislative proposal on sustainability disclosures but emphasises the need for appropriate sequencing of regulatory measures

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AFME welcomes the European Commission's [publication](#) of the legislative proposal for a Corporate Sustainability Reporting Directive, revising rules introduced by the Non-Financial Reporting directive (NFRD)¹.

Jacqueline Mills, Head of Advocacy for AFME, says "We strongly believe that the development of EU sustainability reporting framework, going forward, should ensure consistency and a logical sequence between disclosure requirements imposed on financial institutions and their borrowers and investees. AFME stands ready to support the European Commission and co-legislators in achieving this objective through the proposals to revise the existing NFRD".

The new Directive proposal marks a significant milestone towards enhancing the availability and reliability of ESG information and introduces a range of crucial provisions. AFME fully supports the following provisions among others:

- Developing mandatory EU sustainability reporting standards following the double-materiality principle.
- Extending the scope of mandatory sustainability reporting requirements to include all companies listed on EU Regulated Markets, except for micro-undertakings, as well as all large, including private, companies².
- Subjecting sustainability information to mandatory third-party assurance – the statutory auditor or audit firm should express an opinion based on a limited assurance engagement about the compliance of the sustainability reporting with the reporting standards.
- Establishing equivalence mechanisms for sustainability reporting standards used by third country issuers. International regulatory convergence in ESG reporting should be a key consideration in the further elaboration of the European reporting framework.

However, AFME also stresses the importance of appropriately sequencing the reporting obligations applying to financial institutions and their clients. Jacqueline Mills said:

"We generally welcome the proportionate approach to be applied to SMEs where listed SMEs will be expected to comply with the new standards three years after the new corporate sustainability reporting regime enters into application and where voluntary simplified reporting standards would be developed for other types of small and medium entities. However, we are concerned that this could further exacerbate the

¹ Amending the EU Accounting Directive (Directive 2013/34/EU), Transparency Directive (Directive 2004/109/EC), Audit Directive (Directive 2006/43/EC) and Audit Regulation (Regulation (EU) No 537/2014)

² According to under the amended Accounting Directive, large companies are defined as those that meet at least two of the following three criteria: balance sheet total of 20 million EUR; net turnover of 40 million EUR; and 250 employees.

scope and timing mismatch between certain reporting obligations that financial institutions could be required to comply with and the reporting obligations imposed on financial institutions' SME borrowers and investee companies. For example, the recent advice³ by the European Banking Authority (EBA) to the European Commission proposes that credit institutions and investment firms would report on a range of KPIs, including a Green Asset Ratio (GAR) under the Taxonomy Regulation, that would include, on a mandatory basis, SME portfolios in the calculation. The EBA recommended that banks be allowed to use estimated data for such portfolios until 30 June 2024, followed by the reporting based on the "real data". According to the proposals published today, listed SMEs will not be expected to report sustainability information until the year of 2027 and the rest might not be sufficiently encouraged to do so at all, considering that the standard is recommended as voluntary."

– Ends –

Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.
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³ <https://www.eba.europa.eu/eba-advises-commission-kpis-transparency-institutions%E2%80%99-environmentally-sustainable-activities>