

Focus on Funds: European Regulations Could Complicate Sustainable Investment

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EU regulations governing environmental, social, and governance (ESG) investment pose a challenging compliance timeline for fund managers. In the May 15, 2020, edition of *Focus on Funds*, Linda French, ICI Global assistant chief counsel for securities regulation, details the proposed rules and the issues they present.

Transcript

Stephanie Ortvals-Tibbs, ICI director of media relations: Global funds and their investors are carefully watching Europe for new developments regarding ESG [environmental, social, and governance] investment. Linda French, you've been following this regulatory landscape for us. It is quite active, and there are a lot of cross-border implications. Can you break down for us what we're watching right now and why it matters?

Linda French, ICI Global assistant chief council, securities regulation: So the EU recently finalized two pieces of its initial sustainable finance legislation package. One piece is the disclosure regulation, and the other is the taxonomy regulation.

For the disclosure regulation, we're seeing asset manager level disclosure on ESG risk integration in the investment process, and then also sustainability impact of a fund's underlying investments. For product-level disclosure, we're seeing disclosure around how ESG funds are accomplishing any sustainability-related objectives in addition to potential impact [or] sustainability impact disclosure.

For the taxonomy regulation, that's product-level disclosure, again for ESG funds. And there, the focus is on disclosing the products, the underlying investments, and the extent to which those investments are aligned with the EU's taxonomy.

Ortvals-Tibbs: The other thing that we really need to pay attention to is that there's a very tricky timeline involved in this.

French: Yes, absolutely. So for the disclosure regulation, the compliance date is March 10, 2021. But what's tricky about it is that there is all of this secondary technical work that's still being done. And that work isn't due to be finalized until the end of this year, so we could potentially be looking at a two and half month timeline from having those details versus the actual compliance deadline.

Ortvals-Tibbs: So what are you recommending for our members to do?

French: There are certain pieces of the disclosure regulation where there is no ongoing technical work happening, so at least we can be sure of what those pieces look like.

One is the website disclosure at the manager level around ESG integration policies, and the second is integration of ESG and remuneration policies.

Additional Resources

- [ESG Investing Resource Center](#)
- [ICI Global](#)
- [Speech: The Role of Investment Funds in the Global Economy](#)