



ESMA Enforcement Priorities Focus on Climate-Related Disclosures

November 2021

On 29 October 2021, ESMA published its annual public statement on European common enforcement priorities for the 2021 annual financial reports of listed companies (**Public Statement**). Of the four enforcement priority areas set out in the Public Statement, two relate to climate disclosures being (i) the disclosure of climate-related matters in both financial and non-financial statements and (ii) Taxonomy-related disclosures in non-financial statements. Such disclosures will provide essential data for fund management companies' compliance with existing SFDR transparency rules and those which come into effect on a phased basis over the course of next year and 2023.

Climate-related disclosures in financial statements

In addition to detailed climate-related disclosure recommendations, ESMA highlights that issuers and auditors *"must consider climate risks when preparing and auditing IFRS financial statements to the extent that the effects of those risks are material to those financial statements even if IFRS standards do not explicitly refer to climate-related matters"*. ESMA notes that while some sectors will be more affected than others, *"it is key that all issuers consider the climate-related matters holistically in their communications to the market"* and *"disclosures should be tailored to the specific circumstances of individual issuers"*.

Climate-related disclosures in non-financial statements

In the Public Statement, ESMA highlights the sustainability disclosure requirements under the Non-Financial Reporting Directive and reminds issuers of the Commission's Guidelines on reporting climate-related information *"which notwithstanding its non-binding nature, is also consistent with the disclosures envisaged by the Task-Force on Climate Related Financial Disclosures (TCFD)"*. Noting deficiencies previously identified in the disclosure of climate-related matters, ESMA emphasises the importance of disclosures on climate change policies taking account of both sustainability risks for issuers and the impact of issuers on sustainability factors and recommends that disclosures not be limited to providing backward-looking information. ESMA also highlights the imperative of connecting the non-financial disclosure of climate-related issues to the financial consequences of those issues in the financial statements.

Taxonomy-related disclosures in non-financial statements

In advance of the first deadline of 1 January 2022 for compliance with Taxonomy-related disclosures, ESMA reminds issuers of their obligations and the necessity to prepare for compliance as the *"assessment of taxonomy eligibility and alignment is likely to require progressive adjustments"*. ESMA encourages issuers to use the additional time, provided by the phased introduction of these obligations which commence with simplified reporting on Taxonomy-eligible activities, to properly set their internal reporting systems and put in place the necessary preparations to ensure a timely and correct application of these requirements.

Next steps

Fund management companies will be keenly monitoring the 2021 climate-related disclosures of underlying investee companies, quality data from which will be essential to ensuring compliance with their SFDR transparency obligations.

WILLIAM FRY

DUBLIN | CORK | LONDON | NEW YORK | SAN FRANCISCO | SILICON VALLEY

William Fry LLP | T: +353 1 639 5000 | E: info@williamfry.com

williamfry.com

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