ΕΠΙΤΡΟΠΗ ΚΕΦΑΛΑΙΑΓΟΡΑΣ ΚΥΠΡΟΥ
CYPRUS SECURITIES AND EXCHANGE COMMISSION

To	:	**Cyprus Investment Firms ('CIFs')**
From	:	**Cyprus Securities and Exchange Commission**
Date	:	**13 February 2025**
Circular No	:	**C683**
Subject	:	**Sustainability-related obligations of CIFs**

A. Introduction

The Cyprus Securities and Exchange Commission ('CySEC') hereby issues this circular to outline the sustainability-related obligations of Cyprus Investment Firms ('CIFs') as defined under European and national legislative acts. These obligations align with the goals of the European Green Deal[1], fostering a greener and more sustainable economy. The financial sector's role is critical in achieving these objectives, and sustainable finance has emerged as a key EU priority with harmonized rules applicable across member states.

This circular highlights the key legislative acts and obligations applicable to CIFs, with a focus on ensuring compliance and alignment with the sustainability-related frameworks established at the EU level.

B. Overview of Sustainability-Related Obligations

1. Sustainability-Related Disclosures Regulation ('SFDR') – Regulation (EU) 2019/2088

i. ***Objective:*** To promote transparency through harmonized EU rules on sustainability-related disclosures by financial market participants and financial advisers.

ii. ***Scope:*** CIFs authorised to provide the investment services of portfolio management and/or investment advice[2], irrespective of whether their products have sustainability features.

[1] The European Green Deal was approved in 2020 with the ultimate goal of the EU becoming climate-neutral by 2050 – an economy with net-zero greenhouse gas emissions. In this context, 27 member states committed to reducing emissions by at least 55% by 2030, compared to 1990 levels (the Fit-for-55 package), and mobilising at least €1 trillion in sustainable investments over the next decade.
[2] As defined in Article 2(1) of the Law 87(I)/2017.

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iii. *Obligations:* The SFDR supplements the disclosure requirements of the existing legal framework (e.g., MiFID II). In particular, pre-contractual and ongoing disclosures of CIFs under scope should include information with respect to the consideration of adverse sustainability impacts and the integration of sustainability risks, at entity level and at product level, as well as sustainability-related information concerning the financial products. Specifically:

- <u>Entity-Level Disclosures:</u>

CIFs must publish policies on their website regarding:

✓ Integration of sustainability risks[3] in investment decisions and/or advice (Article 3).
✓ Consideration of principal adverse impacts[4] on sustainability factors[5] (Article 4).
✓ Consistency of remuneration policies with sustainability risk integration (Article 5).

- <u>Product-Level Disclosures:</u>

CIFs must include sustainability information in pre-contractual documents, on their websites, and in periodic reports. This includes:

✓ How sustainability risks are integrated into investment decisions and/or advice (Article 6).
✓ Disclosures for portfolios promoting environmental or social characteristics[6] or having sustainable investment[7] objectives (Articles 8–11).

iv. *Note*: CIFs that do not take adverse sustainability impacts into account, or for which sustainability risks are not relevant to investment decisions and/or advice, must provide clear and transparent explanations in their disclosures.

v. *Implementation Date:* 10 March 2021.

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[3] As per Article 2(22) of SFDR, 'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.
[4] Principal adverse impacts should be understood as those impacts of investment decisions and advice that result in negative effects on sustainability factors (Recital 20 of SFDR).
[5] As per Article 2(24) of SFDR, 'sustainability factors' mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
[6] A financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices ('SFDR Article 8' product).
[7] As per Article 2(17) of SFDR, 'sustainable investment' means an investment in an economic activity that contributes to an environmental objective, or an investment in an economic activity that contributes to a social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance ('SFDR Article 9' product).

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2. **EU Taxonomy – Regulation (EU) 2020/852**

   i. ***Objective****:* To establish a science-based framework for classifying environmentally sustainable economic activities[8], thereby addressing greenwashing[9] and supporting the objectives of SFDR.

   ii. ***Scope:*** Same as SFDR.

   iii. ***Obligations:*** CIFs must align their sustainability-related disclosures with the Taxonomy Regulation, applying the technical screening criteria outlined in delegated acts by the European Commission[10].

   iv. ***Implementation Date:*** January 2022.

3. **SFDR Delegated Regulation – Commission Delegated Regulation (EU) 2022/1288**

   i. ***Objective****:* To provide a standardized framework for the content and presentation of sustainability-related disclosures across pre-contractual documents, websites, and periodic reports.

   ii. ***Scope:*** Same as SFDR

   iii. ***Obligations:*** The templates provided in the Delegated Regulation must be adhered to for consistent disclosure practices.

   iv. ***Implementation Date:*** *1 January 2023.*

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[8] 'environmentally sustainable economic activity' means an economic activity that complies with all the following requirements as laid down in Article 3 of EU Taxonomy:

a) contributes substantially to one or more of the environmental objectives (the environmental objectives are set out in Article 9 of EU Taxonomy whereas 'substantial contribution' is defined for each environmental objective in Articles 10 -16 of EU Taxonomy),
b) does not significantly harm any of the environmental objectives ('significantly harm' is defined in Article 17 of EU Taxonomy),
c) is carried out in compliance with the minimum safeguards laid down in Article 18 of EU Taxonomy – by this requirement, the social-related objectives are also captured –, and
d) complies with technical screening criteria established for each of the six environmental objectives.

[9] As per the common high-level understanding of greenwashing by the European Supervisory Authorities (ESMA, EBA, EIOPA - 'ESAs'), greenwashing is '*a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial service. This practice may be misleading to consumers, investors, or other market participants*'.

[10] The European Commission has defined technical screening criteria ('TSC') for an economic activity that qualifies as contributing substantially to an environmental objective (refer to Article 9 of EU Taxonomy in respect to the environmental objectives), and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. The TSC have been published through delegated acts which can be found on the dedicated page of the European Commission's website.

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4. Integration of Sustainability into MiFID II[11]

i. ***Scope:*** All CIFs, regardless of the investment services they are authorized to provide or whether they offer financial products with sustainability features.

ii. ***Obligations:***

- Organizational Requirements

CIFs must incorporate sustainability risks into their processes, systems, and controls (Article 21 of Regulation (EU) 2017/565).

- Risk Management Policy

Sustainability risks must be integrated into risk management frameworks (Article 23 of Regulation (EU) 2017/565).

- Conflicts of Interest

CIFs must include possible conflicts of interest that stem from the integration of the client's sustainability preferences[12] in the types of conflicts of interest that may damage the interests of a client or potential client (Article 33 of Regulation (EU) 2017/565).

- Information to be provided about investment advice

CIFs must incorporate, where relevant, the sustainability factors taken into consideration, in the description that is provided to clients regarding the selection process of financial instruments (Article 52(3) of the Regulation (EU) 2017/565).

- Suitability Assessment

CIFs must assess and document clients' sustainability preferences when determining the suitability of investment products (Article 54 of the Regulation (EU) 2017/565).

iii. ***Implementation Date:*** 2 August 2022.

[11] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amended Delegated Regulation (EU) 2017/565.

[12] As per Article 2(7) of the Delegated Regulation (EU) 2017/565, 'sustainability preferences' means a client's or potential client's choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:

a) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2(1) of EU Taxonomy;
b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2(17) of SFDR;
c) a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client.

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5. Product Governance Obligations – Commission Delegated Directive (EU) 2021/1269[13]

i. ***Scope:*** All CIFs manufacturing and/or distributing financial instruments, irrespective of whether their products have sustainability features.

ii. ***Obligation:*** CIFs must incorporate sustainability-related objectives in target market identification, product distribution, and periodic reviews.

iii. ***Implementation Date*:** 22 November 2022.

C. Recommendations for CIFs

CySEC emphasizes the importance of integrating sustainability considerations into investment services and urges CIFs to take this circular seriously. In this context, CySEC provides the following key recommendations to ensure compliance with regulatory expectations and best practices in sustainable finance:

- **Training and capacity building**

Ensure staff are adequately trained to understand and integrate sustainability risks, impacts, and preferences into investment decisions and advice.

- **Enhanced client communication**

Provide clear and concise information to clients about how sustainability factors are considered, ensuring transparency and avoiding greenwashing.

- **Continuous monitoring**

Regularly review internal policies, procedures, and product governance arrangements to ensure they remain aligned with evolving regulatory requirements.

- **Engagement with ESMA Guidance**

CIFs are encouraged to consult the latest ESMA guidance, including Q&As on SFDR and EU Taxonomy[14], and on MiFID II updates[15], for further clarity.

Sincerely,

Dr. George Theocharides
Chairman of Cyprus Securities and Exchange Commission

[13] It has been transposed into the national law by amending CySEC's Directive DI87-01, and in particular paragraphs 11 and 12.

[14] Consolidated Q&A document dated 24 July 2024.

[15] Guidelines on MiFID II product governance requirements dated 3 August 2023 that CySEC communicated through CySEC's Circular C603, Guidelines on certain aspects of the MiFID II suitability requirements dated 3 April 2023 that CySEC communicated through CySEC's Circular C579.

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