

Market Newsletter 3/2023

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Listed companies carry out reporting on environmentally sustainable activities for the first time

Since 2021, large non-financial listed companies¹ have been subject to the reporting requirements of Article 8 of the Taxonomy Regulation² and the delegated regulations³ issued under it. The first-year reporting requirements were reduced, meaning that companies only reported on the taxonomy eligibility of their activities,⁴ and not yet on environmentally sustainable activities. The assessment of the taxonomy eligibility is carried out in accordance with the descriptions of activities within the technical screening criteria. The assessment of the taxonomy eligibility of an activity does not involve assessing whether the activity substantially promotes an environmental target, nor does it assess the implementation of the DNSH criteria⁵ or of minimum safeguards.

For 2022, companies had to expand the information they disclosed on their environmentally sustainable activity. Turnover, capital expenditure and operating expenditure had to be divided into environmentally sustainable, taxonomy-aligned activity and taxonomy-eligible but not environmentally sustainable activity. The activity was assessed with respect to two climate targets, i.e. climate change mitigation and climate adaptation.

¹ A large company pursuant to the Accounting Act with an average number of employees during the financial year of 500. A listed company is a Finnish company the shares, bonds or other securities issued by which are admitted to trading on a regulated market (the main list of a stock exchange).

² [Regulation \(EU\) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment](#)

³ [Commission Delegated Regulation \(EU\) 2021/2178](#), [Commission Delegated Regulation \(EU\) 2021/2139](#), [Commission Delegated Regulation \(EU\) 2022/1214](#).

⁴ Sections A1 and A2 of the reporting template combined.

⁵ Do No Significant Harm.

Table 1. Main breakdown of reporting by non-financial listed companies under Article 8 of the Taxonomy Regulation

	Financial statements 2021 ⁶	Financial statements 2022
A1	Taxonomy-eligible activities	Environmentally sustainable, taxonomy-aligned activities
A2		Taxonomy-eligible but not environmentally sustainable activities
B	Taxonomy-non-eligible activities	Taxonomy-non-eligible activities

Table: Financial Supervisory Authority.

Reporting by European companies on environmentally sustainable activity in 2022 financial statements

On 25 October 2023 the European Securities and Markets Authority (ESMA) issued a [report](#) on information reporting by European companies that complies with Article 8 of the Taxonomy Regulation. The report is based on the observations of enforcers from 22 states regarding the reporting of 54 companies. The Financial Supervisory Authority participated in the study on taxonomy information. The focus of the European study was to evaluate the quality of taxonomy data, and how well companies have complied with the requirements of the new regulations. Due to the limited size of the sample, the outcomes of the evaluation should be considered as indicative only.

Standard templates and KPIs

Nearly all the companies in the sample reported the compulsory turnover, capital expenditure (CapEx) and operating expenditure (OpEx) KPIs. The average figures for environmentally sustainable, taxonomy-eligible activities for the different KPIs were 17% (turnover), 28% (CapEx) and 18% (OpEx). A more detailed distribution among the KPIs is presented on page 4 of the ESMA report (Figure 2 of the report).

The proportion of the companies that reported a value above zero for all the KPIs for taxonomy-aligned environmentally sustainable activity was 70%, while 30% of companies reported at least one KPI as zero. In all these companies, the OpEx alignment KPI was zero or not reported. One in four companies reported the turnover alignment KPI as zero, and 15% reported the CapEx alignment KPI as zero. The proportion of companies that reported all the KPIs as zero was 15%.

The Commission Delegated Regulation regarding the content and presentation of information to be disclosed by undertakings contains the standard templates⁷ that companies must use. Even if a company reports zero values, observing the format of the template is mandatory. A total of 30–40%⁸ of European companies did not comply with the requirements of the Regulation because of missing information, parts of the standard templates having been missing, or because the company used a reporting method other than the standard templates. Reporting information in a way other than what is instructed in the Regulation makes comparability and access to the information more difficult.

⁶ The wording of the Article has been simplified so that the financial period of companies is assumed to be a calendar year.

⁷ (EU) 2021/2178, Annex II

⁸ The percentage varies for the three different reporting templates concerning turnover, capital expenses and operating expenses.

In accordance with the foregoing, companies usually reported the OpEx alignment rate as zero or did not report it at all. In accordance with the Regulation, the company can opt not to report operating expenses aligned with the classification system (the numerator of the indicator) if the overall operating expenses (the denominator of the indicator) are not material for the company's overall operations. Even in this case, the company has to justify why its overall operating expenses are not deemed to be material, in addition to which it has to report the overall operating expenses in accordance with the Regulation.⁹ European companies that had recourse to the materiality judgement complied with these requirements of the Regulation poorly.

Disclosure of qualitative information in addition to KPIs

In addition to KPIs, companies' reporting in accordance with the Taxonomy Regulation requires detailed qualitative explanations of their taxonomy assessments and numerical factors. At least some of the qualitative information required by the regulations was missing or insufficient for over 40% of the assessed companies.

Although the nature of taxonomy-aligned, environmentally sustainable activities was presented relatively well, the presentation of technical assessment criteria, DNSH criteria and the minimum safeguards for social factors was much less complete. For example, one in three companies provided no qualitative information on compliance with DNSH criteria.

Other general problem areas related to the application of the regulations included providing information on activities only in relation to one of the climate objectives, omitting information in relation to the connections or balancing related to financial or non-financial reporting, and the lack of an explanation of how double counting has been avoided by the company.¹⁰

The ESMA report also contains some good reporting practices. For example, some companies provided detailed explanations on the criteria that the activity did not meet either in relation to the technical screening criteria or the DNSH criteria.

On the basis of these observations, the ESMA reminds companies of the importance of providing all the quantitative as well as the detailed qualitative information as required by the delegated regulations, in order to enable users of the information to fully understand to which activities the quantitative information relates, how the different criteria were assessed, and how the company assesses the taxonomy alignment and eligibility of its activities.

Reporting by Finnish companies on environmentally sustainable activity in 2022 financial statements

The Financial Supervisory Authority looked through the taxonomy information tables of all the non-financial listed companies subject to an obligation to publish information. The information was presented either in a board of directors' report or in a separate report such as a sustainability report. A review with a similar scope was not carried out on qualitative information. The observations regarding the qualitative information of individual companies are in line with the observations presented in the ESMA report.

⁹ (EU) 2021/2178, Annex I, 1.1.3.2 final paragraph

¹⁰ (EU) No. 2021/2178, Annex I, 1.2.2.1(c) and 1.2.2.2(c).

Observations on use of standard templates and information presented in tables

Nearly all the companies published taxonomy information in one form or another. The information was missing altogether for three companies. The FIN-FSA points out that major listed companies with an average number of employees during the financial year of 500 are obliged to include the information pursuant to Article 8 of the Taxonomy Regulation and the delegated regulations issued under it in their board of directors' report or a separate report.¹¹

Most of the companies disclosed the taxonomy information in the table format required by the Commission's Delegated Regulation (EU) 2021/2178. Less than half (43%) of companies followed the standard templates precisely. The FIN-FSA points out that the Regulation requires the standard templates to be used, and these must not be modified. Changes should not be made even when the company's whole activity is non-taxonomy-eligible, or if the company applies a materiality exception to operating expenses. The digitalisation of taxonomy information will be based on the templates, and complying with these before this is done will help companies when the information is subsequently digitalised.

There were also clear factual errors in the completion of the tables. In column 2 of the tables regarding codes, the activity codes of the Commission's Delegated Regulation (EU) 2021/2139 should be used instead of NACE codes. If a company wants to provide NACE codes as well, these can be provided as additional information in conjunction with the name of the activity in column 1 or in the qualitative description of the taxonomy information. The codes must be provided in conjunction with all activities, both taxonomy-aligned and taxonomy-eligible activities, on the same row with the activity. Users of the information must be able to understand which of the delegated regulation's criteria the company has used in assessing the taxonomy alignment or eligibility of its activities.

In the assessment of compliance with the DNSH criteria, it is necessary to consider that all the criteria do not necessarily need to be assessed for all the activities. The number of DNSH criteria to be assessed varies by activity, and the tables must be completed accordingly.

The careful completion of the tables facilitates their understanding. There was a wide variety of individual oversights. For example, table headings were missing, the units of figures in euros were not indicated, and the sum rows of tables did not match with the figures of individual activities. Judging by the large number of observations, companies should improve the accuracy of information.

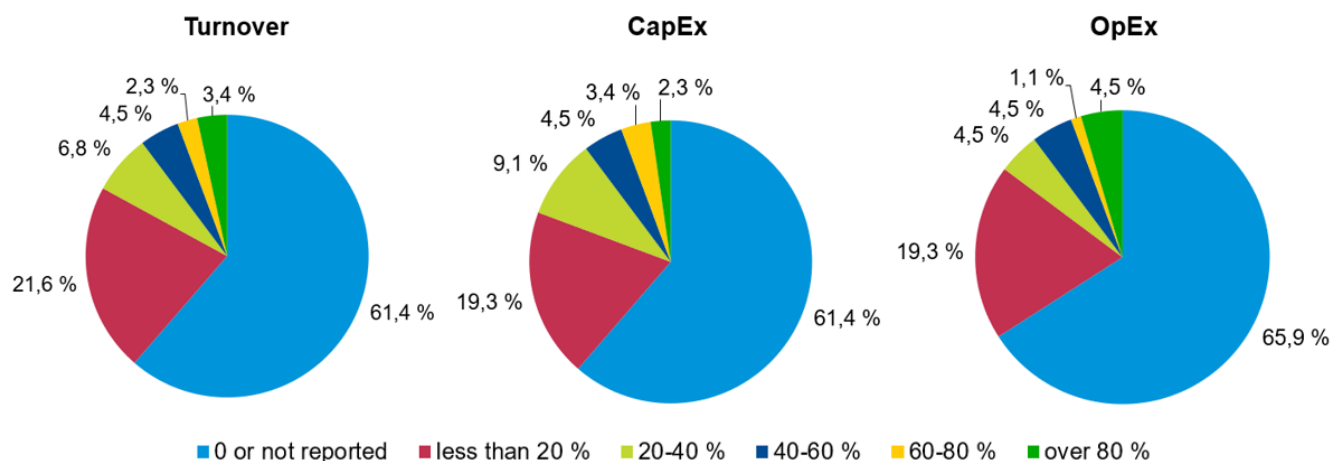
Summary of KPIs on environmentally sustainable activity

According to the summary of Finnish companies' taxonomy KPIs, the average values of the taxonomy alignment KPIs measuring environmental sustainability were: turnover KPI 11 %, CapEx KPI 12 %, and OpEx KPI 12 %. The below image describes the more detailed distributions. In the ESMA's sample, the corresponding averages for the different KPIs were 17 % (turnover), 28 % (CapEx) and 18 % (OpEx).

The proportion of companies that reported the turnover, CapEx or OpEx alignment KPI as zero or in which the KPI was not reported is significant, i.e. 60% for all the KPIs. In the ESMA's study of European companies, the corresponding proportions of zero reporting were 24 % (turnover), 15 % (CapEx) and 30 % (OpEx).

¹¹ In accordance with the valid Accounting Act, a separate report can still be made in the 2023 financial statements. In the 2024 financial statements the sustainability information, including the information pursuant to Article 8 of the Taxonomy Regulation, must be disclosed in the board of directors' report.

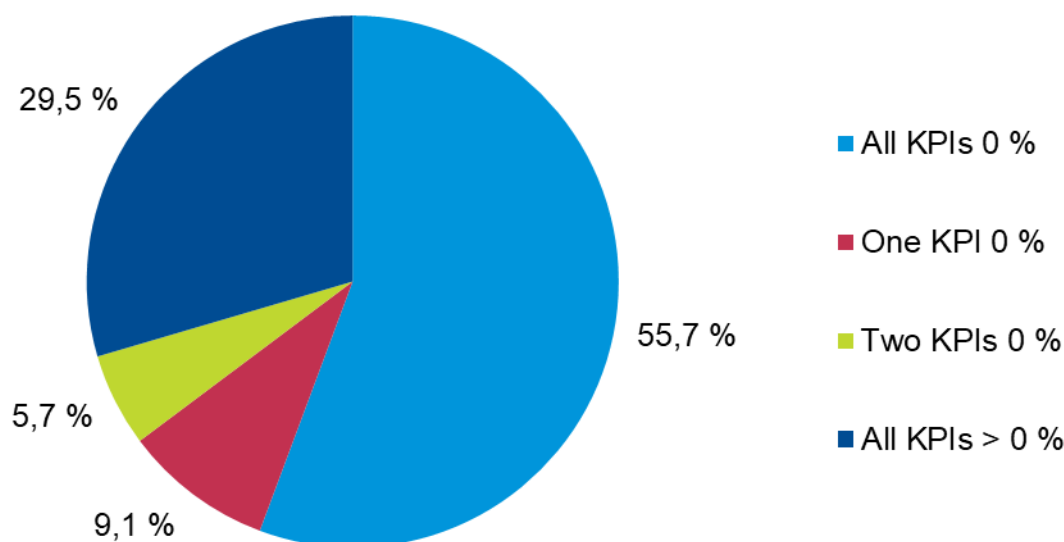
Figure 1. Proportions of Finnish companies' environmentally sustainable, taxonomy-aligned activity measured with the turnover, CapEx and OpEx KPIs



Source: Financial Supervisory Authority.

Figure 2 also illustrates the difficulty of the reporting: the proportion of Finnish companies that reported all the KPIs as zero was 56%. In the ESMA's study the corresponding figure was 15%. The share of Finnish companies that reported all the KPIs as higher than zero also diverged substantially from the corresponding figure for European companies (30% vs. 70%).

Figure 2. Zero reporting of environmentally sustainable, taxonomy-aligned activity by Finnish companies measured with the turnover, CapEx and OpEx KPIs



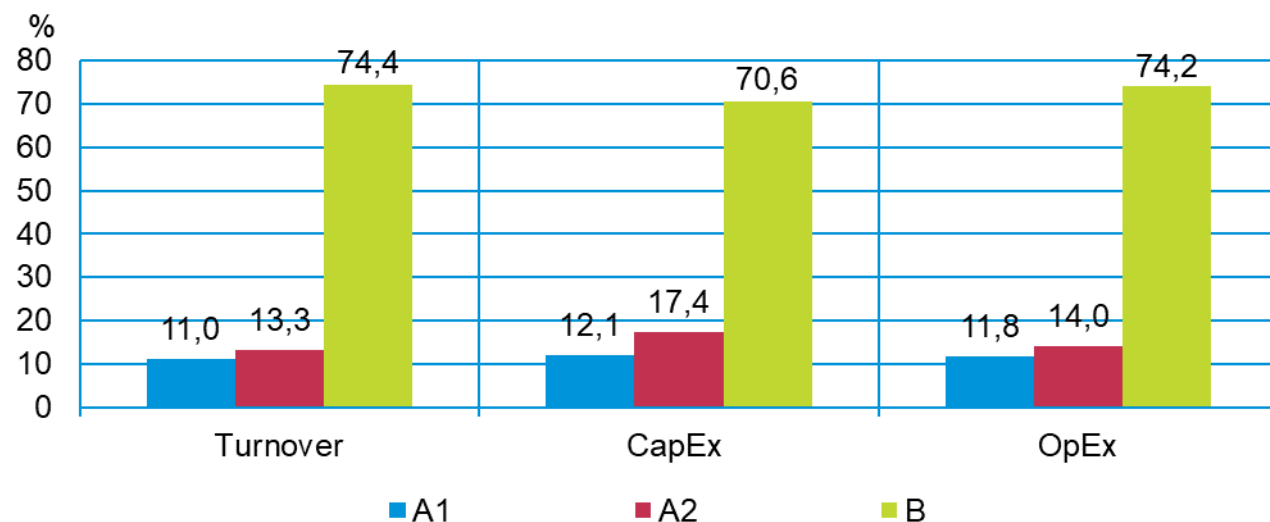
Source: Financial Supervisory Authority.

The application of broad and complex regulations for the first time probably influences the results. Some of the differences between the Finnish study and the ESMA study are also explained by the difference in the coverage of the target group. Finnish companies might have been cautious in their assessments, or alternatively, companies might have had difficulty identifying what activities can be reported as

environmentally sustainable. Especially with respect to capital expenditure reporting, there is a striking difference between Finnish companies and the ESMA sample.

In Figure 3, the averages of the different KPIs have been summarised for taxonomy-aligned (section A1 of the reporting template), taxonomy-eligible (A2) and taxonomy-non-eligible activity (B). The study included 88 Finnish listed companies.

Figure 3. Average KPI values of Finnish companies for taxonomy-aligned (section A1 of the reporting template), taxonomy-eligible (A2) and taxonomy-non-eligible activity (B)



Source: Financial Supervisory Authority.

Changes to reporting of environmentally sustainable activity in 2023 financial statements

On 27 June 2023, the European Commission approved the [delegated regulations](#) related to the application of the Taxonomy Regulation, which are currently in the final stages of the legislative process. After the new delegated regulations are completed, the reporting obligations under them will be applied to information pursuant to Article 8 of the Taxonomy Regulation, to be published from 1 January 2024 onwards in 2023 financial statements.

The delegated regulations contain updates to the standard reporting templates. In addition, the technical screening criteria for additional activities are confirmed for the first two environmental objectives, and technical screening criteria and the associated reporting obligations are put into use for activities promoting the remaining four environmental objectives.¹²

With respect to the additions brought by the Regulations, during the first reporting year, companies only need to provide information on the proportion that taxonomy-eligible and non-taxonomy-eligible economic activities account for of their total turnover, capital expenditure and operating expenditure, and qualitative information regarding these. The ESMA reminds companies to monitor the completion of the legislative process and to prepare for reporting in line with the new regulations.¹³

¹² Water and marine resources, circular economy, pollution prevention, biodiversity and ecosystems.

¹³ [European common enforcement priorities for 2023 annual financial reports](#), Section 2.1: Priority 1: Disclosures relating to Article 8 of the Taxonomy Regulation.

The ESMA encourages companies to use the guidance and tools published by the European Commission, including guidance on the interpretation and application of certain criteria and disclosures, and online tools that help companies in their taxonomy reporting.¹⁴ The ESMA also notes that the communication issued by the European Commission in June 2023 underlines the role of the taxonomy as a “common language”, which plays a central role in the EU’s sustainable finance framework and which can be used by companies in planning investments and setting targets for the green transition.¹⁵

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Useful examples of disclosing impacts of climate change in IFRS financial statements in a recent publication by European securities market regulators

Climate change affects an ever-increasing group of industries and companies. New risks create uncertainty for business models and forecasts, for example, and could lead to changes in strategy. On the other hand, the changes in strategy could result from new opportunities. Therefore, climate change has impacts on corporate activity, and these are expected to affect companies’ profitability, financial position and cash flows. Hence, financial reporting is affected by the impacts of climate change.

In the European Common Enforcement Priorities (ECEP¹⁶) related to IFRS enforcement, the European Securities and Markets Authority (ESMA) has included climate-related matters as a priority since 2021. To dive more deeply into the subject, ESMA studied financial statement practices and published the report “[The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements](#)” on 25 October 2023. The examples presented in the report are hoped to help listed companies and auditors as they prepare for the financial statements of 2023.

Disclosing impacts of climate change – IFRS requirements

The current IFRS cover the handling of phenomena such as climate change in IFRS financial statements, although climate change is not expressly mentioned in them. The IASB has published material that helps in the application of the IFRS on this subject: “[Effects of climate-related matters on financial statements](#)”.

IAS 1 *Presentation of Financial Statements* requires disclosure of information on judgements that the management has made, assumptions about the future, and key sources of estimation uncertainty. Climate change impact assessment typically includes a large amount of uncertainty and consideration. Moreover, in accordance with IAS 1.17, when preparing financial statements, the management must assess whether the financial statements contain all the material information from investors’ point of view

¹⁴ [Sustainable finance taxonomy FAQ](#) and [EU Taxonomy Compass \(europa.eu\)](#)

¹⁵ [Communication from the Commission on a sustainable finance framework that works on the ground COM\(2023\) 317](#)

¹⁶ [European common enforcement priorities 2023](#)

and, if necessary, the presented information must be supplemented. According to IAS 1.7, information is material if omitting, misstating or obscuring it could reasonably be expected to influence investment decisions. In assessing materiality, the company may seek additional guidance from the IASB's voluntarily applicable "[IFRS Practice Statement 2: Making Materiality Judgements](#)".

Five themes in the ESMA report

The objective of the report published by ESMA is to promote the coherent and transparent disclosure of climate-related matters in IFRS financial statements. The report covers topics on which climate change could have a material impact. The topics are discussed in a practical manner, providing examples from companies' notes to the financial statements, and the requirements of the IFRS are addressed briefly.

The examples are selected from the 2022 IFRS financial statements of 22 European companies. The companies are major listed companies representing nine industries on which climate change is expected to have a substantial impact. In connection with each example, ESMA explains why the note in question could be beneficial to the user of the financial statements and to what companies should pay attention. However, ESMA emphasises that the report does not dictate a certain way in which climate-related matters should be presented. IFRS enforcement is always carried out on the basis of the requirements of the standards.

In the ESMA report, the examples are divided into five topics. The information disclosed by companies is inspected based on the IFRS standard applied to the topic in question. The topics are:

1. judgements made by management, sources of estimation uncertainty, and accounting policies (IAS 1)
2. impairment of assets (IAS 36)
3. useful lives of tangible and intangible assets (IAS 16, IAS 38)
4. provisions (IAS 37)
5. other topics.

Companies should consider supplementing information on major sources of estimation uncertainty and judgements made by management if climate-related matters have material impacts on the company. Moreover, disclosure may be necessary in cases in which the management has, in its judgement, determined that the impact in question is not material to the company for the time being. This allows the investor to be certain that the management has considered the matter and is monitoring it. In any case, with the operating environment changing rapidly with respect to climate-related impacts, assessments should be made regularly. Due to changes in regulations or the demand environment, for example, an impact that was deemed immaterial in the previous financial statements could quickly become material.

If climate-related matters have a material impact, for example, on cash flows or discount rates, it would be appropriate for the company to consider providing more detailed information on the assumptions used, for instance. Scenario modelling would potentially be a good tool for dealing with the uncertainty related to forecasts. Climate change and its associated impacts may result in changes in the business models and business structures of companies. This could influence the method of defining cash generating units.

For intangible and tangible assets, regulatory developments or changes in the production process resulting from climate targets, for example, could lead to a shortening in the economic life of assets. For

this reason, companies should regularly assess the various potential impacts of climate change on the value of assets.

In addition to having considered examples from the perspective of applying the IFRS in its report, ESMA has also assessed the coherence of the financial reporting and sustainability reporting disclosed in the examples. The connectivity between financial reporting and sustainability reporting is an area currently being developed by the IASB, ISSB (International Sustainability Standard Board) and EFRAG (European Financial Reporting Advisory Group). The development work is expected to produce a definition for the connectivity concept, which will contribute to ensuring the transparency, coherence, and usefulness of information across different parts of a company's annual report.

It is important that companies focus on the coherence of financial and sustainability information when disclosing information on climate targets or measures required by transition plans, for example. The objective should be to enable the user to obtain a complete picture of the current financial impacts of climate change on the company and the associated risks and uncertainties. ESMA recommends that companies disclose climate-related matters in a single note to the financial statements or list the relevant notes.

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Sustainability matters in prospectuses

The Financial Supervisory Authority draws the attention of persons drafting prospectuses to sustainability matters and recommends becoming familiar with the instructions issued by ESMA regarding sustainability-related disclosures in prospectuses.¹⁷

Regulations related to disclosure of sustainability matters

The following regulations related to disclosure of sustainability matters in prospectuses are in preparation:

- ❖ The Corporate Sustainability Reporting Directive (CSRD), which will be applied in phases from 2024 onwards, is expected to be reflected more broadly in the sustainability information to be included in prospectuses.
- ❖ The Commission's [Listing Act proposal](#), which is in preparation, contains more detailed provisions on disclosing sustainability matters in prospectuses.
- ❖ The voluntarily applicable EU Green Bond Standards (EUGBS) Regulation, which is currently being drafted, concerns use-of-proceeds bonds that are used for sustainable purposes. The Regulation can be expected to have an indirect and general impact on sustainability information disclosed in other prospectuses as well.

¹⁷ ESMA: [Public statement on sustainability disclosure in prospectuses 11 July 2023](#).

Since sustainability matters are important from investors' point of view, ESMA has deemed it necessary to provide instructions already before these forthcoming regulations enter into force. The ESMA guidelines are based on prospectus regulations in force and affect both non-equity and equity prospectuses.

The starting point for the ESMA guidelines is the provision of Article 6 of the Prospectus Regulation, according to which a prospectus shall contain *necessary* information which is *material* to an investor for making an informed assessment of a) the assets and liabilities, profits and losses, financial position, and prospects of the issuer and of any guarantor; b) the rights attaching to the securities; and c) the reasons for the issuance and its impact on the issuer.

The prospectus regulations currently in force do not contain express references to sustainability matters with the exception of the introduction of the Prospectus Regulation. Paragraph 54 of the introduction states that among others, *environmental, social and governance* circumstances can also constitute specific and material risks for the issuer and its securities and, in that case, should be disclosed.

ESMA urges issuers and their advisors to include material sustainability matters in the prospectus even if the content requirements for prospectuses¹⁸ do not currently specifically mention these. The information relevant for an investor in any given prospectus is affected by the issuer's situation and the characteristics of the security being supplied.

Overview of disclosure of sustainability matters in prospectuses

According to the ESMA guidelines, the issuers of prospectuses should take the following matters into account:

- ❁ Prospectuses should contain *material* sustainability-related information despite this not being specifically required by the content requirements for prospectuses.
- ❁ The sustainability-related claims should be justified and the information should be as objective as possible. For example, the prospectus can contain references to followed market standards or third-party studies.
- ❁ The risk descriptions of the prospectuses should take sustainability matters into account. However, disclaimers related to sustainability should not be included in the risk descriptions regarding matters that lie within the issuer's area of influence. An example of such a matter is a statement that the company can use the proceeds in a manner that breaches the sustainability criteria described in the prospectus.
- ❁ The matters related to sustainability must be comprehensible. For example, technical terms related to sustainability must be clearly defined in the prospectus.

¹⁸ Annexes to Delegated Regulation 2019/980.

Sustainability matters in fixed income prospectuses

The ESMA guidelines consider two types of bonds:

1. bonds the proceeds of which are used for sustainable purposes (use-of-proceeds bonds),
2. bonds the terms and conditions of which are tied to sustainability targets (sustainability-linked bonds).

When a prospectus concerns bonds the proceeds of which are used for sustainable purposes (use-of-proceeds bonds), the prospectus must provide investors with sufficient information on the use of the proceeds, the selection of where the proceeds are directed, and the method of managing the collected assets.

When the prospectus concerns bonds the terms and conditions of which are tied to the sustainability targets related to a company's business operations (sustainability-linked bonds), the prospectus must contain information on the selected indicators (key performance indicators, KPIs) and targets (sustainability performance targets, SPTs). If achieving sustainability targets or failing to do so affects the interest paid on a security, this must be disclosed in the prospectus. In addition, a clear description of how the interest is calculated in these situations must be provided.

In prospectuses, sustainability matters usually particularly affect the terms and conditions of the bond and the risk section of the prospectus, in which the key risks associated with sustainability issues must be described. In addition, the material information related to sustainability matters is described in the prospectus, for example, by including a summary of the company's green finance framework (e.g. Green Bond Framework).

ESMA also recommends that issuers disclose in the prospectus whether they intend provide post-issuance sustainability-related information. This should include an indication of what information will be reported, where the information can be obtained, and whether any assurances will be provided by third parties for this information.

Sustainability matters in equity prospectuses

In accordance with the ESMA guidelines, material sustainability-related information must be included in equity prospectuses. If an issuer is obliged to include a statement of non-financial information¹⁹ in accordance with the Accounting Act, this information must be taken into account in the sustainability information of the prospectus. The Corporate Sustainability Reporting Directive (CSRD) will replace these requirements of the Accounting Act as of 2024.

Sustainability-related information disclosed in marketing materials

Marketing materials should be based on the prospectus,²⁰ and should not contain any material sustainability-related information or any other material information that is not included in the prospectus.

¹⁹ Accounting Act (1336/1997), chapter 3a.

²⁰ In accordance with Article 22(3) of the Prospectus Regulation, advertisements must be clearly recognisable as such. The information contained in advertisements must not be inaccurate or misleading, and must be consistent with the information contained in the prospectus, where already published, or with information required to be in the prospectus, where the prospectus is published afterwards.

In conclusion

Sustainability regulations related to prospectuses are in preparation. The more specific impacts of the forthcoming regulations on sustainability information to be disclosed remain difficult to predict. However, it is clear that those who prepare prospectuses will increasingly need to take sustainability matters into account. The forthcoming regulations aim to meet investors' increasing need for information regarding issuers' sustainability matters and seek to contribute to avoiding the possible marketing of securities with unfounded sustainability claims.

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European common enforcement priorities for financial reports have been published

The European common enforcement priorities (ECEP)²¹ of the European Securities and Markets Authority (ESMA), published on 25 October 2023, cover the IFRS financial statements of listed companies for 2023 and the reporting of non-financial information.

The public statement regarding priorities is divided into three distinct parts. The priorities regarding the IFRS presented in the first part are:

1. the impact of climate-related matters on IFRS financial statements
2. the impacts of the macroeconomic environment.

In section 1, the consistency of financial reporting with non-financial information, impairment of non-financial assets, and accounting for emissions trading schemes are examined. Section 2 focuses on financial risks and fair-value measurement and related notes.

The second part focuses on non-financial reporting. The focus areas of the enforcement are:

1. disclosures relating to Article 8 of the Taxonomy Regulation
2. disclosures of climate-related targets, actions and progress
3. Scope 3 emissions.

In the third part, ESMA wants to remind companies of the consistency of Alternative Performance Measures (APMs) between years. In addition, ESMA draws attention to the fact that the goal of XBRL block tagging in the notes is to help users find the relevant information.

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²¹ [European common enforcement priorities 2023](#)

Sustainability reporting in digital format commences, accompanied by the digitalisation of financial statements and management report

The EU Directive on sustainability reporting²² entered into force on 5 January 2023, and related legislative work has been under way in 2023, headed by the Ministry of Economic Affairs and Employment. The Government proposal to Parliament for Acts amending the Accounting Act and the Auditing Act and for certain related Acts was discussed by the Commerce Committee on 20 October 2023. The objective is to have the legislative amendments ready for parliamentary approval in 2023.

Companies subject to sustainability reporting shall, in accordance with the phased application timetable included in the proposal for the Accounting Act (see the paragraph below), prepare, disclose to and register with the Finnish Patent and Registration Office (PRH) in digital format their financial statements and their management report, which includes a sustainability report. Regarding reporting to the PRH, there remain many unresolved practical issues, in which the PRH will play a key role. The legislative proposals do not have an impact on the issues regulated by the ESEF-RTS²³ concerning listed companies.

Reporting would begin with large PIEs²⁴ who have reported for the past six years non-financial information in accordance with the Accounting Act. For these PIEs, reporting would commence in 2025 and would cover 2024. A year later, other listed and unlisted large undertakings²⁵ would commence reporting. Listed small and medium-sized undertakings would be the third group to commence reporting, in 2027. Listed small and medium-sized undertakings would be given the option to postpone the preparation of sustainability reporting by two years. The thresholds determining the size category of an undertaking have remained unchanged since 2013. The European Commission is thus proposing a review of these thresholds to account for the impact of inflation, and the related delegated act should be adopted towards the end of 2023²⁶.

Sustainability information in digital format

According to the proposed legislative amendments, sustainability information should in future be reported in a dedicated section of the management report. The information should be in digital XHTML format and include digital XBRL sustainability tags. The technical reporting requirements for sustainability information in digital format are based on EU regulations. The taxonomy for sustainability reporting will be annexed to the Commission Delegated Regulation in the same manner as the taxonomy for IFRS reporting.

The aim has been that the taxonomy for sustainability reporting would be available for reporting data for 2024 but, due to the adoption process at the EU level, it seems that the target date will not be achieved, and the start of digital reporting will be postponed, at least concerning the XBRL markups in

²² [Directive \(EU\) 2022/2464 of the European Parliament and of the Council, amending Regulation \(EU\) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting](#)

²³ [Commission Delegated Regulation 2019/815 \(ESEF RTS\)](#)

²⁴ Accounting Act, chapter 1, section 9 Public-interest entity: 1) a Finnish entity which has issued a share, bond or another security subject to trading on a regulated market as referred to in the Securities Markets Act; 2) a credit institution referred to in the Act on Credit Institutions; 3) an insurance company referred to in the Insurance Companies Act. A public-interest entity whose average number of employees during the financial year has exceeded 500 has to include in its management report a statement of non-financial information.

²⁵ Accounting Act, chapter 1, section 4 c Large undertaking: a large undertaking refers to a reporting entity exceeding at least two of the following three thresholds at the balance sheet date of the previous financial year and the one immediately preceding it: 1) total assets EUR 20,000,000; 2) net turnover EUR 40,000,000; 3) average number of employees during the financial year 250.

²⁶ [Delegated act details - Register of delegated acts \(europa.eu\)](#)

sustainability information. The European Commission is planning to provide more detailed information about the matter in a Q&A document. The objective is instead to incorporate into the ESEF-RTS the taxonomy for reporting information as referred to in Article 8 of the taxonomy regulation on sustainable investment²⁷ at an earlier date so that application would start already in 2024.

Financial statements in digital format

The proposed legislative amendments²⁸ require that undertakings subject to sustainability reporting also provide their financial statements in digital XHTML format with XBRL markups. Regarding financial statements, the legislative amendments would grant the PRH the authority to define the content and scope of financial reporting in digital format for non-listed companies, and the PRH would therefore define the taxonomies used and the related time schedule for the XBRL tags of the financial statements of non-listed companies.

In contrast, listed companies would still be subject to reporting requirements under ESEF regulations²⁹. The registration of listed companies' financial statements and sustainability information with the PRH would take place with the similar ESEF-RTS-compliant financial statement and management report materials that are submitted to the Finnish release storage (OAM) in accordance with the provisions of the Securities Markets Act³⁰. The XBRL markups into the listed companies' consolidated financial statements are made using ESEF taxonomy. A decision by the PRH could, however, order that the PRH-defined taxonomy would also be used in the financial statements prepared in digital format by a parent undertaking of a listed company, as of the 2026 financial statements.

If an undertaking subject to sustainability reporting was unable to submit, due to an impediment caused by reasons other than the undertaking itself, the documents required by the proposed legislative amendment, and in accordance with a decision taken by the PRH, the undertaking would be considered to have fulfilled its obligation if it has itself disclosed the documents in accordance with the legislative proposal.

Assurance

The proposed legislative amendment also includes a requirement for the assurance of sustainability information. This requirement is included in the Auditing Act, which is currently being amended. The Act would be applied in accordance with the same timetable as the amendments to the Accounting Act concerning sustainability reporting.

In addition, the provisions of the Securities Markets Act concerning the assurance of the ESEF financial statements of listed companies will be amended, according to which the assurance or auditing of ESEF financial statements would be mandatory and no longer voluntary (proposed chapter 7, section 8, subsection 4 of the SMA). In the [report of the Commerce Committee](#) (in Finnish), the Government proposal has been specified so that obligatory assurance should be applied for the financial statements for the annual reporting periods beginning on or after 1 January 2024.

²⁷ [Regulation \(EU\) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation \(EU\) 2019/2088](#)

²⁸ *Proposed legislative amendments to chapter 7, sections 22-25 of the Accounting Act.*

²⁹ ESEF (European Single Electronic Format), [Commission Delegated Regulation 2019/815 \(ESEF RTS\)](#)

³⁰ OAM, Nasdaq Helsinki.

The proposed legislative amendment largely leaves the level of assurance and the practical carrying out of assurance to generally accepted auditing standards. The FIN-FSA considers it important that assurance would be as harmonised as possible across the various entities. The FIN-FSA encourages entities to comply with the [recommendation of the association of Finnish auditors](#) (in Finnish), which may be updated due to the legislative amendment.

Supervisory powers

The FIN-FSA's supervisory powers are also being specified. The FIN-FSA would supervise the sustainability information of listed companies and of FIN-FSA supervised entities, i.e. entities operating in the financial markets that are required under the Accounting Act to prepare a sustainability report. The supervisory powers concerning sustainability reporting would be similar to those concerning IFRS enforcement and will apply also to unlisted entities supervised by the FIN-FSA.

The proposed legislative amendment does not mention the supervision of sustainability reporting by entities other than those within the FIN-FSA's mandate. The issue will possibly be discussed in the context of the national implementation of the Directive on corporate sustainability due diligence³¹, which is currently being prepared in the European Union.

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Financial Supervisory Authority reminds entities: Amendments to EMIR reporting enter into force on 29 April 2024

As of 12 February 2014, the EU's European Market Infrastructure Regulation (EMIR)³² has required counterparties to derivatives contracts to report their derivatives contracts to a trade repository (EMIR reporting). On 10 June 2022, the European Commission adopted new Regulatory and Implementing Technical Standards regarding EMIR reporting details (EMIR Refit). The purpose of the amendments is to ensure the efficient use of the derivatives data in trade repositories, to ensure the high quality of the data and to facilitate data collection, aggregation and comparison across trade repositories. The new standards will apply from 29 April 2024 and the European Securities and Markets Authority (ESMA) has issued new guidelines on their application³³. The new standards are listed at the end of this article, but the FIN-FSA would like to highlight some of the key changes below.

Changes in reporting format and contents

The technical format for reporting derivative contracts to trade repositories will change as the new standards enter into force. According to the new standards, reports shall be submitted to trade repositories in the ISO 20022 XML format³⁴ harmonised on EU level.

³¹ Directive on corporate sustainability due diligence.

³² Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories.

³³ Guidelines for reporting under EMIR ESPA74-362-2281

³⁴ XML EMIR Reporting Schemas (Incoming messages), available on ESMA's [EMIR website](#). Reporting entities are also encouraged to monitor information provided by trade repositories regarding, for example, testing.

The new standards will also bring several changes to the data reported on derivative contracts. The brand-new reportable fields and changes to definitions of pre-existing fields are largely based on internationally agreed descriptions of critical data elements for derivatives³⁵. For example, the amendments require that almost all derivatives shall be identified by either an ISIN or a UPI code. The ISIN code is used for commodity derivatives traded on trading venues whereas the UPI code is used for other derivatives (OTC derivatives). Going forward, the entity responsible for the reporting in accordance with Article 9 shall be separately identified in the reporting of OTC derivatives. Furthermore, the logic for determining the buyer and seller will be specified for certain types of contracts. For example, for interest rate swaps, the report no longer specifies buyer and seller, which are instead replaced with payer and receiver of each leg of the derivative. The report will also contain a new field titled 'Event date', which enables counterparties to retroactively correct their submissions.

Under transitional provisions, reporting counterparties have six months to update the reporting of any derivatives outstanding on 29 April 2024 to trade repositories to ensure that these reports comply with the new reporting requirements. Any changes to outstanding derivatives must be reported directly in the new format, also during the transition period. Otherwise, the schedule for introducing the new standard during the transition period is left to the discretion of the reporting entities. It is not necessary to update derivative contracts that mature during the transition period to the new reporting format.

Obligation to report errors and obstacles to reporting

The regulation will introduce a new obligation to notify the competent authority of errors in and obstacles to EMIR reporting. Going forward, the entity responsible for reporting shall notify its competent authority, in Finland the FIN-FSA, of any of the following instances:

- a) any misreporting caused by flaws in the reporting systems that would affect a significant number of reports,
- b) any reporting obstacle preventing the report submitting entity from sending reports to a trade repository within the deadline referred to in Article 9(1) of EMIR,
- c) any significant issue resulting in reporting errors that would not cause rejection by a trade repository.

The entity responsible for reporting shall promptly notify any of those instances, as soon as it becomes aware of them.

The obligation applies specifically to the entity responsible for reporting – not the report submitting entity – which means that financial counterparties (FCs) and non-financial counterparties above the clearing threshold (NFC+) are responsible for notifying their respective competent authorities of any reporting errors and obstacles. This applies even if the entity responsible for reporting has delegated its EMIR reporting to a counterparty or a third party service provider. This also means that when a financial counterparty is, directly by virtue of EMIR, responsible for reporting OTC derivatives with a non-financial counterparty below the clearing threshold (NFC-) to a trade repository also on behalf of its counterparty, the financial counterparty shall also notify the competent authority of that counterparty of any reporting errors or obstacles.

The new standards do not specify the severity of a reporting error or obstacle that, in practice, triggers the obligation to report it to the competent authority. However, ESMA has provided more detailed

³⁵ CPMI – IOSCO: [Harmonisation of critical OTC derivatives data elements \(other than UTI and UPI\) – Technical guidance](#)

guidance on different instances that give rise to the reporting requirement³⁶. ESMA has also published a [template](#) for submitting notifications under the new standards. The FIN-FSA will adopt the template and publish it on the [EMIR website](#) of the FIN-FSA.

Obligation to monitor the reconciliation feedback provided by trade repositories

Under the new regulation, trade repositories will be obligated to reconcile the data of certain reporting fields regarding derivatives and to provide report submitting entities with the results of the process within 60 minutes of the completion of the reconciliation process. Trade repositories shall also make the reconciliation data available to reporting counterparties and entities responsible for the reporting at the end of the day. Report submitting entities, counterparties and entities responsible for reporting shall in turn be required to have in place arrangements which ensure that the feedback on the reconciliation failures provided by the trade repositories is taken into account. However, no further details on these arrangements are laid down in the standards.

Some other relevant changes

In addition to the reconciliation, trade repositories will be required to verify certain data in derivatives reports upon reception and to provide the report submitting entity with information on the outcome of the verification within 60 minutes. A trade repository must reject reports which do not comply with the requirements laid down in the Commission's regulatory technical standard. ESMA has specified these requirements in its [validation rules](#). The entity responsible for reporting will be deemed non-compliant with its EMIR reporting obligations if the notification rejected by the trade repository is not corrected and re-submitted within the time limit set in Article 9(1) of EMIR.

One practical problem with EMIR reporting has been that counterparties do not verify the validity of their legal entity identifiers (LEI). To remedy this, the new standards will require counterparties and entities responsible for reporting to explicitly ensure that the LEI is renewed. In addition, financial counterparties responsible for reporting OTC derivatives on behalf of their non-financial counterparties are required to have in place a number of new arrangements for reporting, including arrangements to ensure the timely renewal of non-financial counterparties' LEIs.

New technical standards

- ❖ [COMMISSION DELEGATED REGULATION \(EU\) 2022/1855](#) supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards specifying the minimum details of the data to be reported to trade repositories and the type of reports to be used
- ❖ [COMMISSION DELEGATED REGULATION \(EU\) 2022/1858](#) supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards specifying the procedures for the reconciliation of data between trade repositories and the procedures to be applied by the trade repository to verify the compliance by the reporting counterparty or submitting entity with the reporting requirements and to verify the completeness and correctness of the data reported

³⁶ [Guidelines for reporting under EMIR ESMA74-362-2281](#), Section 3.29 Ensuring data quality by counterparties.

- ❖ [COMMISSION DELEGATED REGULATION \(EU\) 2022/1856](#) amending the regulatory technical standards laid down in Delegated Regulation (EU) No 151/2013 by further specifying the procedure for accessing details of derivatives as well as the technical and operational arrangements for their access
- ❖ [Commission Implementing Regulation \(EU\) 2022/1860](#) laying down implementing technical standards for the application of Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to the standards, formats, frequency and methods and arrangements for reporting.

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Topical matters concerning notification of delayed disclosure of inside information

The procedures concerning the submission of a notification to the FIN-FSA of delayed disclosure of inside information will change at the turn of the year as more services will become available in the FIN-FSA e-services system. In future, issuers must send the notifications of delayed disclosure via the e-services system, instead of by email. The use of the e-services system requires strong user identification in the national authentication service Suomi.fi. In addition, the issuer must ensure that the person submitting the notification has been granted the necessary authorisations in the [Suomi.fi](#) service.

More detailed instructions on the submission of notifications will be published towards the end of the year on the FIN-FSA's [website](#).

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Topical matters at ESMA

On 17 October 2023, ESMA published [a letter and a statement](#) to encourage preparations for a smooth transition to the EU Markets in Crypto-Assets Regulation (MiCA).

On 20 October 2023, ESMA and EBA published [for consultation joint guidelines](#) concerning MiCA. The deadline for the submission of comments is 22 January 2024.

On 9 November 2023, ESMA [announced](#) that *cyber risk and digital resilience* is new Union Strategic Supervisory Priority (USSP).