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# Update

## Finance and Governance

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### New European rules on risk integration and sustainability factors for Undertakings for Collective Investment in Transferable Securities (UCITS)

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#### 1. Framework

As part of the [extensive package of regulatory measures](#) on financial sustainability matters (Environmental, Social and Corporate Governance, or "ESG") approved on 21 April 2021, **the European Commission published, on 2 August 2021, the [Delegated Directive 2021/1270](#)** (hereinafter "**Delegated Directive**").

The Delegated Directive introduces **Level 2 amendments to [Directive 2010/43/EU](#)** (complementing [Directive 2009/65/EC](#), or "UCITS Directive"), **setting out the requirements applicable to the risks and sustainability factors to be taken into account by Undertakings for Collective Investment in Transferable Securities ("UCITS").**

#### 2. Innovations introduced

The objective pursued by the Delegated Directive is twofold. Firstly, it highlights the introduction, in that Directive, of the concepts of "risks" and "sustainability factors", imported from [Regulation \(EU\) 2019/2088](#) (hereinafter, "**the Regulation**") which ensures consistency between the two regulatory texts, in line with the [final report of technical advice issued by the European Securities and Markets Authority](#) ("ESMA") on the integration of risks and sustainability factors into the UCITS and AIFMD Directive.

In a second level, the Delegated Directive aims to clarify the obligation to integrate risks for sustainability imposed on UCITS by the said Regulation, without introducing any hierarchy between the different risks.

Thus, obligations are introduced for management companies to integrate sustainability risks into the management of UCITS taking into account the nature, scale, and complexity of those companies' activities (cf. point 4) of the Delegated Directive) and their senior management is responsible for such integration (cf. point 5) of the Delegated Directive).

Obligations are also established to identify conflicts of interest that may arise from the integration of sustainability risks into the management companies' processes, systems, and internal controls and to include in the risk management policy the necessary procedures to enable the company to assess operational risks for each UCITS that the company manages (cf. points 6) and 8) of the Delegated Directive).

The Delegated Directive further clarifies the obligation on UCITS management companies to take into account sustainability risks when complying with due diligence requirements in the selection and ongoing monitoring of investments, including in cases where they disclose information regarding the consideration of negative sustainability impacts (cf. point 7) of the Delegated Directive).

### 3. Transposition and entry into force

Pursuant to Article 2 of the Directive, Member States have until **31 July 2022** to adopt and publish, i.e., transpose into their national law, the laws, regulations, and administrative provisions necessary to comply with the Delegated Directive and until **1 August 2022** to start its application.