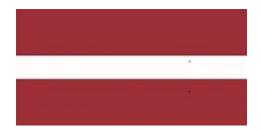
REGULATORY INTELLIGENCE

COUNTRY UPDATE-Latvia: ESG reporting

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Environmental, social and governance (ESG) reporting has become a major regulatory issue in Europe. Non-financial disclosure is seen as playing a key role in helping the financial sector address climate change and sustainability. It is also being used to assess and improve problems such as poor workplace diversity and gender pay gaps.

After an outline of EU legislation, this article provides an overview of ESG law in Latvia by Lelde Elina Liepina of Ellex.

Principal EU ESG reporting legislation

The Non-Financial Reporting Directive 2014/95 (NFRD) came into effect in 2018. It requires public interest entities with 500 or more employees to disclose their policies about and impact on matters including environmental, social, employee and human rights concerns in their annual report. That report should also describe an entity's diversity policy for its administrative, managerial and supervisory bodies, the policy's objects and its results.

The revised Shareholder Rights Directive 2017/828 (SRD II) came into force in 2017. It requires asset managers and institutional investors to have a policy on how they monitor investee companies on non-financial performance and risk, including their social and environmental impact.

The December 2019 European Green Deal proposed three measures to strengthen the basis for sustainable investment by improving corporate reporting of environmental issues.

NFRD is to be revised, with draft EU legislation expected during 2021.

The Sustainability-related Financial Disclosures Regulation 2019/2088 (SFDR) came into force on March 10, 2021. It imposes new transparency requirements on 'financial market participants' at product and manager level. Firms must publish their policies on integrating sustainability risks in investment decisions and the principal adverse impacts of those decisions.

The Taxonomy Regulation 2020/852 came into force in July 2020 and applies in practice from January 2022. It standardises definitions and processes to be used when determining whether an activity is environmentally sustainable for disclosures under SFDR and NFRD.

ESG in Latvia

1. What national legislation enacted the NFRD in Latvia and did any aspects of it exceed the requirements set by the NFRD?

Note: In Latvia the ESG report is referred to as the non-financial statement.

Financial Instrument Market Law – Section 56 subsection 1(5) provides, that annual account shall consist of non-financial statement, if in accordance with the requirements that the company has a duty to prepare such statement and it prepares such statement as a separate document. Section 56.3 establishes that capital company (whose transferable securities are admitted to trading on a regulated market) has a duty to include a non-financial statement in the management report, if the average number of employees in the company exceeds 500 and the total amount of assets on the balance sheet date exceeds 20,000 euros, or the annual net turnover exceeds 40,000,000 euros in the first reporting year of the capital company when it has become an issuer within the meaning of this Law – two years in succession (both in the current and previous reporting year).

Law on Audit services – Section 1 subsection 1 (7(h)) establishes that information on whether a client has prepared a non-financial statement, but if the abovementioned client has to prepare a consolidated financial statement – a consolidated non-financial statement,



and on whether the non-financial statement (consolidated non-financial statement) is included in the management report (consolidated management report) or prepared as a separate part of the annual financial statement (consolidated financial statement) or included in the consolidated non-financial statement prepared by the parent company of the abovementioned capital company.

Both laws mentioned above indicate the NFRD as one of the sources.

Law on Investment Management Companies — Section 75.4 (1) establishes that if the investment policy of the management company intends to invest the funds of the pension plans established by the trust fund, state funded pension scheme or private pension funds in shares of a public limited company whose registered office is in a Member State and whose shares are included in the regulated market of a Member State, the management company shall draw up an Engagement Policy. The Engagement Policy describes how the management company supervises activities of the company in the matters such as environmental, social and others. The Law indicates Shareholder Rights Directive 2017/828 as one of the sources.

Law on State Funded Pensions – Section 12 (2(4(d))) establishes that funds of the funded pension scheme shall be invested in compliance if the issue is intended for any of the objectives which conforms to sustainable investment in accordance with Article 2(17) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019 on sustainability#related disclosures in the financial services sector and such objective has been specified in the issuance prospectus or the public offer document

Yes, some of the above-mentioned requirements do exceed requirements set by the NFRD. For instance, Financial Instrument Market Law establishes an additional criterion for companies that qualify under the requirement to include a non-financial statement. These requirements establish that in addition to the requirements set in the NRFD directive, the company must have a balance sheet date which exceeds 20,000 euros, or the annual net turnover exceeds 40,000,000 euros.

2. Which national authority or authorities oversee ESG reporting?

The State Revenue Service oversees the annual account where non financial statements are included. The Financial and Capital Market Commission is regarded as the competent authority within the meaning of Financial Instrument Market Law and its requirements (including non-financial statement). The Nasdaq Baltic stock exchange (main stock exchange in the Baltics) oversees whether members comply with the necessary documentation to pursue stock exchange.

3. Does any existing national legislation require firms to disclose the environmental/ sustainability impact of their activities, or of companies in which they invest?

Yes, the management company draws up an Engagement Policy in which the company indicates activities in the matters such as environmental and sustainability impact, if the investment policy of the management company intends to invest the funds of the pension plans established by the trust fund, state funded pension scheme or private pension funds in shares of a public limited company whose registered office is in a Member State and whose shares are included in the regulated market of a Member State.

4. Does any national legislation regulate whether an activity or investment can be classified as sustainable/ environmentally friendly?

Generally no, however, the Law on State Funded Pensions provides higher threshold for investments in bonds if the bond issue is intended for any of the objectives which conforms to sustainable investment in accordance with Article 2(17) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019 on sustainability#related disclosures in the financial services sector.

5. Does any national law or regulatory guidance cover workplace diversity, for example, the representation of women on a firm's management or supervisory body?

Only the Labour Law establishes that it is forbidden to discriminate based on person's gender. There is no legislation regulating representation of women on supervisory boards.

6. Does any national legislation require firms to report on gender or other diversity pay gaps?

There is no such legislation in Latvia.

7. Are firms under any national legal duty to identify/ prevent risks such as modern slavery or human rights abuses?

Yes, the firms are obliged to identify and prevent such risks. Labour Law establishes the responsibilities for employer to take care as well as respect their employees' rights. Labour Protection Law establishes requirements for employers to create safe work environment for employees. The Whistleblowing Law establishes the right to blow the whistle on in infringement human rights or labour safety threat in the workplace.

Complaints Procedure

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