APPENDIX XII: GUIDANCE ON VERIFYING COMPLIANCE WITH THE MINIMUM SAFEGUARDS

Pursuant to Section 3.2 (Rate of the Discount) of this Notice, participation of a given exposure in the Programme is not conditional upon that exposure also complying with Article 3(c) of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (hereinafter: the Taxonomy Regulation). Nevertheless, the MNB considers it good practice for credit institutions to also verify that the exposures included in the Discount – i.e. those subject to the 7-percent Discount – comply with Article 3(c) of the Taxonomy Regulation.

This Appendix provides guidance for undertakings (point I) and credit institutions (point II) on compliance with Article 3(c) of the Taxonomy Regulation and the verification of such compliance.

With regard to compliance with Article 3(c) of the Taxonomy Regulation and the verification thereof, the MNB considers the Final Report on Minimum Safeguards (October 2022)[1] issued by the Platform on Sustainable Finance to represent the appropriate guidance to be followed, and this Appendix is likewise based on that document.

I. Compliance with the Minimum Safeguards under the Taxonomy Regulation ("Minimum Safeguards")

I.1 Summary table

	General expectations	**Undertakings preparing sustainability reports**	**Undertakings preparing ESG reports**	**Other undertakings (not legally required to prepare sustainability reports or ESG reports)**
A. Compliance with the OECD Guidelines for Multinational Enterprises[2]	**1.** Integration of responsible business conduct into undertakings' policies and management systems. **2.** Identification and assessment of actual and potential adverse impacts associated with the undertaking's operations, products or services in the following areas: human rights (including workers' rights and business relationships), the environment, bribery, corruption, taxation, fair competition, science, technology and innovation, consumer	The following is expected: **1.** Integration of responsible business conduct into undertakings' policies and management systems (e.g. a statement in the Code of Ethics or another internal policy document confirming compliance with the OECD Guidelines for Multinational Enterprises). **2.** Conducting a due diligence	The following is expected: **1.** Integration of responsible business conduct into undertakings' policies and management systems (e.g. a statement in the Code of Ethics or another internal policy document confirming compliance with the OECD Guidelines for Multinational Enterprises). **2.** In the internal policy	The following is expected: **1.** Integration of responsible business conduct into the undertaking's policies and management systems (e.g. a statement in the Code of Ethics or another internal policy document confirming compliance with the OECD Guidelines for Multinational Enterprises). **2.** Identification and assessment (at least annually) of actual and potential adverse impacts associated with the

[1] https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf

[2] https://www.oecd.org/en/publications/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_81f92357-en.html

	interests, and disclosure.[3] **3.** Engagement with affected stakeholders throughout all key stages of the due diligence process referred to in point 2. **4.** Integration of the due diligence process referred to in point 2 into governance, strategy and the business model. **5.** Remediation, prevention and mitigation of identified adverse impacts. **6.** Monitoring the effectiveness of the commitments and processes referred to in points 1 to 5. **7.** Communication of the due diligence process referred to in point 2, its outcomes, and the processes referred to in points 5 and 6 in a manner that ensures they are readily accessible, while taking due account of information constituting business secrets.	process in accordance with paragraphs 59 to 60 of ESRS 1 under the ESRS Regulation.[4] **3.** Taking into account the outcomes of the due diligence process referred to in point 2 (i.e. the identified adverse impacts) when carrying out the materiality assessment. Accordingly, the adverse impacts identified during the due diligence process referred to in point 2 should be included in the so-called “long list”.[5] **4.** Providing the disclosures required under ESRS 2 GOV-4 in relation to the due diligence process in a comprehensive manner. **5.** Where the adverse impacts identified pursuant to point 2 are determined to	document governing the risk management system under the ESG Act,[6] the undertaking should interpret the concept of corporate governance risk under the ESG Act as including risks arising from unfair competition and infringements of consumers’ rights. **3.** Preparation of an ESG report and its publication on the undertaking’s website, or making it available at the undertaking’s registered office.	undertaking’s operations, products or services in the following areas: human rights (including workers’ rights,[7] business relationships), bribery, corruption, taxation, fair competition, consumer interests, and disclosure. **3.** Engagement with affected stakeholders throughout all key stages of the due diligence process referred to in point 2. **4.** Integration of the due diligence process referred to in point 2 into governance, strategy and the business model. **5.** Remediation, prevention and mitigation of the adverse impacts identified through the due diligence process referred to in point 2. The relevant processes should be documented in internal policy documents. **6.** Monitoring the effectiveness of the

[3] The areas of environment, science, technology and innovation, and disclosure are not relevant for the purposes of the Minimum Safeguards, as the objective of the Minimum Safeguards is to establish social and governance criteria.

[4] Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

[5] https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/IG%201%20Materiality%20Assessment_final.pdf – p. 55, paragraph 73

[6] Act CVIII of 2023 on the Rules of Corporate Social Responsibility, Taking into Account Environmental, Social and Societal Aspects, Promoting Sustainable Financing and Uniform Corporate Responsibility, and on the Amendment of Other Related Acts

[7] Where an undertaking has no employees, it is not required to address this area when conducting the due diligence process.

		constitute material matters through the double materiality assessment, the relevant disclosures should be provided. Where a material matter is identified that is not covered by the ESRS (e.g. taxation or fair competition), it is recommended that the relevant disclosures be prepared in accordance with the applicable GRI Topic Standards.		commitments and processes referred to in points 1 to 5. **5.** Communication, on the undertaking's website, of the due diligence process referred to in point 2, its outcomes, and the processes referred to in points 5 and 6, or making available at the undertaking's registered office the document describing the due diligence process and its outcomes. The document may form part of the undertaking's annual report or be issued as a standalone document.[8]
B. Compliance with the United Nations Guiding Principles on Business and Human Rights (including the eight fundamental ILO Conventions identified in the ILO Declaration on Fundamental Principles and Rights at Work)[9]	The following is expected: **1.** Undertakings should publicly commit themselves to respecting human rights and integrate this commitment into their operations, internal documents approved by the owners or senior management, and business relationships. **2.** The undertaking shall identify the areas in which it may cause, contribute to, or be directly linked to adverse human rights impacts through its own activities or business relationships. **3.** Engagement with affected stakeholders throughout all key stages of	The following is expected: **1.** The undertaking's commitment to respecting human rights may be expressed in a separate statement, a declaration of commitment, as part of the undertaking's vision, or on the undertaking's website. This commitment shall be clearly incorporated into the undertaking's internal documents approved by its owners or senior management (e.g. its	The following is expected: **1.** The undertaking's commitment to respecting human rights may be expressed in a separate statement, a corporate social responsibility statement, as part of the undertaking's vision, or on the undertaking's website. This commitment shall be clearly incorporated into the undertaking's internal documents approved by its owners or senior management (e.g. its organisational and	The following is expected: **1.** The undertaking's commitment to respecting human rights may be expressed in a separate statement, a declaration of commitment, as part of the undertaking's vision, or on the undertaking's website. This commitment shall be clearly incorporated into the undertaking's internal documents approved by its owners or senior management (e.g. its organisational and operational rules), as well as into the documents governing its business relationships (e.g. general terms and conditions,

[8] When determining the format and place of publication, it is recommended to take into account who the affected stakeholders are and the communication channels through which the undertaking engages with them.

[9] https://www.business-humanrights.org/en/big-issues/governing-business-human-rights/text-of-the-guiding-principles/

	the due diligence process referred to in point 2. **4.** Processes shall be established and implemented for the cessation, prevention, mitigation and remediation of identified adverse human rights impacts. **5.** Grievance procedures (grievance mechanisms) shall be established. **6.** The effectiveness of the commitments and processes referred to in points 1, 2, 4 and 5 shall be monitored. **7.** The measures taken to respect human rights shall be disclosed.	organisational and operational rules), as well as into the documents governing its business relationships (e.g. general terms and conditions, contracts or a code of conduct). **2.** Conducting a due diligence process in accordance with paragraphs 59 to 60 of ESRS 1 under the ESRS Regulation. **3.** The outcomes of the due diligence process referred to in point 2 (i.e. the identified adverse human rights impacts) shall be taken into account when carrying out the double materiality assessment under the ESRS. Accordingly, the adverse human rights impacts identified during the due diligence process referred to in point 2 should be included in the so-called "long list". **4.** The disclosures required under ESRS 2 GOV-4 in relation to the due diligence	operational rules), as well as into the documents governing its business relationships (e.g. general terms and conditions, contracts or a code of conduct). **2.** Preparation of an ESG report and a corporate social responsibility strategy, and their publication on the undertaking's website, or making them available at the undertaking's registered office.	contracts or a code of conduct). **2.** The undertaking shall identify the areas in which it may have direct or indirect adverse impacts on human rights. (As a first step, it should become familiar with internationally recognised human rights and subsequently review its existing processes in order to identify any actual or potential adverse impacts on all human rights.)[10] **3.** Engagement with affected stakeholders throughout all key stages of the due diligence process referred to in point 2 (including regular communication with affected stakeholders[11] regarding the undertaking's impacts on them). **4.** The undertaking shall adopt measures and establish and implement processes to cease, prevent, mitigate and remediate identified adverse impacts (these may include measures aimed at changing the undertaking's corporate conduct and organisational culture / however, where the undertaking's activities result in adverse impacts on human rights, specific measures shall be taken to

[10] The ISO 26000 Guidance on Social Responsibility includes a dedicated section addressing the responsibility to respect human rights.

[11] Affected stakeholders may include employees, local communities, consumers and customers.

		process shall be provided in a comprehensive manner. **5.** Where the adverse human rights impacts identified pursuant to point 2 are determined to constitute material matters through the double materiality assessment, the relevant disclosures shall be provided.		address those impacts).[12] **5.** Grievance procedures (grievance mechanisms) shall be established. **6.** The effectiveness of the commitments and processes referred to in points 1, 2, 4 and 5 shall be monitored, and the results of such monitoring shall be documented. **7.** The measures taken pursuant to points 1 to 6 to ensure respect for human rights shall be disclosed. "*Not every identified risk or impact, nor the manner in which the undertaking has addressed it, needs to be made public. However, the undertaking should be prepared to provide information, upon request, regarding certain human rights impacts – in particular to affected individuals or their representatives – , while ensuring the appropriate protection of personal data, confidential business information and, where applicable, its personnel.*"[13] The material information should, however, be included in the undertaking's annual report and,

[12] Further guidance is provided in the European Commission's publication My Business and Human Rights – A Guide to Human Rights for Small and Medium-sized Enterprises (also available in Hungarian), in particular on page 9. (https://op.europa.eu/en/publication-detail/-/publication/83750b9b-c31b-4e0e-adf4-00779c761ac0)

[13] See also page 11 of the European Commission's publication My Business and Human Rights – A Guide to Human Rights for Small and Medium-sized Enterprises. (https://op.europa.eu/en/publication-detail/-/publication/83750b9b-c31b-4e0e-adf4-00779c761ac0)

				where applicable, published on the undertaking's website.
C. Compliance with the International Bill of Human Rights[14]	The international instruments referred to in point C primarily establish obligations for States. The human rights responsibilities of undertakings are set out in the United Nations Guiding Principles on Business and Human Rights.			
D. Compliance with Article 18(2) of the Taxonomy Regulation[15]	Expectation: 1. As part of the due diligence and remedy procedures implemented to ensure compliance with the instruments referred to in points A and B, undertakings are required, pursuant to Article 18(2) of the Taxonomy Regulation, to take into account the Principal Adverse Impact (PAI) indicators 10 to 14 under the SFDR relating to adverse impacts on social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. The instruments referred to in points A and B do not address one of the matters covered by Article 18(2) of the Taxonomy Regulation, namely the principal adverse impact relating to exposure to controversial weapons. Undertakings shall ensure that the due diligence and remedy procedures	Expectation: Undertakings shall ensure that the due diligence and remedy procedures required under the instruments referred to in points A and B enable them to identify, prevent, mitigate or remediate actual or potential exposure to the manufacture and sale of controversial weapons. When carrying out the double materiality assessment in accordance with the ESRS, undertakings shall also take into account actual or potential exposure to the manufacture and sale of controversial weapons. Accordingly, the manufacture and sale of controversial	Expectation: Undertakings shall ensure that the due diligence and remedy procedures required under the instruments referred to in points A and B enable them to identify, prevent, mitigate or remediate actual or potential exposure to the manufacture and sale of controversial weapons. The undertaking shall design its risk management system under the ESG Act in such a way as to ensure the identification, prevention, mitigation and remediation of actual or potential exposure to the manufacture and sale of controversial weapons. This may be achieved by defining	Expectation: Undertakings shall ensure that the due diligence and remedy procedures required under the instruments referred to in points A and B enable them to identify, prevent, mitigate or remediate actual or potential exposure to the manufacture and sale of controversial weapons.

[14] https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights

[15] Article 18(2) of the Taxonomy Regulation: "*When implementing the procedures referred to in paragraph 1 of this Article, undertakings shall comply with the principle of 'do no significant harm' referred to in Article 2(17) of Regulation (EU) 2019/2088.*"

	required under the instruments referred to in points A and B enable them to identify, prevent, mitigate or remediate actual or potential exposure to the manufacture and sale of controversial weapons.	weapons shall be included among the sustainability matters considered as part of the assessment. In relation to this matter, undertakings shall also identify the actual and potential impacts, risks and opportunities. Where the double materiality assessment identifies the manufacture and sale of controversial weapons as a material matter, the undertaking shall prepare an entity-specific disclosure. In this regard, the disclosure requirements relating to PAI indicator 14 set out in Annex I to the SFDR RTS[16] may serve as useful guidance. In addition, undertakings shall comply with the disclosure requirement set out in ESRS 2 SBM-1, paragraph 40(d)(iii).	the concept of risk arising within the scope of corporate social responsibility under the ESG Act in the undertaking's internal policy governing the risk management system established pursuant to the ESG Act, so as to include risks arising from the manufacture and sale of controversial weapons.	

[16] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of "do no significant harm", specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

I.2. Detailed explanation of the individual items in the summary table

The purpose of the Minimum Safeguards is to reduce the risk of greenwashing by preventing investments or projects from being classified as environmentally sustainable where the undertaking's activities have adverse impacts on human rights, including labour rights, engage in corrupt practices, or infringe tax or competition laws.

The Minimum Safeguards require undertakings – irrespective of their size, legal form or ownership structure – to comply with the following international standards:

A. the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct,
B. the United Nations Guiding Principles on Business and Human Rights (including the eight fundamental conventions identified in the ILO Declaration on Fundamental Principles and Rights at Work),
C. the International Bill of Human Rights, and
D. Article 18(2) of the Taxonomy Regulation links the Minimum Safeguards to the principle of "do no significant harm" referred to in Article 2(17) of Regulation (EU) 2019/2088, with which undertakings must also comply in order to meet the Minimum Safeguards.

"The *OECD Guidelines for Multinational Enterprises* bring together all thematic areas of responsible business conduct and responsible supply chain management. It also recommends that enterprises apply good corporate governance practices, including due diligence as set out in the OECD Principles of Corporate Governance."[17] With regard to compliance with the guidelines referred to in point A, further guidance is provided in the OECD publication OECD Due Diligence Guidance for Responsible Business Conduct.[18]

"The *UN Guiding Principles on Business and Human Rights* (i) specify a standard of conduct for businesses to prevent human-rights violations; and (ii) address any potential risks resulting from the economic activities that businesses conduct. The responsibility of business entities to respect human rights refers to internationally recognised rights understood, as a minimum, as those expressed in eight of the ten fundamental ILO conventions and in the International Bill of Human Rights."[19] With regard to compliance with the principles referred to in point B, further guidance is provided in the European Commission's publication My Business and Human Rights – A Guide to Human Rights for Small and Medium-sized Enterprises[20] (also available in Hungarian).

The international instruments referred to in point C primarily establish obligations for States. The human rights responsibilities of undertakings are set out in the United Nations Guiding Principles on Business and Human Rights.

With regard to compliance with point D, further guidance is provided in the *Commission Notice (2023/C 211/01) on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation*.

Consistent with the position of the Platform on Sustainable Finance,[21] the MNB also draws attention to the fact that Article 18 of the Taxonomy Regulation does not apply to households. Accordingly, credit institutions are not required to assess compliance with Article 3(c) of the Taxonomy Regulation in relation to mortgage loans or other loans granted to consumers.

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[17] See also Section 2 of the Commission Notice (2023/C 211/01) on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation

[18] https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm

[19] See also Section 2 of the Commission Notice (2023/C 211/01) on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation

[20] https://op.europa.eu/en/publication-detail/-/publication/83750b9b-c31b-4e0e-adf4-00779c761ac0

[21] As stated in the Platform on Sustainable Finance's Final Report on Minimum Safeguards (October 2022) – p. 11: "*Households are not considered to be covered by the Article 18 standards, which are explicitly focusing on businesses or (sub) sovereigns. Banks do not have to enquire households on minimum safeguards when providing mortgages or other types of financing. This does not, however, exempt construction or renovation companies from their duties with respect to minimum safeguards when conducting their activities.*"

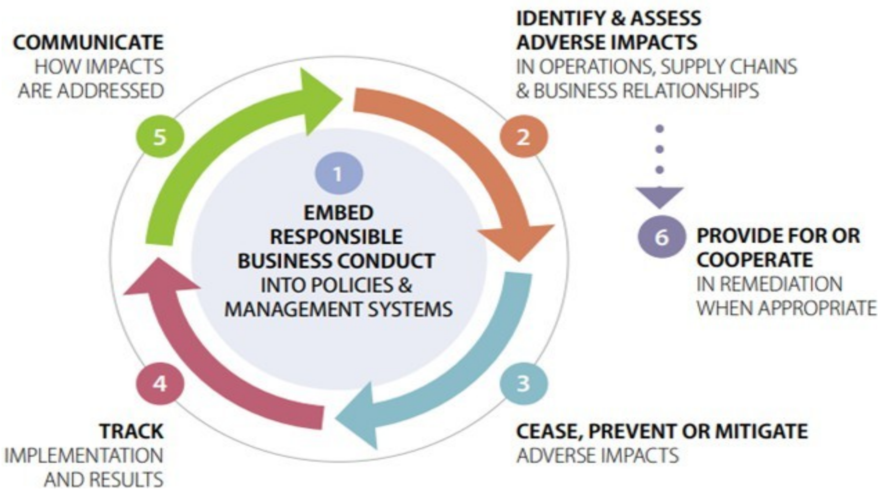
Based on the above standards, the following constitute the material matters for the purposes of the Minimum Safeguards:

i. human rights (including the rights of workers and consumers),
ii. bribery and corruption,
iii. taxation,
iv. fair competition,[22] and
v. actual or potential exposure to the manufacture or sale of controversial weapons, as referred to in Article 18(2) of the Taxonomy Regulation.

Undertakings shall ensure that appropriate internal processes are established, implemented and monitored to ensure compliance with the legal requirements applicable to the material matters referred to in points (i) to (v) above. In addition, undertakings shall make a commitment to respect human rights and to comply with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, and shall integrate these commitments into their business operations. To this end, undertakings shall implement a due diligence process. **In particular, undertakings shall comply with the following six steps:**

1. make a commitment to respect human rights and to comply with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, and embed this commitment in their operations, internal policies and business relationships,
2. identify the adverse impacts of their operations, supply chains and other business relationships on the material matters referred to in points (i) to (v) above,
3. establish and implement processes to cease, prevent, mitigate and remediate the identified adverse impacts,
4. monitor the effectiveness of those processes,
5. establish grievance procedures (grievance mechanisms) to enable affected stakeholders to seek remedy, and
6. provide disclosures on the due diligence process and the measures taken.

FIGURE 1. DUE DILIGENCE PROCESS & SUPPORTING MEASURES



[23]

Furthermore, in order to comply with Article 18(2) of the Taxonomy Regulation, ***undertakings shall ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation or remediation of any actual or potential exposure to the manufacture or sale of controversial weapons.*** This follows from Section 3 of the Commission Notice (2023/C 211/01) on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation (the "**Commission Notice**"), which states: *"As part of those due diligence and remedy procedures, companies are required under Article 18(2) of the*

[22] Platform on Sustainable Finance – Final Report on Minimum Safeguards (October 2022) – 2.4. Overlapping topics covered by Article 18 – p. 11

[23] Platform on Sustainable Finance – Final Report on Minimum Safeguards (October 2022) – 5.4. Human Rights Due Diligence at the core of minimum safeguards – p. 33

Taxonomy Regulation to consider the SFDR principal adverse impact indicators related to social and employee matters, respect for human rights, anti-corruption and anti-bribery matters referred to under question 2. The only issue covered by Article 18(2) as of today which is not explicitly covered by Article 18(1) is the principal adverse impact relating to the exposure to controversial weapons as defined under the SFDR Delegated Regulation (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)."

The above processes have been reflected, in part, in the legislative framework governing the ESG report under the ESG Act and the sustainability statement under the Accounting Act.

The concept of corporate governance risk under the ESG Act incorporates risks arising from the absence of anti-bribery and anti-corruption measures, breaches of laws applicable to the undertaking's operations, in particular tax legislation, as well as inadequate complaint-handling practices. The concept of risk arising within the scope of corporate social responsibility under the ESG Act extends to risks arising from a failure to respect fundamental rights, as well as risks resulting from the failure to ensure fair working conditions, social inequalities, and unfair, non-transparent or abusive business practices. Fair competition and consumer protection, as material matters for the purposes of the Minimum Safeguards, are not expressly covered by the ESG Act. However, they may be regarded as falling within the concept of corporate governance risk, insofar as they relate to breaches of laws applicable to the undertaking's operations. **Where undertakings extend their due diligence process and risk management system under the ESG Act to cover risks arising from unfair competition and infringements of consumer rights (i.e. by expressly documenting[24] a broader interpretation of the concept of corporate governance risk), they will also be able to meet the due diligence process requirements of the Minimum Safeguards described above (provided that they also comply with Article 18(2) of the Taxonomy Regulation).**[25]

ESRS 1, Application Requirement (AR) 16, includes corruption and bribery, consumer rights and labour rights among the sustainability matters to be considered in the materiality assessment. Furthermore, undertakings are required to provide disclosures on their due diligence process under ESRS 2 GOV-4. The due diligence requirements applicable for this purpose are set out in paragraphs 59 to 60 of ESRS 1. Therefore, "*Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential negative* ***impacts*** *on the environment and people connected with their business. These include negative impacts connected with the undertaking's own operations and its upstream and downstream value chain, including through its products or services, as well as through its business relationships. Due diligence is an ongoing practice that responds to and may trigger changes in the undertaking's strategy, business model, activities, business relationships, operating, sourcing and selling contexts. <u>This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises."</u>* This due diligence process and its outcomes provide the basis for the undertaking's assessment of its material impacts, risks and opportunities. **Accordingly, where an undertaking designs its due diligence process in accordance with paragraphs 59 to 60 of ESRS 1, as set out in its sustainability statement, that process will be consistent with the due diligence process described in the international instruments referred to in points A and B above. When carrying out the double materiality assessment, the due diligence process referred to in paragraphs 59 to 60 of ESRS 1 and its outcomes shall be taken into account alongside the sustainability matters to be considered in the materiality assessment pursuant to ESRS 1, Application Requirement (AR) 16. Where adverse impacts identified through the due diligence process are determined to constitute material matters on the basis of the double materiality assessment, the undertaking shall comply with the disclosure requirements under the ESRS applicable to those material matters. Where, on the basis of the due diligence process taken into account in the double materiality assessment, an undertaking identifies a material matter that is not addressed by the ESRS (e.g. taxation or fair competition), the GRI Standards may serve as useful guidance in preparing the relevant disclosures. Accordingly, the following GRI Topic Standards may, for example, be**

[24] This means that the undertaking defines the concept of corporate governance risk in its internal documentation (for example, in the internal policy governing the risk management system established pursuant to the ESG Act) more broadly than under the ESG Act, so as to include risks arising from unfair competition and infringements of consumer rights within the concept of corporate governance risk under the ESG Act.

[25] To this end, the undertaking shall design its risk management system under the ESG Act in such a way as to ensure the identification, prevention, mitigation and remediation of actual or potential exposure to the manufacture and sale of controversial weapons.

used as guidance: By applying GRI 206: Anti-competitive Behavior (2016) and GRI 207: Tax (2019), the undertaking may fulfil the relevant disclosure requirements. Furthermore, undertakings preparing a sustainability statement must also ensure compliance with Article 18(2) of the Taxonomy Regulation.[26]

According to Section 3 of the Commission Notice (2023/C 211/01) on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation (SFDR): "***Sometimes, despite implementing all appropriate procedures, an undertaking cannot address certain risks or eliminate certain negative impacts. This does not necessarily mean that the undertaking does not comply with the minimum safeguards, provided that the undertaking has clearly disclosed these potential impacts and explained what it did to identify, prevent, mitigate or remediate them and why it could not eliminate certain impacts****. In fact, it is recognised that there can be instances where, despite reasonable due diligence measures, undertakings may still not be able to prevent, cease or mitigate adverse impacts when it comes to the adverse impacts in the undertaking's value chain."*

II. Verification of compliance with the Minimum Safeguards by credit institutions

In the MNB's view, credit institutions may verify compliance with Article 3(c) of the Taxonomy Regulation on the basis of the declarations provided in response to the following questionnaire and the supporting evidence obtained.

Questions applicable to all undertakings

1. Has the undertaking made a commitment to respect human rights and to comply with the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, and incorporated that commitment into its operations and internal documentation? Acceptable response: Yes (supporting documentation: the undertaking's internal policy, policy commitment, statement of commitment, letter of intent, or corporate social responsibility strategy)
2. Has the undertaking conducted a human rights impact assessment and a due diligence process covering the identification of adverse impacts relating to workers' rights, business relationships, bribery, corruption, consumer rights, fair competition and taxation, as well as any actual or potential exposure to the manufacture and sale of controversial weapons? Acceptable response: Yes (supporting documentation: a due diligence report, ESG report or sustainability statement)
3. Has the undertaking established appropriate internal processes to address, prevent, mitigate and remedy identified adverse impacts, and does it monitor the effectiveness of those processes? Has the undertaking established grievance procedures (grievance mechanisms)? Acceptable response: Yes (supporting documentation: the undertaking's internal policies, ESG report or sustainability statement)
4. Has the undertaking taken all reasonable measures to address, prevent, mitigate and remedy identified adverse impacts? Acceptable response: Yes (supporting documentation: a statement describing the measures taken, an ESG report or a sustainability statement)

   The identification of adverse impacts in relation to the matters listed in Question 2 does not, in itself, constitute a breach of, or non-compliance with, the Minimum Safeguards. However, where the undertaking fails to manage the identified risks, or does so ineffectively (for example, because it has not established the processes referred to in Question 3), and fails to provide the relevant disclosures, it does not comply with Article 3(c) of the Taxonomy Regulation. The undertaking must demonstrate that it has taken all reasonable measures to prevent, remediate or mitigate adverse impacts.

5. Questions applicable to undertakings required to prepare an ESG report:
   a. Has the undertaking extended its due diligence process and risk management system under the ESG Act to cover risks arising from unfair competition and infringements of consumer rights, as well as the identification of any actual or potential exposure to the manufacture and sale of controversial weapons?

[26] To this end, when carrying out the double materiality assessment in accordance with the ESRS, undertakings shall also take into account any actual or potential exposure to the manufacture or sale of controversial weapons.

Acceptable response: Yes (supporting documentation: the ESG report, the internal policy governing the risk management system established under the ESG Act, and, where the response to the question cannot be clearly inferred from the ESG report, a statement by the undertaking)

b. Does the undertaking publish its ESG report or make it available at its registered office? Acceptable response: Yes (supporting documentation: the ESG report or a statement by the undertaking)

6. Questions applicable to undertakings required to prepare a sustainability statement:
    a. Has the undertaking designed its due diligence process in accordance with paragraphs 59 to 60 of ESRS 1? When carrying out the double materiality assessment, does the undertaking take into account the due diligence process referred to in paragraphs 59 to 60 of ESRS 1 and its outcomes? Acceptable response: Yes (supporting documentation: the sustainability statement, the internal policy governing the preparation of the sustainability statement, and, where the response to the question cannot be clearly inferred from those documents, a statement by the undertaking)
    b. Did the double materiality assessment also address the identification of any actual or potential exposure to the manufacture and sale of controversial weapons? Acceptable response: Yes (supporting documentation: the sustainability statement, the internal policy governing the preparation of the sustainability statement, and, where the response to the question cannot be clearly inferred from those documents, a statement by the undertaking)
    c. Has the undertaking provided the disclosures required under ESRS 2 GOV-4 in sufficient detail? Acceptable response: Yes (supporting documentation: the sustainability statement)
    d. Has the undertaking identified any material matter through the double materiality assessment, taking into account the due diligence process? Acceptable response: Acceptable response: Yes or No (supporting documentation: the sustainability statement)
    e. Has the undertaking provided the disclosures required under the ESRS in relation to the material matters identified in response to Question 6(d)? Acceptable response: Yes (supporting documentation: the sustainability statement)
    f. Has the undertaking provided the disclosures required under GRI 206: Anti-competitive Behavior (2016), GRI 207: Tax (2019), and ESRS S1, ESRS S2 and ESRS G1? Acceptable response: Yes (where these constitute material matters on the basis of the double materiality assessment) or No (where they do not constitute material matters on the basis of the double materiality assessment) (supporting documentation: the sustainability statement)
    g. Where the manufacture and sale of controversial weapons constitute a material matter on the basis of the double materiality assessment, has the undertaking provided an entity-specific disclosure in relation to that matter? Acceptable response: Yes (supporting documentation: the sustainability statement)

7. Additional question applicable to undertakings that are not legally required to prepare a sustainability statement or an ESG report:
    a. How does the undertaking communicate or disclose its commitments, due diligence process, the outcomes thereof, its internal processes and the measures it has taken in relation to the matters referred to in Questions 1 to 4? Acceptable response: Yes, the commitments, due diligence process, the outcomes thereof, the internal processes and the measures taken in relation to the matters referred to in Questions 1 to 4 are communicated to the affected stakeholders (supporting documentation: the published or otherwise communicated document setting out the commitments, due diligence process, the outcomes thereof, the internal processes and the measures taken in relation to the matters referred to in Questions 1 to 4)