

To: Corporate Reporting - Investments & Sustainable Finance WG, Distribution PG, PRIIPs PG
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Subject: ESAs release consolidated Q&A on SFDR Regulation and SFDR Delegated Regulation

Summary

On 25 July 2024, the European Supervisory Authorities (ESAs) released consolidated questions and answers (Q&A) on the SFDR Regulation (EU) 2019/2088 and the SFDR Delegated Regulation (EU) 2022/1288: [here](#).

The ESAs document combines:

- Answers provided by the European Commission to questions requiring interpretation of EU law, which are colour coded in blue; all these answers have already been provided before July 2024.
- Answers generated by the ESAs on the practical application or implementation of the Sustainable Finance Disclosure Regulation, which are not colour coded; some of these answers have been provided by the ESAs for the first time in July 2024.

Among the new answers provided in July 2024, the ESAs clarify the following:

- **Calculation of Principal Adverse Impact (PAI) indicator 4 *Exposure to companies active in the fossil fuel sector* in Table 1, Annex I of SFDR Delegated Regulation** (question 26 on page 27): according to the definition in point (5) of Annex I of SFDR Delegated Regulation, *companies active in the fossil fuel sector* means *companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining and distribution (including transportation), storage and trade of fossil fuel*. Consequently, the calculation of PAI indicator 4 should be performed on a pass/fail basis – i.e. company active in the fossil fuel sector – as soon as it derives any revenues from any of the activities mentioned in the definition. The financial market participant shall include the aggregated investments in all companies active in the fossil fuel sector under its disclosure of PAI indicator 4.
- **Inclusion of financed emissions from the financial market participant (FMP)'s investments through the financial products (e.g. UCITS) in PAI indicator 1 *GHG emissions* in Table 1, Annex 1 of SFDR Delegated Regulation** (question 29 on page 28): the FMP should use a look-through approach to the investee companies causing the GHG emissions – i.e. PAI indicator 1 is calculated from the underlying investee companies, irrespective of whether the investment in them is direct or indirect (the indirect one would be through Undertakings for the Collective Investment in Transferable Securities, for instance). The PAI indicators measure the financed emissions of the FMP's investments. Therefore, financed emissions belonging to each scope from the investee companies should be allocated to the same scope of the FMP.
- **Calculation of the proportion of taxonomy-aligned investments referred to in SFDR Delegated Regulation Annex II, Template pre-contractual disclosure, first question *Does this financial product have a sustainable investment objective?*** (question 20 page 40): the methodology for the calculation of the proportion of taxonomy-aligned investments referred to in that section of the template pre-contractual disclosure is set out in articles 15 and 17 of SFDR Delegated Regulation.

- **Examples of hypothetical financial products to put into practice the European Commission’s notice II of June 2023 ([here](#)) recognising that sustainable investments can be measured at economic activity level and at investment level** (question 21 on page 43): the ESAs have prepared a table showing how the calculations of sustainable investment can be done either at economic activity level or at investment level, according to the European Commission’s notice. The table displays examples of hypothetical financial products with illustrative objectives and investment strategies (pages 45-47).
- **Sustainable investment pursuant to article 2(17) SFDR made by investing in another financial product, like UCITS** (question 22 on page 49): where a sustainable investment is an investment in another financial product, like UCITS, the FMP should look through the underlying investments of that financial product to ensure the investment qualifies as sustainable investment under article 2(17) SFDR and to assess the proportion of sustainable investments.
- **Information to be disclosed by FMPs about financial products passively tracking a PAB or CTB** (question 25 on page 51): the disclosures applicable to financial products in SFDR Delegated Regulation apply equally to financial products that passively track EU Paris-aligned Benchmarks (PABs) or Climate Transition Benchmarks (CTBs), as well.
- **Disclosure under article 9(3) SFDR for financial products that apply all the requirements applicable to PABs or CTBs as set out in Delegated Regulation (EU) 2020/1818** (question 28 on page 52): article 9(3) SFDR is neutral in terms of product design. Therefore, a financial product that applies all the requirements applicable to PABs or CTBs as set out in Delegated Regulation (EU) 2020/1818 ([here](#)) can fall under the scope of article 9(3) SFDR, even if it is not passively tracking PABs or CTBs, or it has not designated a PAB or a CTB as a reference benchmark.

Next steps

The answers provided in the ESAs document clarify provisions already contained in the SFDR. These answers are intended to assist the concerned operators and competent authorities in the practical application or implementation of the SFDR. These answers are available for immediate use by the concerned operators and competent authorities.