



ESMA Common Supervisory Action on sustainability risks and disclosures in the investment management sector

CSSF feedback report

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1. Context

In July 2023, the European Securities and Markets Authority (ESMA) launched a Common Supervisory Action (CSA) with National Competent Authorities (NCAs) on the integration of sustainability risks and disclosures in the investment management sector.

The objective of this CSA was to assess the compliance of supervised IFMs with the relevant provisions in the Sustainable Finance Disclosure Regulation, the Taxonomy Regulation and relevant implementing measures, including the relevant provision in the UCITS Directive and AIFMD implementing acts on the integration of sustainability risks.

This CSA also aimed at promoting supervisory convergence by improving the comprehensibility of sustainability-related disclosures by IFMs across key segments of the sustainable finance value chain.

Within this framework, NCAs agreed, at the level of ESMA, to launch this CSA with a view to assess whether IFMs adhered to the applicable rules and standards in practice, to gather further information on greenwashing risks in the investment management sector and to identify further relevant supervisory and regulatory intervention to address the issue. The CSA was carried out based on a common methodology developed by ESMA, which the CSSF executed in two stages:

- (i) the first stage, launched in September 2023, focussed more closely on greenwashing risks,
- (ii) the second phase, launched in March 2024, was dedicated to how IFMs integrate sustainability risks and factors in their organisational arrangements and to the transparency disclosures at IFM and product level.

The CSSF selected 30 Luxembourg-domiciled IFMs for this CSA and focussed on the same sample throughout both stages of the CSA.

In January 2024, the CSSF communicated the results of the first stage of the CSA to ESMA. The results of the first phase of the CSA, including those of the CSSF, served to provide input to the ESMA's final report on greenwashing that was published in June 2024. At the end of September 2024, the CSSF provided its final report, covering the second stage of the CSA exercise, to ESMA.

In June 2025, ESMA published its [report](#) on the CSA. ESMA noted that the level of compliance of IFMs with the sustainability-related rules is overall satisfactory. Still, ESMA found that improvements are needed in the integration of sustainability risks, entity level SFDR disclosures and product level SFDR disclosures. ESMA also mentioned that further work will be performed for promoting supervisory convergence in the area.

While the overall analysis of compliance for IFMs in Luxembourg is consistent with ESMA's conclusions the objective of this feedback report is to inform the industry about the main observations that the CSSF made in the context of its CSA supervisory work as well as about the related recommendations for improvements in view of the applicable regulatory requirements.

The CSSF continues to engage on a bilateral basis with IFMs in relation to the observations made in the context of the CSA exercise, thereby asking those IFMs to implement the necessary corrective measures when needed.

Finally, the CSSF hereby asks all IFMs to conduct a comprehensive assessment of their compliance with the observations in the ESMA report and the CSSF feedback report. IFMs should take the necessary corrective measures where applicable. It is noteworthy that this assessment must be carried out by all IFMs, as some observations apply regardless of whether they manage sustainability-related products under SFDR.

2. Definitions

AIF(s):	Alternative investment fund(s) within the meaning of the AIFMD
AIFMD:	Directive 2011/61/EU of the European Parliament and of Council of 8 June 2011 on Alternative Investment Fund Managers, as amended
CSSF SFDR Q&As:	CSSF Questions and Answers on the Sustainable Finance Disclosure Regulation (Version 4 – 18 December 2024)
CTB(s)	Climate Transition Benchmark(s) within the meaning of Regulation (EU) 2016/1011 of 8 June 2016, as supplemented by Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020
DNSH:	"Do No Significant Harm" principle, as referred to in Article 2(17) of SFDR
EC	European Commission
ESA(s):	European Supervisory Authority(ies)
ESMA Guidelines:	ESMA Guidelines on funds' names using ESG or sustainability-related terms of 21 August 2024
ESMA Supervisory Briefing:	ESMA supervisory briefing on sustainability risks and disclosures in the area of investment management of 31 May 2022
ESMA:	European Securities and Markets Authority
ESMA Final Report on the CSA:	ESMA Final Report on the 2023-2024 CSA on the integration of sustainability risks and disclosures
EU:	European Union
FMP(s):	Financial market participant(s)
IFM(s):	Investment fund manager(s)
Joint SFDR Q&As	Joint ESAs & EC Consolidated Q&As on SFDR
NCA(s):	National competent authority(ies)
PAB(s)	Paris-aligned Benchmark(s) within the meaning of Regulation (EU) 2016/1011 of 8 June 2016, as supplemented by Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020
PAI(s):	Principal adverse impact(s)
SDG(s):	Sustainable Development Goal(s) adopted by the United Nations
SFDR:	Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector
SFDR RTS:	Commission Delegated Regulation (EU) of 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector
Taxonomy Regulation:	Regulation (EU) 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
UCITS Directive:	Directive 2009/65/EU of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), as amended
UCITS:	Undertaking for collective investment in transferable securities, within the meaning of the UCITS Directive

3. Observations

3.1. Entity-level SFDR disclosures

3.1.1. Remuneration policies

Pursuant to Article 5 of SFDR, all sampled IFMs have included in their remuneration policies information on how those policies are consistent with the integration of sustainability risks. Specific methodologies used by the sampled IFMs for the integration of sustainability risks in the remuneration policy included:

- criteria related to sustainability risks which are integrated in the employees' objectives or performance indicators,
- the role played by sustainability risks as a trigger of clawback provisions - principally applicable to portfolio managers,
- the process for the determination of the remuneration level, including the use of key sustainability risks indicators, and
- in case of portfolio management delegation, the consideration of sustainability risks in the remuneration practices of the delegate in the due diligence process.

The CSSF reminds IFMs that the documentation of the consideration of sustainability risks in the remuneration process is conditional to the provision of precise and specific information on the integration of sustainability risks and ESG metrics/factors.

3.1.2. Consideration of principal adverse impacts of investment decisions on sustainability factors

3.1.2.1. Location on websites

Article 4 of the SFDR RTS requires IFMs that consider PAIs to duly disclose on their websites in a separate section titled "*Statement on principal adverse impacts of investment decisions on sustainability factors*" a set of information as further detailed in SFDR and the SFDR RTS (i.e. PAI statement). All sampled IFMs have duly carried out this disclosure but the CSSF has observed that this section was not always easy to find on the respective websites. For example, some IFMs carried out the disclosure in a separate section dedicated to SFDR while others consolidated the disclosure in a "*regulatory information*" section. The CSSF reminds IFMs that, as foreseen under Article 2 of the SFDR RTS, they are expected to provide the information required by this Regulation in a manner that is, amongst others, easily accessible. Article 4 of the SFDR RTS further specifies that the information regarding the "*Statement on principal adverse impacts of investment decisions on sustainability factors*" section shall be published as part of the "*Sustainability-related disclosures*" referred to in Article 23 of the SFDR RTS.

3.1.2.2. Coverage

The CSSF observed that one sampled IFM mentioned on its website that the PAI statement only relates to its funds disclosing under Articles 8 and 9 of SFDR. The CSSF reminds IFMs that they should give due account to *all* their investment decisions, including those related to funds disclosing under Articles 6, 8 and 9 of SFDR, when publishing the statement of the consideration of PAIs of investment decisions on sustainability factors. This has also been confirmed in the Joint SFDR Q&As IV.24 and IV.25. This publication shall be made using the template set out in the Annex I of the SFDR RTS, as per Article 4 of this Regulation.

In addition, most IFMs included comments in their PAI statement regarding the percentage of coverage for each PAI metric. The CSSF observed that depending on the metric, the disclosed figures vary significantly – ranging from less than 10% to more than 90%. Accordingly, the CSSF encourages IFMs to further develop the data collection related to PAIs, with the objective of increasing coverage and reliability across disclosures. The CSSF further reminds IFMs that, in accordance with Article 7(2) of the SFDR RTS when information is not readily available, IFMs shall include in the section “*Description of policies to identify and prioritise PAIs on sustainability factors*” details of the best efforts used to obtain the information either directly from investee companies or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions. The ESAs have further clarified in the Joint SFDR Q&As IV.5. that one good practice would be for FMPs to include where relevant and as part of the disclosures required by Article 7(1)(e) of the SFDR RTS and for each PAI considered:

- The proportion of investments for which the FMP has relied on data obtained directly from investee companies, in order to calculate the corresponding indicator, and
- The proportion of investments for which the FMP has relied on data obtained by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions, in order to calculate the corresponding indicator.

These proportions could be expressed as a percentage of the current value of the investments included in the calculation of the indicator.

3.1.2.3. Summary section of the PAI statement

All IFMs have duly completed the summary section of their PAI statement. Pursuant to Article 5 of the SFDR RTS, the summary section of the PAI statement shall include the following information: (a) the name of the FMP to which the adverse sustainability impacts statement relates, (b) the fact that PAIs on sustainability factors are considered, (c) the reference period of the statement and (d) a summary of the PAIs.

However, the CSSF has observed varying practices regarding the information provided to comply with point (d) above, which can be attributed to the fact that the SFDR RTS do not specify expectations or requirements for how this section should be completed.

Example of good practice observed by the CSSF:

IFMs provide all the following information under point (d) of the “*Summary Section*” of the PAI statement:

- Comments on the PAIs which are monitored,
- A summary of the PAIs’ evolution and/or objectives, and
- A summary of the PAIs integration in the methodology/approach during the investment process.

Also, the CSSF has observed that the translated versions of the summary section in accordance with Article 5 of the SFDR RTS were not always easy to find, due to the multiplication of links or because the information location depends on the specific profile of the investor. The CSSF reminds IFMs that Article 2 of the SFDR RTS sets forth that IFMs shall provide the information required by this Regulation in a manner that is notably easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading.

3.1.2.4. Description of the PAIs of investment decisions on sustainability factors

The CSSF observed an overall satisfactory level of compliance regarding the way this section of the PAI statement has been completed by the sampled IFMs. Few areas for improvement comprised (i) the absence of any figure for the metric "*Scope 3 GHG emissions*" of indicator 1 of the PAI statement (i.e. GHG emissions), (ii) IFMs investing in real estate assets that did not provide the PAI metrics regarding those investments and (c) a few IFMs did not select any indicator from Table 2 or 3 of Annex I of the SFDR RTS or did not provide corresponding figures. The concerned IFMs have most of the times invoked the lack of availability of data on the PAIs as a justification. The CSSF has duly followed up with the IFMs and corrective action has been taken. In some cases, IFMs have also made changes to the template provided in Annex I of the SFDR RTS, like for example, the deletion of sections relating to indicators applicable to investments in sovereigns and supranational and real estate assets.

The CSSF reminds IFMs that Article 6 of the SFDR RTS requires them to complete in the section "*Description of the principal adverse impacts on sustainability factors*" of the PAI statement, all the fields that relate to the indicators pertaining to the PAIs of their investment decisions on sustainability factors. IFMs shall include all the following: (a) information on one or more additional climate and other environment-related indicators, as set out in Table 2 of Annex I of the SFDR RTS, (b) information on one or more additional indicators for social and employee matters, respect for human rights, anti- corruption and anti-bribery matters, as set out in Table 3 of Annex I of the SFDR RTS, and (c) information on any other indicators used to identify and assess additional PAIs on a sustainability factor. Furthermore, Article 2(1) of the SFDR RTS sets forth that FMPs may only adapt the size and font type of characters and colours used in the templates set out in Annexes I to V of the SFDR RTS. The CSSF therefore expects IFMs to fully comply with all provisions of the SFDR RTS, including the requirement to modify the template set out in Annex I only as permitted under Article 2 of the SFDR RTS.

3.1.2.5. Actions taken and actions planned, and targets set for the next reference period

Article 6(2) of the SFDR RTS requires IFMs to describe in the section "*Description of the principal adverse impacts on sustainability factors*" of the PAI statement the actions taken during the period from 1 January to 31 December of the preceding year and actions planned or targets set for the subsequent period from 1 January to 31 December to avoid or reduce the PAIs identified. To comply with this requirement, IFMs have generally described the actions taken in the PAI statement (e.g. the consideration of the PAIs in the investment process or the adherence to international standards).

Some IFMs reported specific actions taken at the level of the sub-indicator when it was relevant; one action could sometimes relate to more than one sub-indicator. However, when the sub-indicators referred to different elements (e.g.: "*GHG emissions*" and "*Exposure to companies active in the fossil fuel sector*"), the action was tailored at the level of the sub-indicator. On the other hand, the CSSF has observed that some IFMs reported the same action taken for all the sub-indicators that relate

to the same global indicator. For instance, the same action was recorded for all the sub-indicators falling under the overarching “Greenhouse gas emissions” indicator, i.e., for “GHG emissions”, “Carbon footprint”, “GHG intensity of investee companies”, “Exposure to companies active in the fossil fuel sector”, “Share of non-renewable energy consumption and production” and “Energy consumption intensity per high impact climate sector”. In a few cases, the same actions were disclosed across the entire PAI statement. The CSSF considers the lack of granularity as a poor practice and recommends that actions taken are appropriately tailored to the specific characteristics of each PAI.

With respect to the actions planned and targets for the next reference period, the CSSF noted that the sampled IFMs mention the following : (a) further enhancing data quality and/or sources, (b) obtaining further information on the methodology of data providers, (c) continuing to participate in/adhere to or joining additional working groups/standards and/or (d) continuing applying exclusion lists, including the monitoring of such list(s). The CSSF reminds IFMs that, in accordance with Article 2 of the SFDR RTS, the information that is provided shall be fair, clear and non-misleading. Thus, the CSSF expects IFMs to provide for each of the required PAIs the information set out under Article 6(2) of the SFDR RTS – the information shall be appropriately tailored to the specific characteristics of each PAI.

3.1.2.6. Description of policies to identify and prioritise PAI of investment decisions on sustainability factors

Article 7 of the SFDR RTS requires IFMs to describe in the section “*Description of policies to identify and prioritise principal adverse impacts on sustainability factors*” of the PAI statement their policies to identify and prioritise PAIs on sustainability factors and how those policies are kept up to date and applied. The CSSF observed that a few IFMs did not provide all the information required under Article 7 of the SFDR RTS, notably regarding the date of approval of the policies and the information of the margin of error within the methodologies referred to in Article 7(1)(c) of the SFDR RTS.

The CSSF expects IFMs to provide in the section of the “*Description of policies to identify and prioritise principal adverse impacts on sustainability factors*” of their PAI statement all the information required under Article 7 of the SFDR RTS, i.e. (a) the date on which the governing body of the FMP approved those policies, (b) how the responsibility for the implementation of those policies within organisational strategies and procedures is allocated, (c) the methodologies to select the indicators referred to in Article 6(1), points (a), (b) and (c), and to identify and assess the PAI referred to in Article 6(1), and in particular an explanation of how those methodologies take into account the probability of occurrence and the severity of those principal adverse impacts, including their potentially irremediable character, (d) any associated margin of error within the methodologies referred to in point (c), with an explanation of that margin and (e) the data sources used.

3.1.2.7. Engagement policies

Most sampled IFMs have, in their PAI statement, provided the information required under Article 8 of the SFDR RTS in the “*Engagement policies*” section. However, the CSSF noted room for improvement with respect to the information provided on the brief summaries of the engagement policies and notably on how these engagement policies will be adapted where there is no reduction of PAIs over more than one period reported on.

The CSSF expects IFMs to provide in the section “*Engagement policies*” of their PAI statement all the information set forth under Article 8 of the SFDR RTS, i.e. (a) where applicable, brief summaries of the engagement policies referred to in Article 3g of Directive 2007/36/EC of the European

Parliament and of the Council and (b) brief summaries of any other engagement policies to reduce principal adverse impacts. The brief summaries shall describe all the following: (a) the indicators for adverse impacts considered in the engagement policies referred to above, and (b) how those engagement policies will be adapted where there is no reduction of the principal adverse impacts over more than one period reported on.

3.1.2.8. References to international standards

Finally, in accordance with Article 9(1) of the SFDR RTS, IFMs generally disclosed the responsible business conduct codes and internationally recognised standards they adhere to, as well as the working groups in which they participate. The CSSF has nevertheless observed some areas for improvement regarding the provision of information required under Article 9(1) of the SFDR RTS, notably related to the non-reporting of information (i) on the indicators used to consider the PAIs on sustainability factors, (ii) on the methodology and data used to measure the adherence with such responsible business conduct codes and international recognised standards or alignment with the objectives of the Paris Agreement and/or (iii) on the use of forward-looking climate scenario or explanation of why IFM considers forward-looking climate scenarios to be irrelevant.

The CSSF reminds IFMs that the “*References to internal standards*” section of their PAI statement shall comprise all the information required under Article 9 of the SFDR RTS. The description of whether and to what extent the IFMs adhere to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement shall contain information about all the following : (a) the indicators used to consider the PAIs on sustainability factors referred to in Article 6(1) of the SFDR RTS that measure the adherence or alignment, (b) the methodology and data used to measure the adherence or alignment referred to in Article 9(1), including a description of the scope of coverage, data sources, and how the methodology used forecasts the PAIs of investee companies, (c) whether a forward-looking climate scenario is used, and, if so, the name and provider of that scenario and when it was designed and (d) where no forward-looking climate scenario is used, an explanation of why the FMP does consider forward-looking climate scenarios to be irrelevant.

3.2. Integration of sustainability risks and factors in the risk management framework

Article 43(1) of CSSF Regulation No 10-4 and Article 40(2) of Commission Delegated Regulation (EU) 231/2013, as amended, require IFMs to establish, implement and maintain effective risk management policies and procedures in order to identify, measure, manage and monitor all relevant risks to which the UCITS and/or the AIFs they manage are or may be exposed to, thereby referring to market, liquidity, counterparty, other relevant risks (including operational risks) as well as to sustainability risks.

On a general note, the CSSF observed a positive evolution of the content and quality of the risk management policies and procedures of the IFMs in scope of the CSA, when compared to the results of the [CSSF Thematic Review on the implementation of sustainability-related provisions in the investment fund industry](#) published on 3 August 2023.

All sampled IFMs confirmed having updated their risk management policies and procedures to integrate sustainability risks in their risk management process for both AIF and UCITS products, by adding the techniques, tools and arrangements that enable them to assess the impact of sustainability risks. This has been done by updating the existing risk management policy / procedures, covering specifically the sustainability risks. The CSSF considers that these

policies/procedures, albeit with varying degrees of granularity, provide for a globally satisfactory level of description of the arrangements implemented by IFMs in relation to sustainability risks.

The CSSF also noted room for improvement with regards to the following elements of the IFMs' risk management policies/procedures:

- a) the description of the sustainability risk indicators and corresponding limits in the risk profile,
- b) the scope of the funds and assets covered by sustainability risk assessments,
- c) the frequency of reporting to the senior management and/or governing body,
- d) the description of an action plan/escalation process in case of an instance of non-compliance with a sustainability-related rule.

Regarding point b) above, the CSSF observed that, in terms of coverage, IFMs generally set out in their policies/procedures that their sustainability risk management processes cover all funds under their management, including funds disclosing under Article 6 of SFDR. However, some IFMs still need to review their policies/procedures in this respect. Furthermore, some IFMs do not apply the same level of risk assessments to funds disclosing under Article 6 of SFDR when compared to those under Article 8 or 9. For instance, the assessments applied to funds disclosing under Article 6 of SFDR involve only a limited set of ESG risk indicators or KPIs, often without defining any corresponding thresholds or limits.

The CSSF has also noted that there is room for improvement regarding the types of assets covered by IFMs in their assessment and management of sustainability risks. Some IFMs reported that asset coverage can be improved for certain asset classes, such as cash, fixed-term deposits, structured products and derivative instruments (e.g., interest swaps or FX derivatives) and for AIF investing in private assets (e.g. real estate, private equity or infrastructure).

Example of good practices observed by the CSSF:

Regarding data quality checks, while some IFMs identify potential risks concerning the adequacy and completeness of the ESG data related to portfolio holdings, a limited number of IFMs provide a clear description of the actual checks performed within their policies/procedures.

3.3. Product-level disclosures

3.3.1. Precontractual disclosures

3.3.1.1. Definition of sustainable investment under Article 2(17) of SFDR

Article 2(17) of SFDR defines a "*sustainable investment*" according to three main pillars that must all be satisfied: (1) a contribution to an environmental or social objective, (2) the "*do not significant harm*" (DNSH) principle and (3) investee companies following good governance practices. In April 2023, the EC published Q&A providing further clarifications on the assessment of sustainable investments within the meaning of Article 2(17) of SFDR. The EC clarified that:

- SFDR does not set out minimum requirements that qualify concepts such as contribution, DNSH, or good governance, i.e. the key parameters of a "*sustainable investment*".

- FMPs must carry out their own assessment for each investment and disclose their underlying assumptions. The disclosure must include the methodology FMPs have applied to carry out their assessment of sustainable investments, including how they have determined the contribution of the investments to environmental or social objectives, how investments do not cause significant harm to any environmental or social investment objective and how investee companies meet the “good governance practices” requirement.

In this context, as further described below, the CSSF observed that IFMs have developed their own criteria for the application of Article 2(17) of SFDR.

Contribution to environmental or social objective

IFMs use the following criteria or combination of those to assess the contribution of investments to environmental or social objectives:

- *UN Sustainable Development Goals (“SDGs”) Alignment*: requirement to have a minimum proportion of the investee company’s business activity and/or products or services which contribute to a given environmental or social objective and/or one or more SDGs,
- *Internal Sustainability Scores*: use of internal scoring tools to evaluate alignment with SDGs or internal criteria (such as, but not limited to positive and/or negative screening) based on sustainability policies, objectives, and practices,
- *External Sustainability Scores*: use of sustainability indicators from an external data provider,
- *Green/Social Financing*: investment in financial instruments (e.g. green or social bonds) that fund ESG-related projects,
- *Taxonomy Alignment*: investments in financial instruments that qualify as environmentally sustainable under the Taxonomy Regulation,
- *Transition Commitments*: investments in companies that commit to a transition pathway, e.g. science-based carbon reduction targets (SBTi),
- *Peer Comparison*: company outperforms peers on key environmental or social indicators,
- *ESG Benchmarks*: use of PAB or CTB benchmarks.

Do no significant harm (“DNSH”)

IFMs use different methodologies for assessing and monitoring DNSH, the use of which may be dependent on various factors such as the internal policies or the strategy of the fund. To assess an investment as not significantly harming any of the environmental or social objectives within the meaning of Article 2(17) of SFDR, IFMs generally apply a combination of measures, which take into account the relevant mandatory (and where applicable optional) PAI indicators. The methodologies or measures implemented by the IFM may include the following:

- *Internal Scoring*: evaluating companies based on PAI and sustainability indicators,
- *Exclusion Policies*: applying formal exclusion lists to screen out non-compliant sectors or activities,
- *Negative Screening*: filtering out high-risk sectors or companies with significant societal/environmental harm, often using revenue-based thresholds,
- *Worst sectorial performer exclusion*: eliminating companies with poor ESG or high carbon emissions performance within their sector,
- *Minimum Safeguard Analysis*: applying qualitative and quantitative controls against PAI thresholds and performance benchmarks to ensure minimum standards,
- *Controversy Monitoring*: ongoing checks to avoid investing in companies subject to ESG-related controversies.

Thresholds used for contribution to environmental or social objective and DNSH tests

The current SFDR framework does not require the consideration of specific thresholds for the assessment of sustainable investments within the meaning of Article 2(17) of SFDR. Nevertheless, most IFMs confirmed that thresholds for the contribution to sustainable investments and DNSH tests were applied and that such thresholds were disclosed in both the precontractual and periodic

documentation. During the CSA, the CSSF observed that those thresholds were primarily based on quantitative indicators, and, in some cases, complemented with qualitative indicators – such as adherence to international standards, exclusions policies or potential involvement in controversies.

Example of good practices observed by the CSSF:

- IFMs employ specific indicators for assessing the contribution to sustainable investments. They take into account all PAI indicators in Table 1 and any relevant indicators in Tables 2 and 3 of Annex I of the SFDR RTS for the DNSH tests. IFMs set corresponding thresholds for the indicators to assess the contribution of sustainable investments and DNSH tests. The thresholds serve as a reference point to measure alignment over time. One example relating to the contribution to sustainable investment is the establishment of minimum thresholds for revenue contribution to SDGs.
- IFMs provide a clear and concise explanation regarding the indicators they have selected and disclose the corresponding thresholds they have established in the precontractual documentation.
- IFMs disclose, in their periodic disclosures, the actual levels achieved relative to the thresholds they have established in their precontractual documentation. Where discrepancies arise, IFMs include explanations and outline any corrective actions taken to address misalignment.

Good governance practices

IFMs usually assess whether investee companies follow good governance practices – including with respect to sound management structures, employee relations, remuneration of staff and tax compliance – by referring to defined international standards on governance. The standards may cover *inter alia* business ethics, culture and values, corporate governance, bribery and corruption. During the initial and ongoing due diligence, controversies and reputational risks relating to investee companies are also monitored to identify any case of non-compliance with good governance practices. Most IFMs establish a minimum threshold for governance scores, which investee companies are required to meet. In the absence of an internal scoring methodology, some IFMs rely on governance assessments provided by external data service providers to determine compliance.

Investee companies that fail to meet either the internal or externally determined minimum governance score are typically excluded from the investment universe. Alternatively, IFMs may elect to reduce their exposure to such entities, particularly in instances where they anticipate potential improvements through active engagement, or engagement initiatives. Such engagements may entail direct communication by IFMs or their appointed delegates with investee companies, with the objective of influencing and improving governance-related policies and procedures.

Finally, although not required in the SFDR framework¹, some IFMs still perform good governance check on asset classes that do not qualify as “*investee companies*” (e.g. real estate investments). IFMs perform good governance verifications for instance at the level of different stakeholders, such as business partners and/or tenants.

The CSSF emphasizes that IFMs are responsible for the initial and ongoing monitoring of all the criteria they use for the assessment of sustainable investments within Article 2(17) of SFDR. This is particularly relevant, given the dynamic nature of these criteria and the evolving regulatory and market environments.

Disclosures to investors

¹ Reference is made to the Joint SFDR Q&As V.6. and V.27.

All sampled IFMs have assessed the disclosure of the underlying assumptions they use to apply the criteria of Article 2(17) of SFDR to be comprehensive. However, the CSSF has identified different practices, suggesting there is room for improvement. In certain cases, the disclosures were overly general, thereby hindering a clear understanding of the applied methodology. The provision of overly general information pertained to all three criteria used for the assessment of Article 2(17) of SFDR but was particularly relevant regarding the contribution to environmental or social objectives. The CSSF observed different degrees of granularity across those disclosures, with some containing only generic or high-level references. In general, IFMs provided the information as part of the precontractual documentation and/or website disclosures. However, one IFM only provided general information in the fund precontractual documentation, while complementary details - essential for understanding the applied methodology - were made available exclusively in marketing materials and/or upon request.

The CSSF reminds IFMs that, pursuant to the Joint SFDR Q&As II.2., IFMs must disclose the underlying assumptions to their assessment of the criteria used for the application of Article 2(17) of SFDR. The CSSF expects IFMs to disclose this information in a clear, comprehensive and accessible manner, to enable (retail) investors to make informed investment decisions. This information must be sufficiently detailed to allow investors to make an informed decision of the proposed investment and to ensure comparability between funds. For instance, it is not sufficient for IFMs to only make overly general references to SDGs, to justify their contribution to an environmental or social objective, particularly where such references lack a demonstrable link to the underlying investment strategy. The CSSF expects IFMs to provide the above information as part of the precontractual and/or website disclosures and reminds IFMs that Article 2 of the SFDR RTS requires that they provide information prescribed by SFDR in a manner that is easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading.

Finally, the CSSF observed that, in accordance with its supervisory expectations, IFMs establish and maintain a comprehensive internal control framework to review and validate sustainability-related disclosures. This process involves various teams – notably product development, investment managers, sustainability specialists, legal advisors, risk officers, and compliance functions- working together to ensure that sustainability disclosures are accurate, consistent and aligned with the requirements of SFDR and internal policies.

3.3.1.2. Funds' names

During this CSA, the CSSF conducted its assessment of the non-misleading nature of the funds' names against the general provisions of SFDR, as further specified in the ESMA Supervisory Briefing. The CSSF observed that 75% of the sampled funds held ESG or sustainability-related terms in their names. Such terms included the use of "*sustainable*", "*sustainable development goal*", "*environmental*" or ESG-related term (e.g. ESG, clean water, climate), impact or transition-related terms. The CSSF observed an overall satisfactory level of compliance of funds' names with the requirements set forth under the "*Principles-based guidance on fund names*" section of the ESMA Supervisory Briefing. The names of the funds were found to be directly aligned with the investment objective and the strategy. In addition, IFMs appropriately substantiated the related disclosures in the fund documentation. Only one fund used "*sustainable*" in its name, without committing to sustainable investments. The CSSF followed up bilaterally with the IFM which has, since the entry into force of the ESMA Guidelines, changed the name of its fund to comply with the provisions of these Guidelines - in this specific case, the term "*sustainable*" was removed from the fund denomination.

The CSSF reminds IFMs that in the meantime, the ESMA Guidelines have been implemented into its administrative practices and regulatory approach, through the publication of Circular CSSF 24/863. The CSSF expects IFMs, regardless of whether they are disclosing under Article 6, 8 or 9 of SFDR, to carry out a self-assessment of the applicability of the ESMA Guidelines to the products they

manage and to ensure ongoing compliance with all applicable thresholds and exclusions foreseen in the ESMA Guidelines. Finally, the CSSF emphasizes that, as general rule, the requirement applying to IFMs to provide information that is fair, clear and not misleading under SFDR equally applies to fund names, as the disclosure of sustainability characteristics or objectives should be commensurate with the effective application of those characteristics or objectives to the fund. The CSSF also expects adequate disclosure in the precontractual documentation of elements supporting the use of ESG or sustainability-related terms in funds' name. IFMs may refer to the Question 7 of CSSF SFDR Q&As for further guidance in this respect.

3.3.1.3. Compliance of website disclosures

"Summary" website section

Articles 25 and 38 of the SFDR RTS require IFMs to summarise in the "Summary" website section all the information contained in the different sections referred to in Articles 24 and 37 of the SFDR RTS for funds disclosing under Article 8 and 9 of SFDR, respectively. The summary section shall have a maximum length of two-sides of A4-sized paper when printed.

During the CSA, the CSSF noted that most sampled IFMs outline in their two-page summary of the website disclosures an adequate summary of the relevant sections.

Nevertheless, the CSSF has observed instances where the disclosures in the summary section failed to clearly identify or adequately summarize the specific sections as mentioned above, opting instead for a general overview of ESG-related information. The CSSF expects the summary website section to cover all the information contained in the different sections referred to in the SFDR RTS. IFMs shall provide such information in a manner that is clear and comprehensive to investors.

Example of good practice observed by the CSSF:

Some IFMs include distinct headings that correspond directly to the individual sections outlined in Articles 24 or 37 of the SFDR RTS. Other IFMs summarise all the information contained in the different sections with clear titles or references to the previously mentioned sections, that can be easily understood by (retail) investors.

3.3.1.4. Communication of sustainability credentials in product-level disclosures

The CSSF assessed how IFMs communicate about their product-level credentials. Most IFMs communicate either publicly or directly to investors about product-level sustainability credentials, such as labels, ratings or certifications. IFMs usually communicated on those aspects in the offering document/prospectus, the product website disclosures, sustainability reports and marketing communications such as press releases, investor presentations, monthly factsheets or mail communications.

In general, the CSSF noted that IFMs provided the information on sustainability-related credentials in a fair, clear and non-misleading manner. Only a few IFMs that provided such information on their websites needed to improve their disclosure by substantiating the description of the credential with a description thereof and/or a reference to relevant websites where further information can be found (e.g. website of the certifying body).

The CSSF reminds IFMs that Article 2 of the SFDR RTS requires them to provide information prescribed by SFDR in a manner that is easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading.

The CSSF considers that this requirement also applies to the disclosures of product-level sustainability credentials such as labels, ratings or certifications. This applies irrespective of the media used by the IFM to communicate on the sustainability credentials. The CSSF considers that a clear, fair and non-misleading disclosure of sustainability credentials is conditional to the provision of all the following information:

- identification of the certifying body,
- the fact that the credential is based on verifiable sources that are duly disclosed,
- the period for which the credential has been granted.

The inclusion of a direct link to the website of the certifying body, where further information is available, enhances the clarity and comprehensibility of the related disclosures.

Example of good practices observed by the CSSF:

- When an ESG label is granted to the fund, IFMs include, in their marketing communication or any other communication media, a footnote/endnote or a clear and visible reference providing information on the identity of the certifying body and/or a hyperlink to the website where investors can find further information, including the methodology used for the computation of the ESG rating.
- When internal ESG scores or ratings are used by IFMs and disclosed as part of any communication media, meaningful information about the calculation methodology and data used for computing such ESG scores are provided.

The CSSF also draws the attention of IFMs to the [ESMA first thematic note on sustainability-related claims used in non-regulatory communications](#). This note on sustainability credentials provides further information about key principles, illustrative examples and best practices to support IFMs making clear, fair and not misleading sustainability claims.

3.3.1.5. Funds disclosing under Article 6 of SFDR

As part of this CSA, an assessment was also conducted to determine whether funds disclosing under Article 6 of SFDR showcased any elements that could be related to environment or social characteristics. The CSSF did not identify, for the sampled funds disclosing under Article 6 of SFDR, any ESG-related text, suggestive non-textual imagery and sounds that could be linked to the environment or society (e.g. pictures of windmills). The IFMs also confirmed that any other communication media used for these funds did not include such elements (e.g. marketing communication).

The CSSF further noted that the information provided on the website clearly indicated the SFDR Article under which each fund discloses, with the reference directly stated under the fund's objective or characteristics, in accordance with the principles set out in the ESMA Supervisory Briefing.

The CSSF reminds IFMs that funds promoting environmental or social characteristics or those having a sustainable investment objective *are* subject to Articles 8 and 9 of the SFDR, respectively. In July 2021, the EC further clarified the notion of "*promotion of environmental or social characteristics*" – reference is made to the Joint SFDR Q&As V.2. In this clarification, the EC specified that, when environmental or social characteristics are promoted in the investment policy, the financial product is subject to Article 8 of SFDR.

3.3.2. Periodic disclosures

3.3.2.1. Consistency of periodic disclosures with precontractual documentation

The SFDR RTS requires IFMs to present for each fund disclosing under Article 8 or 9 of SFDR various sets of quantitative information in the periodic disclosures. Examples include the proportion of investments that attained the environmental/social characteristics during the period or the proportion of sustainable investments during the period. This allows investors, amongst others, to compare these figures with the binding commitments set out in the precontractual disclosures and to verify their consistency for the period under review.

In this context, the CSSF reminds IFMs that, as stated in Question 4 of the CSSF SFDR Q&As, funds shall comply on an ongoing basis with all binding commitments of their respective investment strategy as disclosed in their offering document/prospectus, including the precontractual disclosures (e.g. minimum portion of sustainable investments or taxonomy-aligned investments).

As part of the CSA, the CSSF reviewed, for the sampled funds, the consistency of the actual levels of sustainable investments and/or taxonomy-aligned investments as disclosed in the periodic disclosures with the related minimum commitments set forth in the precontractual documentation.

In this respect, the CSSF observed the following:

- Most sampled funds made commitments to invest in sustainable investments.
- The actual level of sustainable investments set forth in the periodic disclosures complied in all cases with the commitments made. There was the case of one fund which was still in the ramp-up period and for which the precontractual disclosures stated that the minimum portion of sustainable investments was not applicable during the ramp-up period. This fund also included an explanatory note on the ramp-up period in the periodic report and continued to undertake further investments to meet its precontractual commitments in view of the end of the ramp-up period.
- A few funds showed a significant buffer above the disclosed minimum thresholds pertaining to sustainable investments.

In the context of its review, the CSSF further observed that:

- Most of the funds made no commitment to invest in activities aligned with the Taxonomy Regulation.
- Funds that had such a commitment typically disclosed under Article 9 of SFDR and, for these funds, the level of taxonomy-aligned activities disclosed in the precontractual documentation ranged from 1% to 60%.
- All the funds having committed to taxonomy-aligned activities reported actual levels exceeding the stated minimum thresholds.

3.3.2.2. Taking into account of PAIs for DNSH assessment

As per Articles 51 and 59 of the SFDR RTS applicable to funds disclosing under Article 8 of SFDR and Article 9 of SFDR respectively, the periodic disclosure shall disclose certain information regarding the attainment of the environmental or social characteristics promoted by, or the sustainable investment objective of, the financial product.

In this context, FMPs need to provide *inter alia* an explanation of how the sustainable investments have not harmed significantly any of the sustainable investment objectives during the period covered

by the periodic report, including how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, were taken into account.

The CSSF observed that, for the sampled funds, some IFMs did not take into account all the PAIs indicators from 1 to 14 in Table 1 of Annex I of the SFDR RTS for the DNSH assessment of sustainable investments. The reasons provided by these IFMs were that some PAIs were deemed not relevant to the investment policy/objective of the fund, or some PAIs were lacking available or reliable data.

Furthermore, the CSSF observed that only a few IFMs did consider, for DNSH purposes, PAI indicators from Tables 2 and/or 3 of Annex I of the SFDR RTS. In such cases a few PAIs have been selected by these IFM, because they were deemed relevant for the investment policy of the fund (e.g. *"Investments in companies without carbon emission reduction initiatives"*, *"Lack of a supplier code of conduct"* or *"Lack of a human rights policy"*).

In this respect, the CSSF reminds IFMs that, for the DNSH assessment of sustainable investments, there is a legal obligation in the SFDR RTS to take into account all mandatory PAI indicators in Table 1 at least, and also any relevant indicators from Tables 2 and 3 of Annex I of that Regulation. This requirement has also been further specified by the ESAs in the Joint SFDR Q&As IV.22.

Furthermore, the CSSF also draws the attention of IFMs to ESMA's recommendations in the ESMA Final Report on the CSA recalling that Article 7(2) of the SFDR RTS provides guidance for entity-level PAI disclosure about what to do where information is not readily available, which may also be useful for product-level DNSH purposes, for instance, by obtaining the data directly from investee companies, carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions etc.

Therefore, the CSSF expects IFMs to give due consideration to the above elements and to adapt, if any, their processes accordingly.

Finally, regarding the information included in the periodic disclosures, the CSSF also observed that a few IFMs:

- disclose exactly the same information on PAIs in the precontractual and periodic disclosures, or
- provide a complete overview of the PAIs that are taken into account for the fund, together with the corresponding individual PAI figures. However, such figures are typically not complemented with additional information, such as, for instance, a comparison with any thresholds/benchmarks or an assessment related to the sustainable objectives of the fund. Hence, the PAI disclosures can be difficult for (retail) investors to understand.

In view of the above, the CSSF noted room for improvement with regards to the completeness and the clarity of the disclosures pertaining to the consideration of PAIs for DNSH assessment. In this respect, the CSSF reminds notably that pursuant to Article 2 of the SFDR RTS, the IFMs shall provide for the information required by this Regulation in a manner that is, amongst others, comprehensible, fair, clear and not misleading. Accordingly, the CSSF expects IFMs to apply this principle also with regards to the taking into account PAIs at product level.