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Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation

Annual Report to the Commission under Article 18 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

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Executive Summary¹

Context

1. The Report on Principal Adverse Impact (“PAI”) disclosures under the Sustainable Finance Disclosure Regulation (SFDR)² builds on the two previous Reports that the European Supervisory Authorities (ESAs) published since the entry into force of SFDR. This Report refers to PAI disclosures published by 30 June 2023, regarding the reference period from 1 January 2022 to 31 December 2022.
2. The PAI entity-level disclosures are only mandatory for Financial Market Participants (FMPs) with more than 500 employees. Smaller FMPs can explain why they do not consider PAIs but if they choose to disclose on their PAIs, they have to use the template in the Level 2 framework (Annex I of the SFDR Delegated Regulation³) since 1 January 2023.
3. On 28 July 2022, the ESAs published the first⁴ (2022) Joint ESAs Report on the extent of voluntary disclosure of PAIs under SFDR, with preliminary recommendations to National Competent Authorities (“NCAs”) on how to monitor FMPs’ compliance with the SFDR. The divergent approaches towards disclosures in 2022 have made the comparability across FMPs challenging. The findings indicated an overall level of low compliance with the details required for explaining why FMPs do not take into account PAIs and that the level of compliance was higher when FMPs are part of a larger group because they were more likely to provide information about the group’s approach to PAIs.
4. The second 2023 Joint ESAs Report⁵ was published on 28 September 2023. It showed an overall improvement in the application of voluntary disclosures, which appeared easier and more straightforward to find. However, FMPs still found it challenging to use voluntary disclosures, and they failed to make specific reference to PAI indicators and/or did not provide a clear explanation as to how they consider them. The 2023 Report also covered disclosures of PAI consideration for financial products for the first time since FMPs had to apply them by 30 December 2022. Finally, the Report also provided a list of good and bad practices on voluntary disclosures, as well as preliminary recommendations to both the European Commission and NCAs on the PAI disclosures. However, as the detailed implementing measures on the

¹ This Report is published under Article 18 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR). It tasks the European Supervisory Authorities (ESAs) to deliver, by 10 September 2022 and every year thereafter, a report to the European Commission to take stock of the extent of voluntary disclosures in accordance with point (a) of Article 4(1) and point (a) of Article 7 (1) SFDR. Article 18 also states that the annual report should consider the implications of due diligence practices on disclosures under SFDR and provide guidance on the matter.

² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

³ Commission Delegated Regulation (EU) 2022/1288

⁴ [jc 2022 35 - joint esas report on the extent of voluntary disclosures of pai under sfdr.pdf \(europa.eu\)](#)

⁵ [JC 2023 42 Joint ESAs 2023 annual report Article 18 SFDR.pdf \(europa.eu\)](#)

disclosures in the SFDR Delegated Regulation⁶ were not yet applicable at the time of that last publication, the ESAs' conclusions were not extensive.

Current approach

5. For the 2024 Report, the ESAs have taken a similar approach to previous Reports and launched a survey of the NCAs in the three ESAs in the Joint Committee (JC) and the relevant Standing Committees of the ESAs.
6. The purpose of the survey was to gather input from NCAs on the current state of entity-level and product level voluntary PAI disclosures under SFDR as basis to develop the 2024 Report. Consistent with previous years, the 2024 survey covered the assessment of the disclosures by FMPs choosing to explain why they do not consider adverse impacts of investment decisions on sustainability factors, as well as disclosures of PAI consideration for financial products⁷.
7. The ESAs have broadened the scope of the 2024 Report to also cover the disclosures made under the SFDR Delegated Regulation template, available for the first time since 30 June 2023⁸. The recommendations and examples of good and best practices in the present Report come from three different sets of input:
 - a. The analysis of NCAs' responses to the ESAs Survey;
 - b. The ESAs' qualitative assessment of the 65 entity-level PAI statements; and
 - c. A quantitative assessment by the ESAs of some of the PAI indicators, based on European ESG Template (EET) disclosures data obtained via Morningstar in July 2024,⁹ of the investment funds' product-level PAI statement on the use of some PAI indicators.
8. This Report includes the following sections: section 1 includes the background and rationale of this exercise, and the methodological approach used.
9. Section 2 covers the ESAs own desk-based research and assessment of the statements currently available in the market.

⁶ 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

⁷ Under Article 7 (1) SFDR: 1. By 30 December 2022, for each financial product where a financial market participant applies point (a) of Article 4(1) or Article 4(3) or (4), the disclosures referred to in Article 6(3) shall include the following: (a) a clear and reasoned explanation of whether, and, if so, how a financial product considers principal adverse impacts on sustainability factors; (b) a statement that information on principal adverse impacts on sustainability factors is available in the information to be disclosed pursuant to Article 11(2). Where information in Article 11(2) includes quantifications of principal adverse impacts on sustainability factors, that information may rely on the provisions of the regulatory technical standards adopted pursuant to Article 4(6) and (7).

⁸ The reference period was from 1 January 2022 to 31 December 2022.

⁹ The EET is a voluntary and free-of-use template developed by FinDatEx (Financial Data Exchange) with representatives from the European financial industry. The template aims to facilitate the necessary exchange of data between product manufacturers and various stakeholders (including distributors, insurers, investors) in order to comply with the ESG-related regulatory requirements in SFDR and the relevant delegated acts complementing MiFID II and the Insurance Distribution Directive.

10. Section 3 includes a list of good and bad practices identified by NCAs and an overview of lessons learned from the third year of implementation of the voluntary disclosure.
11. Section 4 highlights the recommendations to the European Commission and NCAs.
12. Annex I includes a table with a summary of the good and bad disclosures practices identified by the ESAs and Annex II lists the questions included in the survey with highlights from the responses received from the NCAs.

Main findings

13. This year's survey showed significant improvement in the quality of the responses provided by the NCAs, both on the quantitative and qualitative side, with a greater sample size and higher representation in terms of number of FMPs covered. This reflects an improving state of PAI disclosures generally. Based on the responses received, the ESAs have identified several good and bad practices in the present Report, even if the size of the sample is not fully representative of all FMPs.
14. There is an overall positive progress on several elements compared to previous years, in particular on the location of the disclosures, which are becoming more and more accessible to retail investors, and on the level and quality of the information disclosed. Significant improvements were identified in product PAI disclosures, although the share of products disclosing SFDR PAI information remains quite low.
15. While the level of compliance with the SFDR provisions, both at Level 1 and implementing measures is not yet fully satisfactory, it is important to recognise that both NCAs and FMPs have made significant improvements, but also additional efforts to achieve full compliance are still needed.
16. The ESAs note that the survey encouraged NCAs to engage with FMPs who were not compliant, or only partially compliant, with the rules. The outcome of the exercise helped NCAs set out their risk-based approach on the supervision of SFDR-related disclosures.

Next steps

17. The European Commission may want to consider the ESAs' findings and take them into account in the context of their comprehensive assessment on the functioning of the SFDR.
18. In the context of any potential SFDR proposal following the comprehensive assessment and, as already stated in the Joint ESAs Opinion on the assessment of the SFDR¹⁰, the ESAs would like to reiterate the need to reduce the frequency of their assessment of the PAI disclosures under the SFDR to every two or three years. The ESAs believe these Reports are valuable, but a less frequent reporting timeline would allow the ESAs and NCAs to focus more resources on delivering a more meaningful analysis of the PAI disclosures and to draw lessons from previous exercises.

¹⁰ [JC 2024 06 Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation \(SFDR\) \(europa.eu\)](#)

1. Background

1.1 Introduction

19. The SFDR became applicable on 10 March 2021 and sets out sustainability disclosure requirements for FMPs and financial advisors to communicate sustainability information to investors. On 6 April 2022, the European Commission adopted the SFDR Delegated Regulation, which specifies technical standards that FMPs should use when disclosing sustainability related information under SFDR and which became applicable on 1 January 2023.
20. Article 18 SFDR requires the ESAs to take stock of the extent of entity and products' voluntary disclosures and submit a Report to the Commission on an annual basis on best practices and make recommendations towards voluntary disclosures. In addition to these elements, the report should also cover the implications of due diligence on disclosures under the SFDR Regulation.
21. The ESAs have already developed a mandatory reporting template provided in the SFDR Delegated Regulation, which became applicable on 1 January 2023. The template must be used when a FMPs considers principal adverse impacts of its investment decision on the environment and people¹¹. This Report also covers an assessment of the PAI disclosure template and on the disclosure of engagement policies, which were published by 30 June 2023.
22. Pending the Commission's decisions on the future of the SFDR framework, future iterations of this Report will continue to assess how widespread those disclosures have become and identify best practices.

1.2 Methodology

23. The survey to the NCAs had a total of eleven questions, aiming to get an overview of the total number of FMPs covered by the entity disclosures, also in comparison with previous years. For the disclosures from both largest¹² and smallest entities¹³, the NCAs were also asked to rate in a scale from 1 to 5 and provide an assessment of the compliance with these elements: location of the disclosures, their clarity, the completeness of the reporting, overall compliance with the SFDR Delegated Regulation, quality of the statement of the PAI disclosures, the assessment regarding the quantification of the actions taken and the share of the FMPs making the 30 June deadline. The NCAs were also asked about the share and breakdown of financial products that disclose PAIs into those (1) promoting environmental or social characteristics or (2) those having sustainable investment as their objective and indicate, where possible, if the FMPs

¹¹ The disclosure of the completed template is mandatory for FMPs with more than 500 employees while smaller FMPs can explain that they do not consider PAIs. In contrast, no disclosure of the template is necessary when an FMP with fewer than 500 employees explains that it does not consider principal adverse impacts of its investment decisions sustainability factors, in accordance with article 4(1)(b) of the SFDR.

¹² Disclosing under Article 4(3) or (4) of the SFDR.

¹³ Disclosing under Article 4(1)(a) or (b) of the SFDR.

offering those products also disclose at entity level. Similar to previous years, the NCAs were asked to share any observations on the degree of alignment with the objectives of the Paris Agreement and whether there was any improvement compared to previous years, also in relation to the quality and the rationale of FMPs not considering PAIs, and any update of good practices highlighted in the latest Report. One question also asked was how many engagement practices have been disclosed in the section “Engagement policies” in the SFDR Delegated Regulation template. Finally, the NCAs were asked whether they have encountered any challenges in supervising the PAI disclosures and whether they had any best practices to highlight in terms of voluntary reporting standards.

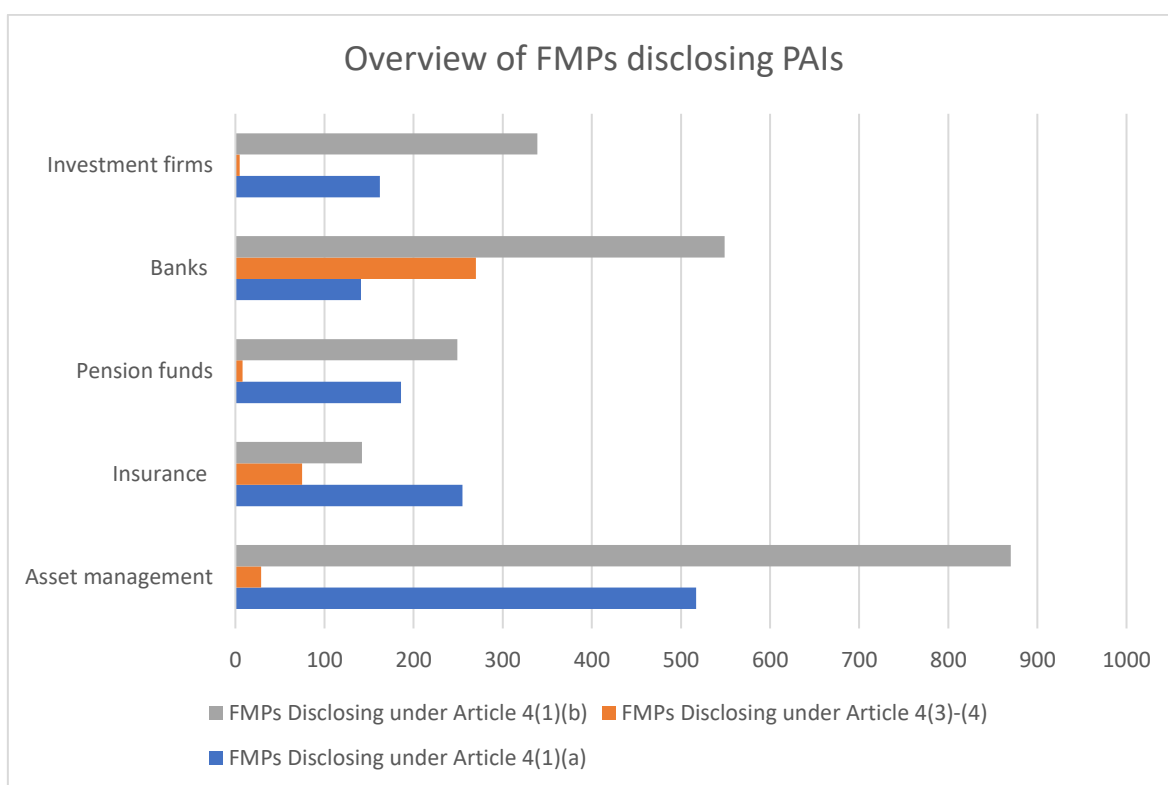
24. A total of 29 NCAs¹⁴ provided responses to the survey, which is the highest number of responses to the Survey received by the ESAs since the first Report in 2022. Details of the responses provided by NCAs (anonymised) are provided in the Annex. The ESAs conducted a qualitative analysis of the responses received and worked on the graphs below with information from the results of the survey.

1.3 Coverage of the market

25. In the first question the NCAs were asked to provide the total number of FMPs in their jurisdiction covered by the entity disclosures, and of those, what is the number that must disclose PAIs. They were asked to break down by sector (asset managers, insurers, pension funds, banks, investment firms). The NCAs were also asked to provide a breakdown of the total number of FMPs by sector that choose not to disclose PAIs¹⁵.
26. Some NCAs did not share the relevant data as they did not have the supervisory tools in place to provide such mapping, and others announced that information technology developments are on-going and are expected to provide the exact number of FMPs in their jurisdictions in 2025.
27. It is difficult to compare the responses as the NCAs provided different data. This is because not all NCAs covered the same portion of the market and not all NCAs provided the exact number or percentage of the firms surveyed. The same challenge arises for the proportion of financial products that disclosed their PAIs under the SFDR.
28. Nonetheless, the four graphs below provide an overview of the portion of the market covered, broken down by sector based on the data NCAs were able to contribute. The data is based on the survey of the NCAs which may not necessarily represent all FMPs in the EU.
29. Graph 1 provides the total number of FMPs covered by the PAI disclosures in the SFDR.

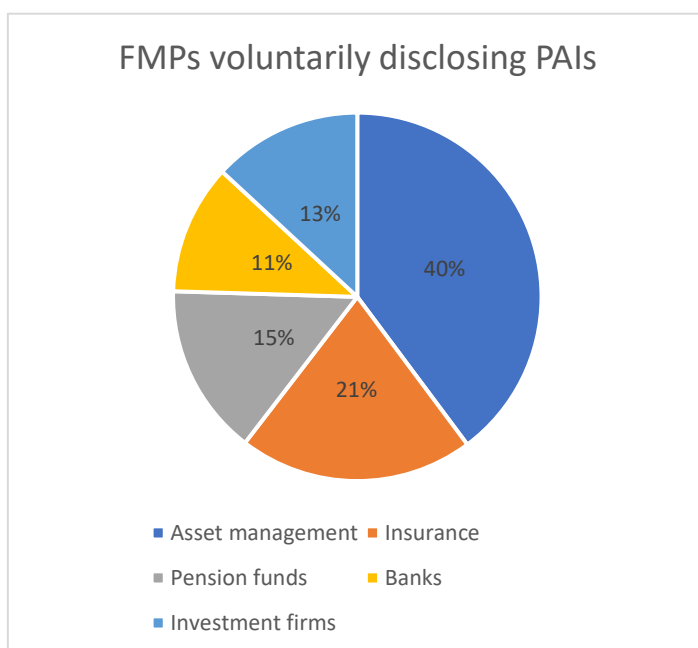
¹⁴ The survey was shared with all the relevant NCAs of the ESAs, hence NCAs from the banking, insurance, pension and asset management sectors.

¹⁵ Disclosing under Article 4(1)(b) of the SFDR.



Graph 1 - Source: ESAs survey to NCAs in 2024

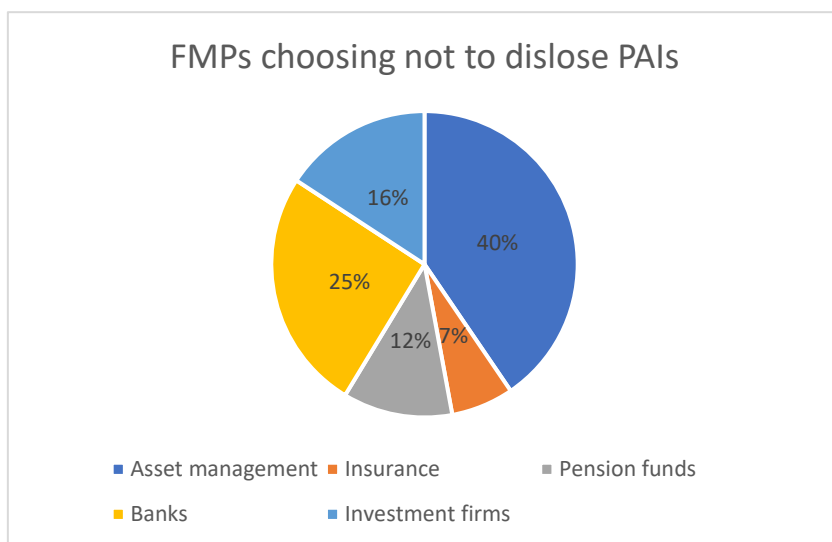
30. Graph 2 provides a percentage break-down per sector of all the FMPs in the survey that have voluntarily chosen to consider principal adverse impacts of investment decisions on sustainability factors¹⁶.



Graph 2 - Source: ESAs survey to NCAs in 2024

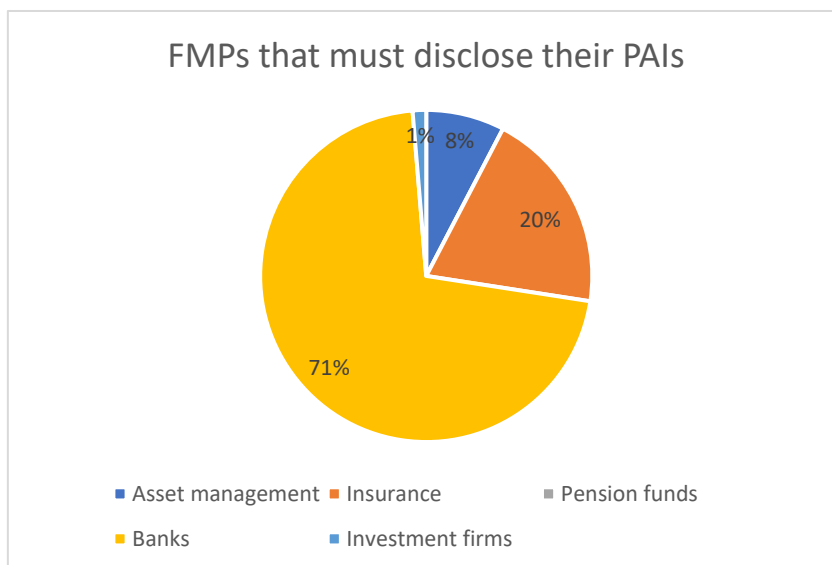
¹⁶ Disclosing under Article 4(1)(a) of the SFDR.

31. According to the majority of NCAs, the number of small FMPs (below 500 employees) that do not consider the adverse impacts of investment decisions on sustainability factors is even more difficult to extract as there is no process in place to communicate such number directly to the competent authorities. A few NCAs mentioned that they would be putting this recording process in place so that the data would be available for future surveys.
32. Graph 3 provides a percentage break-down per sector of all the FMPs in the survey choosing not to disclose PAIs under the SFDR¹⁷.



Graph 3 - Source: ESAs survey to NCAs in 2024

33. Finally, graph 4 provides a percentage break-down per sector of all the FMPs subject to the mandatory PAI statement disclosures of the SFDR¹⁸. Interestingly, the survey reveals that large FMPs subject to the mandatory disclosures are typically banks.

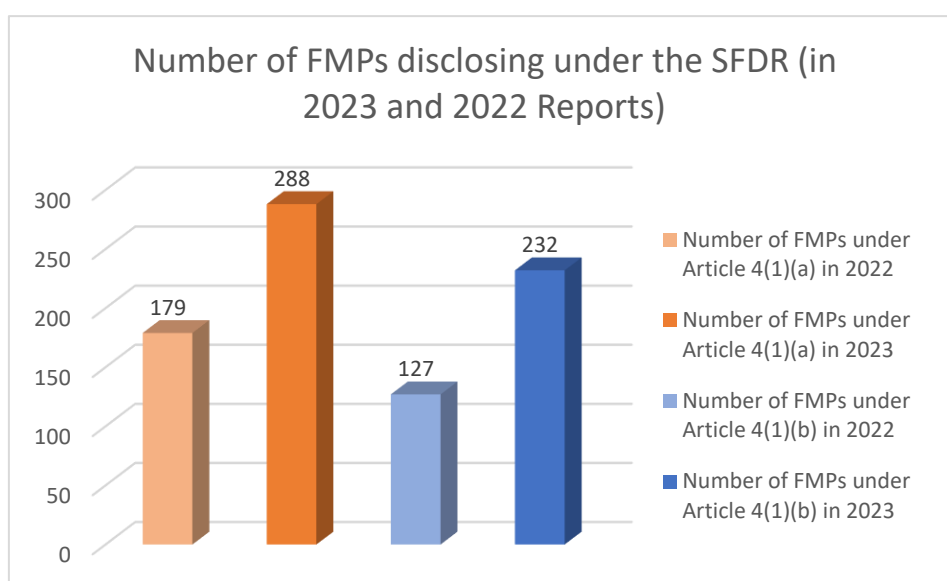


Graph 4 - Source: ESAs survey to NCAs in 2024.

¹⁷ Disclosing under Article 4(1)(b) of the SFDR

¹⁸ Disclosing under Article 4(3) or 4(4) of the SFDR

34. In terms of the proportion of FMPs compared to the 2022 results¹⁹, most NCAs stated that either they did not have the data to compare, or that the comparison was possible only for certain types of FMPs. Interestingly, on the banking side, one NCA raised the point that there were fewer banks due to smaller entities taking a more prudent approach with the entry into application of Annex I of the Delegated Regulation. The overall picture, however, shows a small increase in the number of FMPs choosing to disclose PAIs and those choosing not to disclose PAIs, which may also be due to the fact that compared to previous years the majority of NCAs choose to select a bigger sample.
35. The main arguments mentioned to justify non-PAI consideration continues being the diversified investment strategies, the absence of readily available data on the market and estimates to fully comply with the reporting requirements, the absence of sufficiently robust processes, and the group exemption.



Graph 5 - Source: ESAs survey to NCAs in 2024.

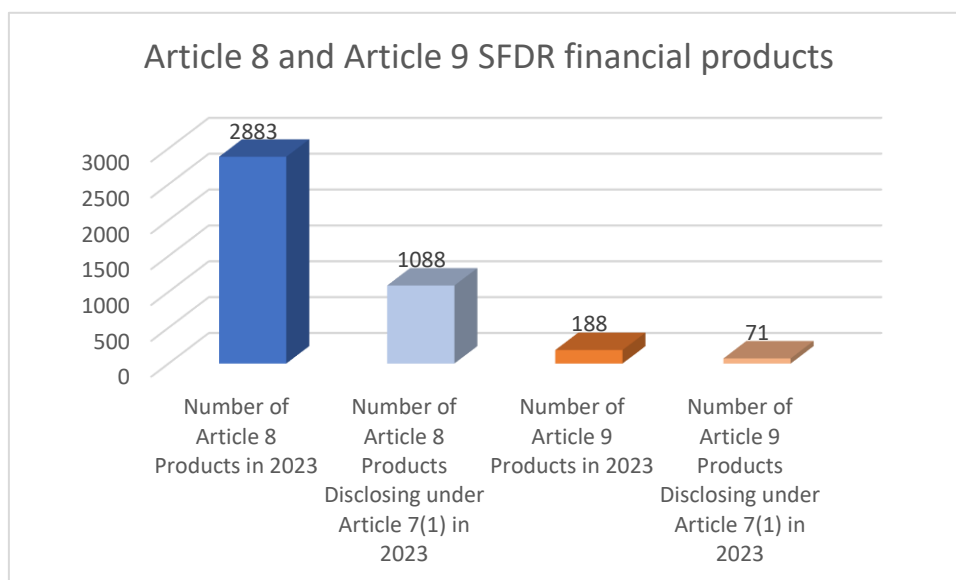
1.4 Product disclosures

36. Compared to the results of the ESAs 2023 Report, the NCAs provided many more details in response to the question about the type of products disclosing PAIs under the SFDR. However, almost all the NCAs find the data collection regarding product disclosure of PAIs difficult, with a few NCAs clearly stating that there is no full tracking of PAI disclosure at financial product level. A few NCAs have also reported a high number of products that did consider PAIs but their FMPs did not disclose PAI considerations at entity level²⁰.

¹⁹ I.e. based on the reference period from 1 January 2021 to 31 December 2021.

²⁰ I.e. disclosures under Article 4(1)(a) or 4(3)-(4) of the SFDR. For the interpretation of the obligations under Article 7 (1) of the SFDR as opposed to Article 4 (1) (a) and (b) and article 4 (3) -(4) of the SFDR please see Joint SFDR Q&As IV.2 : [JC 2023 18 - Consolidated JC SFDR Q&As \(europa.eu\)](#)

37. Those NCAs that managed to provide numbers in the 2024 survey confirmed that they were comparable to 2023 survey. However, the level of details included in the product's SFDR disclosures remains uneven between FMPs.
38. Graph 6 provides the total number of products with sustainability characteristics or objectives disclosing PAIs.



Graph 6 - Source: ESAs survey to NCAs in 2024.

Considerations on disclosures related to the degree of alignment with the objectives of the Paris Agreement and on engagement policies

39. 2024 survey confirms that the quality of disclosures on the degree of alignment with the objectives of the Paris Agreement in the section “References to international standards” in the template in the SFDR Delegated Regulation is still somewhat incomplete. However, a few NCAs did report improvements in the quality of the disclosures compared to previous years or at least noted some slow progress. There is still a relatively high number of FMPs who did not have observations on this topic, or the degree of alignment with the objectives of the Paris Agreement was not reported by those entities selected in the sample.
40. In the SFDR Delegated Regulation template, FMPs outline the objectives of the internationally responsible business conduct codes and recognised standards the FMP adheres to, specify the operational impact of the adherence of the FMP to these codes and standards and provide a quantitative target of emissions reduction, and mention the actions undertaken to achieve it. Some FMPs, however, still make vague references to the objectives of the Paris Agreement without any further explanation and keep the disclosure generic (or refer to other documentations to get specific information).
41. According to some NCAs, the improvements in the disclosures by some FMPs is motivated by the NCAs’ engagement with those FMPs. Those NCAs anticipate even better results in future surveys as entities have been requested to clarify their positions and provide more details.

42. On the engagement practice disclosure, some NCAs stated it was difficult to provide clear views as the coverage ratio and methodologies are still evolving. However, there is broadly a high degree of variation on the feedback both across jurisdiction and type of FMPs, with a few NCAs even pointing out that the asset management sector performed comparatively better than pensions and the insurance sectors regarding the quality of disclosures of engagement practices.
43. While the majority of NCAs noted in the assessed sample an effort to disclose details on the exercise of voting rights and proxy voting, dialogue with companies and active stewardship, many engagement policies were, however, considered vague and generic and reported only through the ongoing monitoring of investee companies.

List of examples of good practices on disclosures related to Paris Agreement and on engagement policies

- ✓ Commitment to the decarbonisation of investments through an interim target of decarbonisation of, e.g. minimum -25% for the corporate portfolio by 2025;
- ✓ Description of the share of the portfolio used for ensuring commitment to align with the Paris Agreement, e.g. disclosure of the information about the investments' current alignment with the objectives of the Paris Agreement by explaining their current share of AuM invested in line with the objectives of the Paris Agreement;
- ✓ Disclosure of the number of engagement actions undertaken and the number of companies targeted, including their geographical and sectoral allocations, information on the votes made, and on topics of focus for their engagement policies; and
- ✓ Description of the escalation policy implemented and provision of the list of criteria that the FMP uses.

List of examples of bad practices on disclosures related to the Paris Agreement and on engagement policies

- ✓ General references to the alignment with the Paris Agreement objectives in the policy for integrating sustainability risks in the decision-making investment process;
- ✓ Methodology for measuring the adherence to or alignment with international standards is not disclosed;
- ✓ Screening violations of the Paris Agreement without further explanation of what this screening consists of, or stating the inclusion of the Paris Agreement in their work without further explanation;
- ✓ No details on the resources dedicated to the implementation of the engagement policies, failure of disclosing the objectives of the engagement policy;
- ✓ Statement that no engagement policy is required because it is not needed for the attainment of the investment objectives of the financial product.

2. ESAs' analysis – assessment of PAI statements and PAIs indicators

44. The ESAs performed their own analysis on both entity level and product level PAI statements. The findings below are drawn out of two different datasets which are explained in subsequent paragraphs.

2.1 Entity Level Statements

45. As the ESAs had access to publicly available PAI statements with impacts under the indicators in the SFDR Delegated Regulation for the first time by 30 June 2023, the ESAs carried out an analysis of a selection of publicly available PAI statements. Please note that the analysis in Table 1 below is intended to allow a sample-based review of the results for the key PAI indicators included in the SFDR Delegated Regulation.
46. For this analysis, the sample consisted of 65 FMP entity-level statements covering the reference period from 1 January 2022 to 31 December 2022 covering FMPs both above and below 500 employees, hence both mandatory and voluntary disclosures of FMPs. These FMPs selected for the analysis were asset managers or the asset management arms of banks or insurers. It is worth noting that the sample is not broad enough to justify making more specific recommendations towards good and bad practices (the practices identified in Section 3 are based on the survey to NCAs). However, some general findings are presented below.
47. Interestingly, the ESAs found that although many financial market participants had completed the PAI statement under the template provided in Table 1, Annex 1 of the SFDR Delegated Regulation properly, there were some discrepancies in the methodologies that made some figures not comparable. In particular, indicator 6 on energy consumption intensity per high impact climate sector was not comparable due to diverging practices, or in certain cases even non-compliance among the FMPs' disclosures²¹ In other cases financial market participants indicated that a particular indicator yielded "N/A" or "no information" for the adverse impact.
48. The findings of the desk-based research are summarised in Table 1 below, showing the average adverse impact under each of the 14 PAI indicators for investee companies and the highest and the lowest individual adverse impact reported across those statements. The indicators for sovereigns and real estate investments were not sufficiently included in statements to allow for a robust comparison. The opt-in indicators are also not considered for the purpose of the desk-based analysis as there was not enough consistency in the choice of the opt-in indicators from the FMPs in the sample to be able to draw any conclusion.
49. The ESAs found the following trends when assessing the PAI statements from the 65 FMPs. Some statements are very detailed in terms of methodology and data used to measure adherence to the Paris agreement or other international treaties, as well as the breakdown of the coverage and eligibility of the PAI indicators. Others provide a specific indication on the use

²¹ The ESAs have addressed how to calculate PAI indicator 6 in formula (6) on page 67 of the [Final Report with amending RTS for the SFDR Delegated Regulation](#) published on 4 December 2023.

of estimates and the calculation models that have been used according to the nature of the indicator (statistical modelling or machine learning).

50. Sometimes the column on “actions taken and actions planned to avoid or reduce main adverse impacts” is merged across several indicators, or in some cases for some indicators is not present at all. Some FMPs have included some proprietary scoring to measure, for example, the degree of adherence to the circular economy of some companies that is based on public information about their sustainability. To complete the reliability of data sources, some FMPs have stated that they have entered into partnerships with some data vendors to improve the data coverage of some indicators.
51. In addition, many PAI statements’ “engagement policies” section provide links to a firm wide engagement policy and explain a prioritisation between engagement and ultimately divestment, with different degrees of emphasis. Tangible targets are not easy to identify, with the exception of some FMPs mentioning e.g. a target to engage with all “high risk” climate companies they invest in by 2025, or a more common one is a 2050 net zero target as its ambition.

Table 1: Analysis of the average adverse impact of PAI indicators in the SFDR Delegated Regulation.

		AVERAGE ADVERSE IMPACT	HIGHEST IMPACT	LOWEST IMPACT	NUMBER OF IMPACTS NOT PROVIDED
Greenhouse gas emissions	1. Total GHG emissions (tons)	26,587,321.49	539,602,991.51	103.062	0/65
	2. Carbon footprint (tons)	7,258.39	329,803.00	1.06	6/65
	3. GHG intensity of investee companies (tons)	17,972.48	944,401.00	1.106	6/65
	4. Exposure to companies active in the fossil fuel sector	26.90%	35.91%	0.26%	7/65
	5. Share of non-renewable energy consumption and production	54.66%	95.81%	0.90%	7/65
	6. Energy consumption intensity per high impact climate sector (GWh)	Not comparable	Not comparable	Not comparable	Not comparable
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	5.61%	89%	0%	8/65
Water	8. Emissions to water (tons)	248.55	9,945.57	0	9/65
Waste	9. Hazardous waste and radioactive waste ratio (tons)	4710.15	15,445.75	0	8/65

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	1.28%	12.64%	0%	8/65
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	31.55%	79.73%	0.04%	8/65
	12. Unadjusted gender pay gap	10.96%	23.43%	0%	8/65
	13. Board gender diversity	26.99%	43.9%	0.17%	8/65
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	0.03%	1%	0%	8/65

52. The results show that around 10% of the sample failed to give adverse impacts for most of the indicators. The ESAs stress that, as set out in Article 6(1) of the SFDR Delegated Regulation, all indicators in Table 1 of Annex I, and at least two additional ones, one from Table 2 and one from Table 3, must be filled out in each PAI statement when the FMP is either required (mandatory) to prepare a PAI statement or if the FMP decides (voluntarily) to prepare a PAI statement. Lack of data is not a reason to leave an indicator empty or report “N/A”. Article 7(2) of the SFDR Delegated Regulation stipulates what to do in cases where information is not publicly available on the adverse impacts. Typically, larger FMPs disclose all the adverse impacts.

53. Nonetheless, the ESAs are, overall, pleased with the results and note that given the early stages of the reporting framework, it is positive that the majority of FMPs in the sample have completed the PAI statements to such a high degree. As more data becomes publicly available when the CSRD (and the ESRS) becomes applicable, the ESAs expect that the level of accuracy will improve even further, allowing insightful analysis and clear transparency about the financial market participants’ aggregate principal adverse impacts of investment decisions on sustainability factors.

54. The ESAs will aim to conduct similar desk-based analysis on a sample of PAI statements in future iterations of this Report, which should find fewer ‘N/A’ results in the coming years.

2.2 Financial Product Level PAI Statements

55. The ESAs also made an analysis of some of the indicators of Table 1, Annex I of the SFDR Delegated Regulation of investment funds that disclosed their principal adverse impacts on sustainability factors under Article 7 of the SFDR. The analysis was performed using data taken from the industry-based EET Template (see footnote 8) sourced from Morningstar.
56. The information in Table 2 below shows the average and median values for some of the PAI indicators. Indicator 5 on non-renewable energy consumption and production has been split in two and indicator 6 on the energy consumption intensity per high impact climate sector was omitted for space reasons. The table also includes an average and median “coverage rate” – which shows the share of investments covered by the PAI values. Unlike entity disclosures, financial products have more discretion about PAI disclosures under the SFDR, including the rate of coverage of investments for the PAI values²².
57. The dataset shown in Table 2 below highlights some notable findings. For example, there is a very low coverage rate for some of the indicators, notably indicator 8 “emissions to water”, indicator 9 “hazardous waste”, and indicator 12 “gender pay gap”.

²² PAI disclosures for financial products should not be confused with DNSH disclosures for sustainable investments under Article 2a of the SFDR. DNSH is not optional and must be done for all sustainable investments by showing how PAI indicators are taken into account, which is separate from PAI consideration under Article 7 of the SFDR.

Table 2: Analysis of the PAI disclosures by financial products

		SFDR product type and number of products	Average PAI value (unit of PAI indicator)	Median PAI value (unit of PAI indicator)	Average coverage (share of investments)	Median coverage (share of investments)	Number of products with zero coverage
Greenhouse gas emissions	1. Total GHG emissions (covering scope 1, 2 and 3) (tons)	Article 8 SFDR products: 6606	196,279	33,435	78	88	652
		Article 9 SFDR products: 650	224,454	23,763	84	94	37
	2. Carbon footprint (scope 1-3) (tons)	Article 8 SFDR products: 6432	373	276	78	89	670
		Article 9 SFDR products: 614	405	260	84	94	37
	3. GHG intensity of investee companies (scope 1-3) (tons)	Article 8 SFDR products: 6545	767	686	80	91	658
		Article 9 SFDR products: 617	907	741	86	94	33
	4. Exposure to companies active in the fossil fuel sector	Article 8 SFDR products: 7034	6	5	78	90	409
		Article 9 SFDR products: 670	4	2	85	95	60
	5a. Share of non-renewable energy consumption	Article 8 SFDR products: 6292	53	59	61	64	471
		Article 9 SFDR products: 582	54	57	62	65	26
	5b. Share of non-renewable energy production	Article 8 SFDR products: 4929	40	45	37	27	1,054
		Article 9 SFDR products: 488	30	24	48	45	68

		SFDR product type and number of products	Average PAI value (unit of PAI indicator)	Median PAI value (unit of PAI indicator)	Average coverage (share of investments)	Median coverage (share of investments)	Number of products with zero coverage
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Article 8 SFDR products: 6572	4	1	75	88	504
		Article 9 SFDR products: 630	4	0	82	95	36
Water	8. Emissions to water (tons)	Article 8 SFDR products: 4485	16	0	12	4	1,648
		Article 9 SFDR products: 436	25	0	17	7	133
Waste	9. Hazardous waste and radioactive waste ratio (tons)	Article 8 SFDR products: 6213	763	1	48	42	721
		Article 9 SFDR products: 630	432	0	50	45	37
Social and employee matters	10. Violations of UNGC principles and OECD MNE Guidelines	Article 8 SFDR products: 6638	1	0	81	92	906
		Article 9 SFDR products: 624	0	0	87	96	84
	11. Lack of processes and compliance mechanisms with UNGC and OECD MNE Guidelines	Article 8 SFDR products: 6270	25	17	77	88	641
		Article 9 SFDR products: 624	28	23	84	94	31
	12. Unadjusted gender pay gap	Article 8 SFDR products: 5654	11	11	27	20	776
		Article 9 SFDR products: 545	10	10	26	16	50
	13. Board gender diversity	Article 8 SFDR products: 6848	33	35	76	87	441
		Article 9 SFDR products: 637	33	35	81	93	53
	14. Exposure to controversial weapons	Article 8 SFDR products: 7103	0	0	81	93	624
		Article 9 SFDR products: 665	0	0	88	96	75

3. Key findings: good and bad practices and lessons learned

3.1 Good and bad examples of disclosures under Article 4(1)(a) and (b) of the SFDR

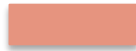
58. The assessment of good and bad practices below is based on the analysis of Question 5 of the survey (see details in the Annex), where NCAs were asked to rate on a scale from 1 to 5 the location of the disclosures (whether they are 'easy' and 'straightforward' to find, where 1 is very difficult and 5 is very easy), their clarity, completeness, compliance with Annex I of the SFDR Delegated Regulation, the quality of the statement of the PAI disclosures, the quantification of the actions taken under the relevant column in Annex I of the Delegated Regulation and the compliance with 30 June 2023 deadline. The ESAs' completed the assessment of good and bad practices with their own desk analysis of the statements provided by NCAs to the three largest entities in their jurisdiction per AuM per sector (asset management, banking, insurance, pensions).
59. In terms of general remarks, while there has been a significant improvement in terms of the quality of the PAI statement, given to the use of the Templates in Annex I of the Delegated Regulation, there are still many FMPs who do not fully comply with regulatory expectations (especially regarding the completeness of the disclosures). In addition, the scoring below is based on an average, and NCAs have explained that they have taken into account that this is the first application of the SFDR Level 2 provisions, which was particularly challenging in the first year.
60. The ESAs have two main observations. Firstly, those FMPs that are part of a larger group scored higher because they get data and methodologies from their parent company, and overall guidance on the statement by the parent company. The second observation is that there is still some level of dissatisfaction about the statements of non-compliance, as the explanation still relates to lack of resources and data issues, and no clear information or target date for when they intend to start to consider PAI indicators.
61. In addition to the description of the good and bad practices, NCAs were also asked to provide a score from 1 to 5 for each of the following elements: location of the disclosures, their clarity, the completeness of the reporting, overall compliance with the Delegated Regulation, quality of the statement of the PAI disclosures, the assessment regarding the quantification of the actions taken and the share of the FMPs making the 30 June 2023 deadline. The score in the arrow below is based on the ESAs calculation of the average scoring provided in the 2024 survey by the 29 NCAs for each of the sub-questions (without differentiating per sector).

Legend

Good Practices



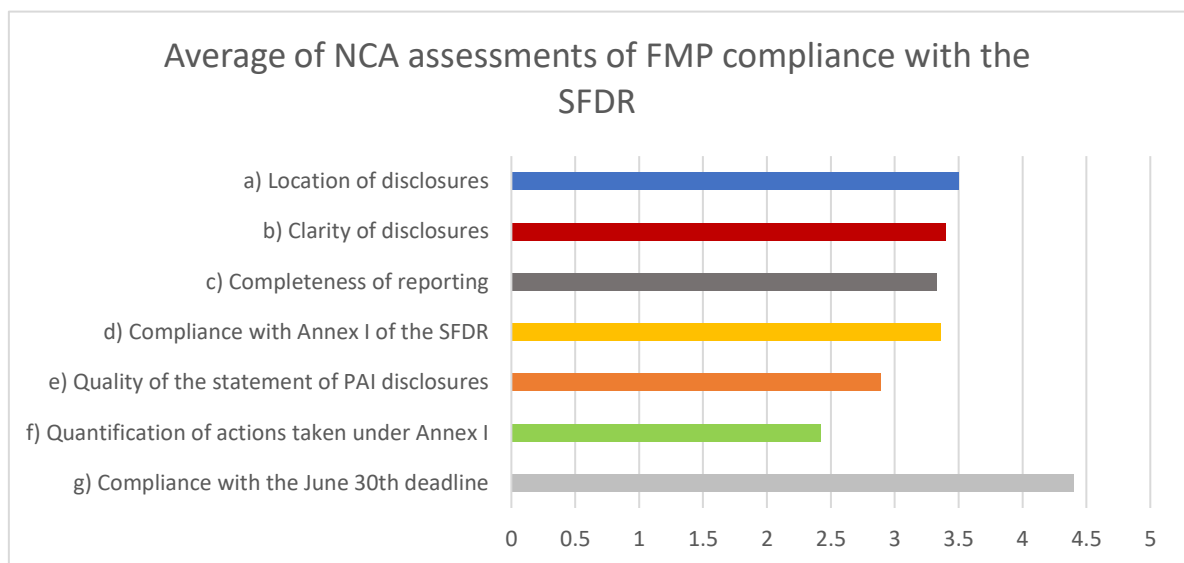
Bad practices



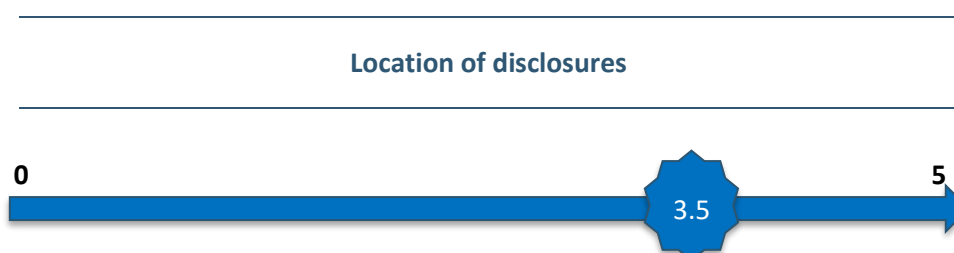
Non-compliance with the SFDR Delegated Regulation



The symbol  is positioned along the arrow based on the average calculated by the ESAs from NCAs responses to the survey. The graph 7 below provides an overview of the average assessment NCAs provided to each of the sub-elements. Additional details are provided under the subsequent paragraphs.



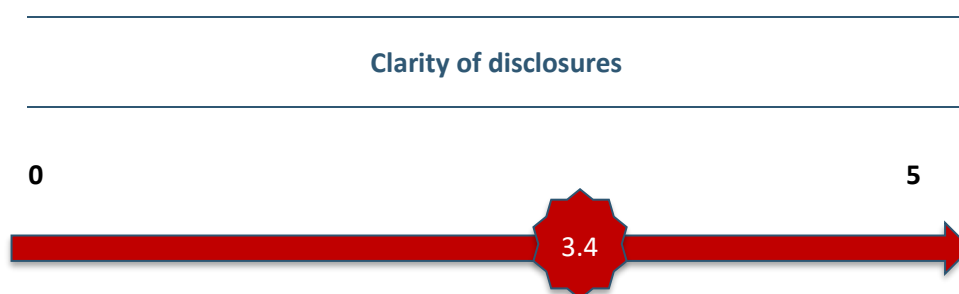
Graph 7 - Source: ESAs survey to NCAs in 2024.



62. There has been a significant improvement in the location of the disclosures, which now appear more visible, easier, and more straightforward to find compared to previous years. Some NCAs noted that the recommendations from the ESAs in the past Reports have supported FMPs. However, in some cases statements remain difficult to find, with very small fonts or included in sections that have no immediate connections with sustainability disclosures.

63. Overall, all NCAs agreed that it is important that the information is prominently found on a dedicated sustainability section in the webpage with a clear reference to the SFDR or sustainability-related disclosure and that in case of groups the hyperlinks are provided for each individual PAI statement of the undertakings belonging to the Group. As a bad practice, the information can only be found via the website's search function after a time-consuming review of the website.

Good Practices	Bad practices
FMPs that provide a dedicated, easily navigable section on the entity's website for the SFDR PAI disclosures.	FMPs that do not have an easily accessible path to finding PAI disclosures on their website homepage. Disclosures placed in less intuitive sections of the entity's website, available only through a google search, combined with other documents, or hard to find without a search function.
FMPs that provide direct links on their website with clear sections such as 'Sustainability-related disclosures' or 'SFDR'.	FMPs providing information in the specific section for each fund even if it actually relates to the entity level.



64. Overall, the NCAs reported a relatively high level of clarity of the disclosures, in compliance with the SFDR framework. Most NCAs highlighted that the disclosures were considered useful and educational for retail investors. However, elements of improvements are identified in the section dedicated to the PAI identification and prioritisation, as well as in the description of engagement policies and in the reference to international standards.
65. In terms of general good practice, the NCAs note that (1) an introductory paragraph before the PAI table helps the disclosure of the information, and (2) the use of easy to understand texts with the appropriate legal references. As a bad practice, the NCAs reported the use of abbreviations for the PAI indicators (i.e. not as they appear in Annex I of the SFDR Delegated Regulation), unclear information in the explanation column (i.e. ESG Commitment score, without any further clarification) and the indication of the result without the measurement or formula used).

Good Practices	Bad practices
FMPs using a clear, simple language with a structured format helps to understand the PAI statement disclosures.	FMPs disclosing information in a vague and unclear manner, particularly when not considering PAIs, with ambiguous statements, making it difficult for investors to grasp the full context and implications of the disclosures.
FMPs that provide translations and have websites available in multiple languages, which increases accessibility.	FMPs disclosing in a highly technical manner with complex language, impeding investor comprehension.
FMPs that present the information segmented and labelled in accordance with the SFDR requirements, ensuring key points are immediately apparent and easy to comprehend.	Cross reference to other sections of the FMPs' website without providing the relevant links, misuse of names for disclosures, titles and website sections (including on NACE sectors).



66. NCAs had different perceptions in terms of completeness of the disclosures. However, the information across sectors seems broadly complete. The trend is also that larger UCITS management companies and AIFMs tend to disclose information that is more comprehensive. The same applies to insurance undertakings who are part of a larger group (e.g. a bank insurer). Some NCAs pointed out that there are two elements frequently missing: 1) the translation of the summary for those countries where relevant products are distributed; and 2) information on how the actual or potential conflict of interest is managed in relation to their engagement products.
67. A good practice identified by a majority of NCAs is PAI statements that clearly state methods for collecting and processing available data and inform about lack of data, whereas a bad practice can be considered PAI statements that are generic, refer to the issue of unavailability of ESG data, or disclose opt-in PAI even if this is not relevant.

Good Practices	Cases of non-compliance
FMPs reporting all requested information, including indicators from Tables 1, 2, and 3 of Annex I of the SFDR Delegated Regulation.	FMPs not providing disclosures on all indicators in Table 1 and opt-in indicators in Table 2 and 3 of the Delegated Regulation.
FMPs providing PAI statements including all mandatory environmental and social indicators, including the numerical data in the 'Impact' column.	FMPs adding columns that are not required by the templates or disclose indicators that are not relevant.
Good quality answer in open-ended questions	FMPs omitting to state the actions taken, actions planned, and targets set for the next reference period.

Compliance with Annex I of the SFDR Delegated Regulation



68. The majority of NCAs noted that 'non-compliance' identified is most frequently due to misunderstandings of the SFDR Delegated Regulation. Some NCAs have stated their intention to reach out to their respective FMPs to communicate their expectations regarding the compliance with Annex I of the SFDR Delegated Regulation. While some NCAs mentioned that there were no major differences across sectors in their jurisdictions, others praised the level of compliance in the asset management sector compared to the other sectors.
69. Amongst the best practices it is worth noting that there have been cases where FMPs have taken into account all mandatory and optional indicators relevant to the real estate sector, whereas as a bad practice some smaller FMPs, as a justification of not using the template of Annex I of the SFDR Delegated Regulation, mention the fact that it 'does not fit with their activities'.
70. The ESAs would like to remind that as general guidance, all mandatory indicators should be mentioned, even though they are not applicable to the entity; the PAIs should be included; the name of fields must follow the format of the SFDR Delegated Regulation, no additional columns should be added, and no modification should be made to the Template.

Good practices	Cases of non-compliance
Use of more than one opt-in indicator from Table 2 and more than one indicator from Table 3 (Annex I of the SFDR Delegated Regulation) if it is justified by the FMPs' investments.	FMPs stating that they cannot use the template because it is not appropriate for their activities.
FMPs publishing the Article 4 disclosure including all the PAI indicators according to Table 1 of Annex I of the SFDR Delegated Regulation.	FMPs including additional columns or modifying Table 1, Annex I of the SFDR Delegated Regulation.

Quality of the Statement of PAI Disclosures



71. It is a shared view from the NCAs that the quality of the statement can be improved but FMPs have been making efforts to provide quality data and have allocated technical and human resources, and that there is a clear improvement compared to the results of the 2023 survey. On the asset management side, almost the majority of the NCAs report a satisfactory quality of the statements. On the insurance side the quality of statements varies, depending on the size. On the banking side a few NCAs found that the scoring was low because of unsatisfactory reasons for not disclosing PAI statements.
72. The most common examples of bad practices include errors in the calculation of PAI indicators, overly extensive summaries, incomplete or vague descriptions of strategies, engagement policies not meaningfully explained, missing historical comparison and publication date.
73. Amongst the best in class in terms of approach, the NCAs cited the transparency about share of data coverage²³, and a good overview for the user making it easy to navigate in terms of understanding where the numbers originate from and how the FMP came to these specific conclusions.

²³ Reflecting the best practice recommended by the ESAs in Q&A IV.5 of the Joint SFDR Q&As [JC 2023 18 - Consolidated JC SFDR Q&As \(europa.eu\)](#).

Good Practices	Bad practices
FMPs providing detailed PAI statements with detailed and comprehensive information.	FMPs compiling marketing and regulatory information together, thus reducing clarity.
FMPs offering extensive explanations in their PAI statements.	FMPs lacking clear data on actions taken as a result of using generic statements.
Some FMPs clearly differentiating and specifying actions taken for each indicator.	FMPs disclosing only a value/number under the “metrics” column in each PAI indicator without any further explanation of methodology, interpretation, or reasoning

Quantification of actions taken under the relevant column in Annex I of the SFDR Delegated Regulation²⁴



74. This question received one of the lowest scores across the NCAs, as the overall feedback was that information on the actions taken, and, in particular, milestones and details on the nature of the actions could be improved. For some NCAs, none of the FMPs in their own sample have disclosed appropriately on actions taken and planned, or on targets for the next reference period.
75. For larger entities the illustration of the actions taken and planned to avoid or reduce main adverse impacts generally seems more detailed compared to smaller entities.
76. In terms of good practices, FMPs disclose quantitative/numerical data (levels/targets) to be achieved/adhered by the investee companies, set by the products they manage to ensure that the attainment of the ESG objectives can be measured and compared from one year to the next.
77. As a bad practice the NCAs agreed on general forward-looking statements that do not specify any quantifiable targets for the next periods, with no possibility to verify achievements.

²⁴ The column is titled: Actions taken during the period and actions planned to avoid or reduce main adverse impacts.

Good Practices	Bad practices
FMPs' inclusion of detailed, specific quantification of actions related to PAI disclosures.	Some FMPs providing general forward- looking statements with vague descriptions without specific quantification of actions.
Clear description of specific actions already taken or upcoming plans for actions or initiatives.	Descriptions being too general and formalistic that do not necessarily relate to the PAI indicator in question.

Compliance with the 30 June 2023 Deadline



78. A majority of NCAs reported that almost all their FMPs complied with the deadline set by the SFDR Delegated Regulation on time, with only a few outliers (in particular from the pension and investment firms' sector).
79. One of the issues raised in the context of the survey question on whether FMPs complied with the 30 June 2023 deadline was that as there is no obligation to alert the NCAs about the submission, NCAs have no visibility about the actual date of publication, despite being one of the requirements in the SFDR Delegated Regulation. One NCA also flagged that while the statements published by 30 June 2023 were published on time, those published by 30 June 2022 were still missing.
80. Another NCA reported that the NCA had published a specific "instruction" requiring a submission of the SFDR Reports if the PAI are taken into account.

Good Practices	Bad practices
High FMP compliance rates with the deadline.	FMPs publishing PAI disclosures late, after the deadline.
Clearly mention the date of publication of the information and the date of any update	Case of non-compliance FMPs failing to indicate the publication date of their disclosure.

3.2 An assessment of voluntary disclosures – three years on

81. Based on both direct observations and analysis of the NCAs' responses, the ESAs note an improvement in the voluntary entity and product disclosures compared to the previous reports. However, it is notable that the disclosures rely significantly on estimates of adverse impacts. There is a higher level of satisfaction from the NCAs based on those entities included in the survey's sample, mainly due to the use of the Template in Annex I of the SFDR Delegated Regulation, and in general about the market getting more experience with these disclosures.
82. Some trends remain similar to previous years, for example the fact that FMPs that are part of larger multinational groups disclose information on sustainability in a more detailed and appropriate manner, compared to smaller entities. It is also clear that improvements are still needed regarding the explanation of non-consideration of PAIs. Those explanations are mostly related to the lack of resources and data issues, with no indication nor target date for when the FMP will start considering PAI indicators, even though this has been indicated in the previous year's Report as unsatisfactory. Responses also diverge greatly across jurisdictions and FMPs on the proportion of the market considering PAIs or choosing to explain the non-consideration.
83. While there are still cases in which a certain level of granularity is missing for the entity statements, as certain FMPs still fail to make specific reference to PAI indicators, the overall quality of the disclosures have significantly improved compared the results of the 2023 Report.
84. Visibility and accessibility of the disclosures remain an outstanding issue only for a minority of supervised entities. The problem highlighted in the previous Reports about FMPs mixing the integration of sustainability risks with the SFDR disclosures, or using SFDR related disclosures for marketing purposes still persist, although the issue was highlighted by fewer NCAs this time.
85. When asked about progress in the quality of the rationale provided by entities that did not consider PAIs and the degree of alignment with the objectives of the Paris Agreement, which were amongst the areas in need of particular focus, a majority of NCAs reported no major improvement, apart from the mandatory use of the SFDR Delegated Regulation template providing standardised disclosures and making them comparable across FMPs. However, there was still a minority of NCAs who praised the progress undertaken by FMPs so far in delivering accurate and thorough disclosures.
86. In terms of best practices observed by NCAs, the set-up of a 'sustainability chapter' on the FMP's website where all the sustainability related information is included was mentioned by a few NCAs, together with the inclusion of an introductory explanation on the purpose of the PAI statement, including on the PAIs assessment methodology.
87. The practice on the disclosure of engagement practices is still evolving, with more significant comparison to be done in the subsequent Reports.
88. If an FMP discloses an entity-level PAI statement, then it is more likely to publish PAI information under the SFDR with respect to its financial products.
89. The NCAs have also identified a series of challenges including the lack of standardisation in how PAI data is reported and interpreted across jurisdictions and FMPs. Also, the NCAs noted their

lack of resources to interpret and digest the amount of data disclosed through the PAI statements, in addition to assisting firms to effectively integrating PAI indicators in their decision-making process.

4. Recommendations to the European Commission and to NCAs

4.1 Recommendations to the European Commission

90. In the context of the comprehensive assessment of the SFDR, the ESAs would like to invite the European Commission to consider the high value of the PAI disclosures. Through the various iterations of this Report, the ESAs have noticed gradual improvements in quality and quantity of PAI disclosures, with investors being better informed as a result.
91. The ESAs would like to reiterate the importance of these Reports. However, reducing their frequency to every two or three years would allow the ESAs and NCAs to focus more resources on delivering a more meaningful analysis of the PAI disclosures.
92. Finally, as already flagged in the 2023 Report, the ESAs would like to reiterate that the Commission could consider other ways of introducing proportionality for FMPs, as the “more than the 500-employees” threshold may not be a meaningful way to measure the extent to which investments may have principal adverse impacts on sustainability factors. An alternative, and more suitable approach to disclose on the adverse impact of FMPs could consist, for example, of establishing a threshold based on the size of the FMP’s investments.

4.2 Recommendations to the NCAs

93. The ESAs welcome that the NCAs followed the preliminary recommendations in the 2022 and 2023 Reports, in particular in terms of a more representative and greater sample size, that include exact figures, breakdowns per sector, and percentages of the market surveyed. The NCAs have continued in their supervisory efforts to check FMPs compliance with voluntary disclosures at entity and product level, launching own questionnaires, organising meetings with industry associations, and providing guidance on how to complete the statements.
94. Building on the previous Reports, the ESAs would like to share the following recommendations to the NCAs to assist them in their ongoing supervisory actions and with the objective of supervisory convergence:
- **Development of Sup Tech tools:** the use of Sup Tech tools could support the NCAs in future market surveys;
 - **Communication about supervisory expectations with FMPs:** the ESAs invite the NCAs to continue communicating their expectations ahead of the key deadlines (e.g. 30 June);
 - **External communication:** regular communications in the form of ‘Dear CEO letters’, supervisory guidance documents and engagement with market participants through regular surveys and workshops with the industry;

- **Internal communication:** reiterate the importance of sustainable finance also internally, making a conscious effort to increase resources and knowledge on the topic;
- **Day-to-day supervision:** continue placing the assessment of PAI disclosures – whenever possible under a risk-based approach – as part of the NCAs’ supervisory approaches; and
- **Investment composition checks:** the ESAs invite NCAs, where the PAI disclosures may show discrepancies with underlying investments, to increasingly challenge FMPs and financial product’s PAI disclosures based on actual investments and underlying companies’ adverse impact disclosures.

Annex I – Summary of the good and bad practices

Criterion	Good Practices	Bad practices and cases of non-compliance
Location of disclosures	FMPs that provide a dedicated, easily navigable section on the entity's website for the SFDR Article 4 disclosures.	FMPs that do not have an easily accessible path to finding Article 4 PAI disclosures on their website homepage. Disclosures placed in less intuitive sections of the entity's website, available only through a google search, combined with other documents, or hard to find without a search function.
	FMPs that provide direct links on their website and clear sections such as 'Sustainability-related disclosures' or 'SFDR'.	FMPs providing information in the specific section for each fund even if it actually relates to the entity level.
Clarity of disclosures	FMPs using a clear, simple language with a structured format helps to understand the PAI statement disclosures.	FMPs disclosing information in a vague and unclear manner, particularly when not considering PAIs, with ambiguous statements, making it difficult for investors to grasp the full context and implications of the disclosures.
	FMPs that provide translations and have websites available in multiple languages, which increases accessibility.	FMPs disclosing in a highly technical manner with complex language, impeding investor comprehension.
	FMPs that present the information segmented and labelled in accordance with the SFDR requirements, ensuring key points are immediately apparent and easy to comprehend.	Cross reference to other sections of the FMPs' website without providing the relevant links, misuse of names for disclosures, titles and website sections (including on NACE sectors)
Completeness of disclosures	FMPs reporting all requested information, including indicators from Tables 1, 2, and 3 of the SFDR Delegated Regulation.	FMPs not providing disclosures for all indicators in Table 1 and optional indicators in Table 2 and 3 of the SFDR Delegated Regulation)
	FMPs providing PAI statements under Article 4(1)(a) including all mandatory environmental and social indicators, including the numerical data in the 'Impact' column.	FMPs adding columns that are not required by the templates or disclose indicators that are not relevant (non-compliance)
	Good quality answer in open-ended questions	FMPs omitting to state the actions taken, actions planned, and targets set for the next reference period. (non-compliance)
Compliance with Annex I of the SFDR Delegated Regulation	Use of more than one opt-in indicators from Table 2 and more than one indicator from Table 3 of Annex I of the SFDR Delegated Regulation if it is justified by the FMPs' investments.	FMPs stating that they cannot use the template because is not appropriate for their activities. (non-compliance)
	FMPs publishing the Article 4 disclosure including all the PAI indicators according to Table 1 of Annex I of the SFDR Delegated Regulation.	FMPs including additional columns or modify Table 1, Annex I of the SFDR Delegated Regulation (non-compliance).
Quality of the Statement of PAI Disclosures	FMPs providing detailed PAI statements with detailed and comprehensive information.	Some smaller FMPs compiling marketing and regulatory information together, thus reducing clarity.
	FMPs offering extensive explanations in their PAI statements.	FMPs sometimes lacking clear data on actions taken as a result of using generic statements.
	Some FMPs clearly differentiated and specified actions taken for each indicator,	FMPs disclose only a value/number under the "metrics" column in each PAI indicator without any further explanation of methodology, interpretation, or reasoning
Quantification of actions taken	FMPs' inclusion of detailed, specific quantification of actions related to PAI disclosures.	Some FMPs providing general forward- looking statements with vague descriptions without specific quantification.

under relevant column in Annex I		Descriptions being too general and formalistic that do not necessarily relate to the PAI indicator in question.
	Compliance with the 30 June Deadline	
	Clear description of specific actions already taken or upcoming plans for actions or initiatives.	
	High FMP compliance rates with the deadline.	FMPs publishing PAI disclosures late after the deadline. (non-compliance)
	Clearly mention the date of publication of the information and the date of any update.	FMPs failing to disclose by the publication date of their disclosure.
Paris alignment and engagement policies	Commitment to the decarbonisation of investments through an interim target of decarbonisation of, e.g. minimum - 25% for the corporate portfolio by 2025.	General references to the alignment with the Paris Agreement objectives in the policy for integrating sustainability risks in the decision-making investment process.
	Description of the share of the portfolio used for ensuring commitment to align with the Paris Agreement, e.g. disclosure of the information about the investments' current alignment with the objectives of the Paris Agreement by explaining their current share of AuM invested in line with the objectives of the Paris Agreement.	Methodology for measuring the adherence to or alignment with international standards is not disclosed.
	Disclosure of the number of engagement actions undertaken and the number of companies targeted, including their geographical and sectoral allocations, information on the votes made, and on topics of focus for their engagement policies.	No details on the resources dedicated to the implementation of the engagement policies, failure of disclosing the objectives of the engagement policy.
	Description of the escalation policy implemented and provision of the list of criteria that the FMP uses.	Statement that no engagement policy is required because it is not needed for the attainment of the investment objectives of the financial product.

Annex II – NCAs responses to the supervisory survey

1) What is the proportion of FMPs disclosing under Article 4(1)(a) (i.e. considering PAI) and what is the proportion disclosing under Article 4(1)(b) (i.e. explaining non-consideration of PAIs) compared to 2022?

Responses to this question diverge greatly across jurisdictions.

Several NCAs stated that either they did not have the data to compare with 2022, or that the comparison was possible only for certain types of FMPs (i.e. one NCA said that they noted an increase of 10% in pension funds reporting under Article 4 (1) (a). One NCA reported that while for insurance undertakings and IORPs there was not possible to make any comparison as the selection of FMPs included in this year's survey is different compared to last year's, on the investment firms' side two more companies are disclosing under Article 4 (1)(a) compared to last year.

A few NCAs did not report any change, or broadly the same numbers, compared to last year whereas another NCA stated that around 3% of the insurance undertakings started complying with Article 4 (1) (a) SFDR as of 2023. According to one NCA, while in 2022 none of their insurance companies below the threshold set in Article 4 (3) – (4) SFDR disclosed under Article 4 (1) (a) SFDR, two insurance undertakings started disclosing in 2023. One NCA reported only a slight increase of entities disclosing under Article 4 (1) (a) compared to 2022.

One NCA reported that in 2023, 49% of the analysed sample (19 out of 39 Management Companies) disclose under Article 4(1)(a) and 51% of the sample (20 out of 39) disclose under Article 4(1)(b). In 2022 the proportion of management companies was a little higher (56%); however, this could be explained also in light of the fact that the current sample is larger and includes also the 3 Mancos authorised in 2023. The same NCA reported that there were no changes on investment firms compared to 2022. As regards the banking sector, it was overall reported that out of no. 48 banks providing the service of portfolio management in the jurisdiction (hence acting in their capacity as FMPs), no. 30 entities disclosed considering PAIs under Article 4 (1) (a), while the remaining 18 disclosed non-consideration of PAIs under Article 4 (1) (b). Moreover, in terms of comparison with 2022 reporting, which was possible only with regard to last year's survey sample focused only on "small" entities (covering 15 out of the 29 FMPs falling below the thresholds set in Article 4(3)-(4) SFDR), it was reported that the proportion has remained substantially unchanged, with approx. 40% of such banks continuing to disclose under Article 4(1)(a), while the remaining 60% disclose under Article 4(1)(b). Moreover, there are a few residual cases of small banks acting as FMPs still not disclosing under Article 4(1)(a) SFDR nor explaining under Article 4(1)(b).

One NCA stated that 17 FMPs voluntarily disclose under Article 4(1)(a), while 80 FMPs disclose under Article 4(1)(b). Regarding changes in the asset management sector, the proportion of FMPs disclosing under Article 4(1)(a) increased by approximately 4 percentage points compared to 2022 (in other sectors, these proportions remain stable).

Another NCA stated that based on a technical tool – still being perfected – 76 out of 189 FMPs have disclosed under Article 4 (1) (a) SFDR.

One NCA reported that no investment firms and banks in the jurisdiction disclose PAI indicators, however one branch of a Management Company located in the EU now discloses under Article 4

(1) (a) SFDR. Another NCA said that on the asset management side, the entities disclosing under Article 4(1) (a) represent around 3% of the total population. The number of asset managers that consider and do not consider PAIs did not change since 2022. On the insurance side there is one FMP disclosing under Art 4(1)a, which is 1 out of 5, that is, 20% of the market. 4 FMPs under Art4(1)b, which is 4 out of 5 (80% of the market). Data remains the same compared to 2022.

One NCA reported that from the investment side, the response was that in 2023, of the 38 Firms that confirmed they qualify as FMPs under SFDR, 11 disclosed under Article 4(1)(a) (two less than the previous year), with 27 disclosing under Article 4(1)(b) (six more than the previous year). Another NCA stated that the number of firms (both banks and investment firms) disclosing PAIs were 12 out of 17 firms (71%) and the number of firms that have chosen not to consider PAIs was 5: two banks out of the three banks surveyed not subject to Articles 4(3)-4(4) SFDR and three investment firms out of four investment firms surveyed (none of them subject to Articles 4(3)-4(4) SFDR). The proportions have not changed from 2022. As for asset managers, of the sample of 44, 34% disclosed under Article 4(1)(a), 61% under Article 4(1)(b) and 5% did not provide any indication of PAIs consideration/not consideration (they have been required to do so).

One NCA stated that compared to 2022, in 2023 the number of asset management companies disclosing under Article 4(1)(a) increased by one AIFM while the number of asset management companies explaining non-consideration of PAIs decreased absolutely by 5 companies (the main reason is the reduction in the number of asset management companies due to consolidation or sale of companies).

Finally, one NCA reported that on the banking side the proportion has been reduced, and that the decrease was mainly due to smaller entities taking a more prudent approach with the entry into application of Annex I. In addition, a few banks went out of scope of SFDR (because either they stop portfolio management activity, or they become branches). On the investment firm side, there has been an improvement with approximately 55% of investment firms complying with the voluntary disclosure under Article 4 (1) (a) SFDR, i.e. 6 out of 11 investment firms compared to 5 out of 11 from last year. However, five investment firms are complying with the voluntary disclosure under Article 4 (1) (b) SFDR in 2023 compared to six in 2022. On the asset management side there the proportion of Article 4(1)(a) (i.e. considering PAI) is at 43.55% in 2023 against 44.52% in 2022 (full scope of IFMs considered).

2) For the disclosures from both largest and smaller entities (disclosing under 4(1)(a) and (b)), can you rate in a scale from 0 to 5 and provide an assessment of the compliance of FMPs with the following elements, and where possible, please provide examples of 'good' and 'bad' practices on each issue under the specific letter. Please provide below any general remarks of your assessment not addressed in the below aspects.

A few NCAs noted generally that from the sample analysed many FMPs do not fully comply with regulatory expectations. Two NCAs explained that the scoring for the sub-questions a) to g) was attributed as an average and have taken into account that this is the first application of the SFDR Level 2 provisions regarding Article 4 Statement of PAI consideration, which has been particularly challenging in the first stage.

One NCA noted that given the relatively limited size of their market, there were no discrepancies among sectors, but few opportunities for improvement were identified. On the contrary, another NCA observed an improvement in SFDR disclosures compared to the previous year, but still with some shortcomings for most supervised entities.

Another NCA highlighted that the main issue with regards to the entities disclosing under Article 4(1)(a) was that in certain instances, they provided insufficient details to cover all the elements outlined by the Article 4(2) in their disclosures (e.g., their alignment with the Paris Agreement). Conversely, the main issue with entities disclosing under Article 4(1)(b) was the rationale of why PAIs are not being considered as vague or lacking any justification.

One NCA stated that overall disclosures were of good quality because many of their FMPs are subsidiaries and obtain data and methodologies from their parent company. Another NCA stated that smaller entities tend to opt for disclosure under Article 4(1)(b). They further added that only in case the smaller FMPs belong to international financial groups, they opt for disclosure under Article 4(1)(a).

Finally, one NCA stated that improvements are still needed, especially on the explanation of non-consideration of PAIs. The explanations are still related to the lack of resources and data issues, and no clear information or target date for when they intend to start to consider PAI indicators. The NCA observed that the same explanations are copy-pasted in the statement from one year to the other. While there is certainly an improvement compared to the previous year, one pending issue for certain sectors is the visibility and accessibility of the disclosures.

a. Location of the disclosures: are they 'easy' and 'straightforward' to find? - 1 (difficult to find) to 5 (straight-forward to find)

One NCA noted that on the investment firms' side disclosures were easy and straightforward to find with only 2 out of the 38 sampled not being easily accessible. Similarly, the same NCA noted that for the banking side disclosures were also relatively straightforward to locate on the FMP's website.

One NCA stated that around 50% of the entities in the sample did not respond to the elements of accessibility. Another NCA stated that most FMPs in their sample had easy and straightforward to find disclosures.

Several NCAs were also able to identify some good practices (i.e. have a tab dedicated to SFDR disclosures topics on the Management Company website available from the home page) and bad practices (some relevant documents not being available on the website, such as the PAI table or documents to be found only through a Google search).

Overall, all NCAs agreed on the importance that the information should be prominently published on a dedicated sustainability webpage with a clear reference to the SFDR or sustainability-related disclosure. In addition, NCA agreed that in case of groups it is essential that the hyperlinks are provided for each individual PAI statement of the undertakings belonging to the group. The consequent bad practice observed is where the information can only be found via the website's search function after a time-consuming review of the website.

One NCA noted that there is some confusion with the "corporate" and "retail" sustainability pages of the website. Another NCA positively highlighted the use of a separate section on websites (titled "Sustainability" or "ESG", even for FMPs disclosing under Article 4(1)(b)) and then specific sections titled "Statement on principal adverse impacts of investment decisions on sustainability factors" in line with SFDR level 2.

One NCA highlighted the bad practice of sustainability-related disclosures not being easily found on the home page of the FMPs. Multiple links must be opened to find the section 'Statement on principal adverse impacts of investment decisions on sustainability factors'. In several cases, disclosures are not accessible via hyperlinks on the website (also in such cases, the document can

only be found using a search engine, e.g. Google). Another NCA noted the bad practice of having some disclosures in a sustainability page, others under legal information or requirements and overall scattered around the website. On the product disclosure side, entity and product disclosures (and related links) are not presented in the same section and scattered around the entity's website. However, some improvements were noted compared to previous years.

One NCA noted that while an example of good practice is to clearly mark tabs with the title 'sustainability', 'SFDR' or 'legal disclosures', a bad practice would be disclosing instead many different documents with similar titles without clearly indicating which one is the PAI statement. Another NCA identified the bad practice of referencing internal documentation which are unavailable to the public.

One NCA also highlighted as good practice the increased visibility of the disclosures, prominently located on the home page of the website. As a bad practice, in some cases, the links were located at the bottom of the page in a font which is too small, or in sections or documents which have no connections to the sustainability disclosures (i.e. general disclosures documentation).

One NCA stated that for the insurance sector some undertakings have links to the sustainability disclosures under the 'about us' section, not always obvious for retail investors. Another NCA stated that most FMPs disclosing under Article 4(1)(a) and 4(3)-(4) SFDR made sure this year that those disclosures were easy and straightforward to find. The same NCA found no major differences between the insurance sector and the pension fund sector.

One NCA noted that, on average, while the PAI disclosures for insurance undertakings and IORPs included in the sample were difficult to find, on the asset management and investment firms side the search was easier and more straightforward. Another NCA noted that a bad practice identified is that the PAI statement is only published in English, and not in the official language of the home Member State.

One NCA noted that 11% of the entities have been asked to place the information in a more visible location in their websites. As a bad practice, in some cases, the information is displayed under sections named "sustainability", "sustainable business", "ASG information" or "Our ISR commitment" (with is not compliant). Sometimes information is provided in the specific section for each fund even if it regards to the entity level. Finally, in a few cases, the location of the PAI disclosure was only located in the corporate website and not in the commercial website which the investor normally consults.

One NCA stated that on the asset management side it was difficult to find statements of non-consideration of PAIs for those management companies belonging to financial groups. On the insurance side, the same NCA noted that websites are often confusing, information in different parts of the website is difficult to find, website structure is non-systematic.

Finally, one NCA noted that even if the average of the assessment given on the disclosures could be placed at three, there were differences across sectors due to the variation in the extent of compliance with the disclosures across FMPs. By way of example, the location of the disclosures in the asset management sector was significantly better located and easier to find than disclosures of credit institutions, investment firms and insurance undertakings having in mind is the relevant information easily accessible, clear and user friendly to find (links to the sustainability disclosures being immediately visible in a dedicated section with clear links to the PAI disclosure). In terms of bad practices, on the insurance side bad examples are disclosures not visible or easily accessible. A bad example from the banking sector is the one of a bank listing two links at the end of the main home page, one with the name 'ESG' and the other as 'Sustainable Business' which lead to two different places on the website with various sustainability disclosures.

b. Clarity of the disclosures - 1 (unclear) to 5 (clear)

According to one NCA, disclosures are usually clear and in compliance with the SFDR framework. Another NCA stated that the information is clear, but some improvements might be needed, for example related to the relevance for retail investors as well as how those disclosures can be made educational for retail investors. The same NCA noted that a good practice is to add an introductory paragraph before the PAI table meant to explain the information disclosed. A bad practice consists of the use of abbreviations for the PAI indicators, unclear information in the explanation column (i.e. an “ESG commitment” score, without any further clarification) and the indication of the result without the measurement or formula used).

One NCA noted how a bad practice in the insurance and pension sector is to reference parts of the website in the PAI statement without providing the relevant links. Interestingly, one NCA noted instead that having all the information in one document would be better as links sometimes interfere with the flow of reading. An important good practice is a table with the explanation on how coverage ratio and eligibility ratios are calculated. As bad practice, the same NCA notes that disclosure of absolute data and description of measures that did not correspond to those for the indicator.

One NCA highlights that disclosures in the asset management sector are generally clearer, while clarity for IORPs – based on risk-based and event-driven supervision – could be improved.

One NCA also noted a good practice of several FMPs briefly describe the purpose of the PAI on the webpage before the PAI statement. In terms of banking sector practices, with larger entities the statements are based on standardised templates with a generally clear content. However, there is room for further improvement in terms of clarity in some parts of the disclosure (e.g. in the section dedicated to PAIs identification and prioritisation as well as in the description of engagement policies and in the reference to international standards. Another NCA stated that in the asset management sector the PAI statements are completed in compliance with Annex I, with FMPs keeping the order of the indicators, numbering and descriptions, with many good examples of explanations in terms of actions planned and targets set for the next reference period. The same NCA noted that in the banking, insurance and pension sectors while overall the information is clearly structured, some PAI disclosures are still ambiguous and vague.

One NCA listed several good practices: the provision of further definitions and contextual information beyond the requirements in the SFDR Delegated Regulation, e.g. on general terms of sustainability and concrete indicators used in the template (for banks), easily understandable texts with the appropriate legal references (investment firms). The listed bad practices are, however, longer and include as examples: a bank and an asset manager from the same group having only prepared a single consolidated PAI statement and naming convention on disclosures titles and website sections prescribed in the RTS are not followed. In respect of indicator 6 (energy consumption intensity per high impact climate sector), details are given specifying only the level letters code (e.g. NACE A) instead of the NACE sector name (e.g. agriculture, forestry, and fishing). Another NCA noted that Annex I was translated in several languages.

One NCA stated that the disclosures were more or less clear and concise, with no notable difference between sectors. Another NCA reported completeness of the information, noting as best practice the fact one asset manager – while stating the challenge to ascertain the adverse sustainability impact of the underlying securities or products involved in investment strategies, proceeded with the identification of those mandatory PAIs for which data may be accessible, in order to closely

monitor them and submit reports on them by the end of June 2024 for the reporting period from July 1st to December 31st, 2023.

A bad practice identified by one NCA is that general sustainability information for marketing purposes is mixed with the SFDR related disclosure.

One NCA rated the clarity of disclosure at 3 for asset management and banks. An example of bad practices for the asset management sector is the separation of sustainability risks and PAI statement, while conversely sustainability risks and PAIs are used interchangeably in the same section, which may confuse or mislead the investor. An example of a good practice for the asset management sector is the separation of sustainability risks and PAI statement, while conversely it also noted cases where sustainability risks and PAIs are used interchangeably in the same section, which may confuse or mislead the investor. Another bad practice is the lack of, or an unclear explanation on why PAIs were not considered (e.g. justification referring to the fact that the fund is offered to professional investors only and they can be autonomous in assessing the level of risks). The same NCA considered that on the insurance side the explanation under Article 4 (1) (b) SFDR were also minimal, with the extent of disclosures lacking details and explanations generic. Similar considerations also apply to the insurance sector.

One NCA was more positive in the rating, stating that most disclosures under Article 4(1)(a) and 4(3)-(4) SFDR are simple, clear, and easily understandable, with the rating at 5 in 25% of the FMPs in the sample. On disclosures under Article 4(1)(b) SFDR however, FMPs are encouraged to develop more the reasons for not considering adverse impacts of investment decisions on sustainability factors, while only a few offer details regarding the information on whether and when they intend to consider these adverse impacts. Interestingly, there were no major differences between the insurance and pension fund sector.

One NCA pointed out that in some cases the PAI statement has been modified, not following the template in the Annex I, and is only published in English, hence not in the official language of the home Member State.

One NCA also noted that there is still confusion between the definition of sustainability risks and PAI consideration.

Finally once NCA noted that in the asset management sector a good practice is that some entities translate the complete statement into English and not just the 'summary' section. However, the same NCA notes that for banks and investment firms the question is more difficult to answer as on one hand all the relevant information is included but they are difficult to understand with plenty of technical terms and measures of indicators that investors can hardly understand.

c. Completeness of the reporting - 1 (incomplete) to 5 (complete)

NCA's had a different perception in terms of completeness of the reporting. However, the information seems broadly complete.

One NCA pointed to the fact there are two elements frequently missing: 1) the translation of the summary for those countries where relevant products are distributed; and 2) information on how the actual or potential conflict of interest is managed in relation to their engagement products. However, those missing information can be explained by the lack of available relevant data and/or insufficient historical data. Another NCA confirmed that the information reported is overall complete. One good practice noted by the same NCA is to specify, for each PAI, the level of consideration given to negative impacts in the commitment policy, in the exclusion policy or in the

ESG analysis with a colour code and display a map of how sustainability risk is applied to management depending on the management and indicate whether or not the published data are based on estimates. In the "Actions taken and actions planned and targets set for the next reference period" column some do not provide sufficiently precise explanations regarding the impact on investments.

In terms of bad practices, the following can be listed: disclosure of optional PAIs even if they are not relevant, not specifying the limitations or constraints that the management companies have had to face. For example, not mentioning that the 2023 reporting covered only the data available for the 2022 reporting, not mentioning the number of funds concerned, not mentioning the data collection methods (e.g. ESG questionnaire), not explaining specific concepts (e.g. what "double counting" means for the carbon footprint or GHG intensity of investee companies).

One NCA noted that investment managers lag behind in terms of completeness of information in Annex I. Another NCA stated that from the credit institutions the section on PAI statement is usually complete, and sometimes details are missing (e.g. date of publication) while on the asset management side details are compliant with Article 4(1)(a) SFDR but also provide information on their internal ESG-controlling/-governance and embedding of the respective division in the FMP's hierarchy to illustrate how they ensure an accurate reporting.

One NCA confirmed that a good practice identified is that PAI statements clearly state methods of collecting and processing available data and informs about lacking data. In terms of bad practice, the PAI statement is very generic and especially refers to the problem of non-availability of ESG data. PAI-statements before 30 June 2023 were often missing some of the required information under Article 4(2)(a)-(d) SFDR and this has improved significantly with the level 2 provisions. When opting to "explain", some FMPs did not indicate if they would consider PAI in the future while others did not include a statement about intentions for the future, if and when they intend to consider adverse effects.

One NCA noticed that larger asset management companies tend to disclose information that is more comprehensive, and the same applies to insurance undertakings who are part of a larger group (for example a bank insurer). The completeness of information for IOPRs can be improved.

One NCA noted that in the course of ongoing supervision among asset managers and pension funds, they identified a satisfactory level of regulatory disclosure compliance. Another NCA highlighted that some management companies falling under Article 4(1)(b) do not provide a clear reason for why they do not do so. In the banking sector the information under "Description of policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors" is not always very clear and detailed. Generally, the NCA has found a reference to the following criteria being taken into consideration: i) data availability also in terms of (percentage) coverage of the portfolios managed, ii) consistency of the PAIs selected with the ESG strategy followed by the entity itself or by the group.

One NCA reported as an example of good practice in the asset management sector that the PAI statements published under Article 4(1)(a) SFDR include all mandatory environmental and social indicators, including the numerical data in the column 'Impact'. One asset manager did not provide any explanations of the actions taken or planned and targets set for the next reference period, which is an example of bad practice. On the insurance undertakings side, the same NCA identified several deficiencies regarding the completeness of the information provided (i.e. omission in terms of actions taken, planned and target set). In addition, a few did not publish the summary in English, with information uncomplete disclosed under Articles 7 to 9 of the SFDR Delegated Regulation. In case of some pension funds, PAI statements did not contain the summary in English (Article 5(2)(a)

SFDR Delegated Regulation). PAI statements often struggle with a lack of ESG data and implementation issues related to SFDR.

One NCA stated that one bad practice in the banking sector is to calculate the PAIs indicator only taking into account Article 8 or 9 products, meaning not considering PAIs from Article 6 related products. On the investment firm side, reports were overall complete, including with reminders of legal references, context, with one firm even completing an FAQ section. In terms of bad practices, some websites made no explicit reference to SFDR, others did not necessarily follow the template of Table 1 in Appendix 1. Good scoring for the asset management side, with disclosure now fully compliant with the Delegated Regulation. One NCA noted that also on the insurance side there is an overall good use of the templates.

One NCA stated that the general impression is that most PAI disclosures were complete, and the majority of FMPs include all the elements of Table I, Annex I. There were, however, some examples of bad practice with regard to the “explanation” column, with both an asset manager and banking company lacking completeness, as they have not at all included any explanations to any of the PAIs. Furthermore, most of the FMPs did not disclose information on the methodology and/or data used to measure their adherence to international standards in the section “references to international standards”.

As a bad practice, according to one NCA, the general ESG-information for marketing purposes is mixed with SFDR related disclosures.

Another NCA rated the completeness of the reporting quite high, in the assumption that by “Completeness of the reporting” one would mean completeness of all disclosures, and no deficiencies were considered posing any significant risk and the majority of the asset managers reviewed were deemed compliant with the relevant regulatory obligations. However, while the disclosures were formally present, the information contained in them had room for further improvement. On the pension side, the completeness rating is lower, because there are still challenges as to why FMPs do not consider the adverse impact of their investment decisions under Article 4(1)(b) of the SFDR and when they intend to do so is limited. In addition, pension administrators falling under Article 6 do not deem sustainability risks to be relevant in view of the way they operate i.e. contributions from members are invested in investments chosen by the members.

One NCA stated that in the insurance sector there is still some room for improvement in terms of missing elements.

One NCA noted flaws identified regarding disclosures completeness in accordance with the legal requirements set out in Articles 4 to 10 SFDR Delegated Regulation, in particular up to 3 flaws were detected in 50% of the disclosures, between four and five flaws were detected in 34% of the disclosures, and 6 or more flaws were detected in the remaining 16%. The most common flaws identified relate to the absence of the elements mentioned in Article 7(1)(b) and (d), Article 8(2)(b) and Article 9(2) SFDR Delegated Regulation. Concerning disclosures under 4(1)(b), most FMPs meet the criteria set out on SFDR Delegated Regulation. Also, no major differences were detected between the insurance sector and the pension fund sector concerning this issue.

Another NCA recognised a good quality answer in open-ended question, while a bad practice identified is that not all indicators in table 1 and optional indicators in table 2 and 3 disclosed. Another NCA noted that the disclosures are usually completed, there are some minor missing points from them based on SFDR Delegated Regulation.

One NCA detected as bad practice in the asset management sector that although not mandatory, several entities did not provide the name of the data provider, as per Article 7 of the Delegated Regulation.

Finally, one NCA listed several examples of bad practices on the asset management side when PAIs are not considered, a clearer and more concrete explanation of the reasons why adverse effects are not taken into account is necessary. For example, although a lack of resources and difficulties in obtaining data for smaller companies are mentioned, there is no explanation of the planned actions or a target date/period. On the UCITS Management Companies side, further work and improvement are needed in defining and clearly stating the actions taken and planned, with targets set for the next reference period. There is a lack of description for the identified PAIs regarding the actions taken to reduce or avoid adverse impacts during the period from 1 January to 31 December of the preceding year and the actions planned or targets set for the subsequent period from 1 January to 31 December. Descriptions of policies to identify and prioritise the principal adverse impacts of investment decisions on sustainability factors often refer to group rules without further granularity. Additionally, the Engagement Policies and References to International Standards sections need to be improved with more details. On the pension side, when PAIs are not considered, a clearer and more concrete explanation of why adverse effects are not taken into account is missing, along with a clear timeline for when it will be addressed. And on the insurance side, in the column "Actions taken, and actions planned, and targets set for the next reference period" generally needs to provide more detailed information and a connection with specific indicators to avoid general references.

Finally, one NCA reported that asset management companies which publish statement on PAI non-consideration often: 1) do not have a separately published statement according to Article 4 (1) (b), but they combine it with statement under Article 3 SFDR; 2) the title is not according to the SFDR Delegated Regulation or 3) they do not publish it in the place specified by the SFDR Delegated Regulation (webpage denominated as "Sustainability-related disclosures").

d. Compliance with Annex I of the SFDR Delegated Regulation - 1 – low compliance 5 high compliance

The majority of NCAs noted that 'non-compliance' identified are most frequently due to misunderstandings on the SFDR Delegated Regulation. In addition, no major differences have been spotted across sectors.

One NCA stated that the most notable non-compliance identified to date is the PAI 4 - Exposure to companies active in the fossil fuel sector which is still not fully compliant with the SFDR definition market-wide. The same NCA stated that they have been communicating widely and extensively on this indicator to FMPs and we expect improvement in 2024. Another NCA noted that as a good practice identified in the market the publication of a PAI table including coverage rate (i.e. what is covered by data and what is estimated) for the 14 mandatory PAI and optional PAI. A bad practice is to add columns to the PAI table template (Appendix I of SFDR DR) such as a "Stoxx 600" column and "a composite index IG & HY" column that may lead to irrelevant comparisons, and thus provide misleading information.

One NCA noted that a good practice identified on the asset management side is that some FMPs provide not only a list with the targets listed in Annex I, but also describe how they account for those within their investment process. Another NCA listed as a good practice the fact that all mandatory and optional indicators relevant to the real estate sector are taken into account.

Another NCA reported that the bigger asset management companies in terms of AuM generally comply with Annex I of SFDR. However some smaller companies, which do not use the template of Annex I of the SFDR Delegated Regulation, sometimes invoke that the template does not fit to their activities. The insurance undertakings who are part of a larger group are more compliant with SFDR. Two undertakings above the threshold set in Article 4(3)-(4) SFDR did not use the template of Annex I of the SFDR Delegated Regulation.

One NCA noted that the examples examined show a general compliance with Annex I of SFDR L2 in terms of format and related requirements). As regards the additional PAIs, it was also observed that the most commonly used are the following: no 4. "Investments in companies without carbon emission reduction initiatives" from Table 2 and no. 1. "Investments in companies without workplace accident prevention policies" from Table 3.

One NCA noted that there is a satisfactory level of compliance in the asset management sector. The same NCA also points at the fact that understanding and interpreting the regulatory framework is a challenge that arises for the regulator, financial market participants and financial advisers alike. Another NCA stated that all FMPs disclosing PAI statements under Article 4(1)(a) used the template from Annex I of the SFDR Delegated Regulation. Insurance undertakings followed the structure of the template for the PAI statement, although there were some deficiencies identified. The quality of Annex I disclosures also varies among pension funds where some disclosures were already at a good level, and others were still deficient, mainly due to incompleteness and ambiguous formulations. In some cases, the investment firm sector did not present entirely clear reasons for the non-considering PAI. Firms sometimes justified this by citing a lack of relevant background information and data.

One NCA listed as example of bad practice in the investment firms sector the fact that some firms did not use the template of table I in appendix 1 at all and other firms used the template but did not complete it adequately, with some data missing (lack of actions taken as an example). In some cases, the summary section was not respected. On the asset management side, not all the specific elements to be reported in the different sections are always available in the Annex I (e.g., information on the use of forward-looking climate scenario). In addition, the translations of the summary section are not always easy to find. One NCA reported that all FMPs included in the survey fully complied with Annex I of the SFDR Delegated Regulation, with the exception of one which had removed the "Impact 2021" column completely from their PAI disclosure.

One NCA noted that while for insurance and pensions there were no particular comments to provide, on the asset management side, a limited number of entities did not adhere to the prescribed format of the PAI disclosures, using instead the Annex I template considerations in free format also missing the necessary detail of the disclosures.

Other bad practices listed by another NCA related to the insurance sector was the omission of some sections or the fact that the template in Annex I was not used at all. Another NCA identified as bad practice the non-compliance with the length of the "Summary" section of the template, or non-compliance with the sequence of the PAI indicators according to the template. In the "Explanation" column of the template, few FMPs mention the assets covered by the assessment carried out on each PAI indicator, since not all assets were included due to lack of information.

One NCA confirmed that most FMPs disclosures are compliant with Annex I. A few disclosures do not include in the summary section in Table I of Annex I in English. In some PAI disclosures, the indicators from the sections "Engagement policies" and "References to international standards" were not included. Another NCA listed as a bad practice that not all (mandatory) indicators in table 1 and optional indicators in table 2 and 3 disclosed.

Another NCA reported that on the asset management side several elements were considered as bad practices, from a format perspective: all indicators should be mentioned even though they are not applicable to the entity; the PAIs should be enumerated; the name of fields must follow the Table 1 Annex format and no additional columns should be added.

e. Quality of the statement of PAI disclosures – 1 (poor) to 5 (highly satisfactory)

According to one NCA, cover ratios can be improved, while according to another NCA the overall quality of the statement can be improved but companies have been making efforts to provide quality data and have allocated technical and human resources. Quality data remains, however, an issue.

One NCA did not provide views on the topic as the assessment of the quality of the underlying data is considered quite challenging.

One NCA provided a list of good practices (PAI disclosures contain extensive explanations and appear complete and detailed) and bad practices (the 'comply' disclosures do not provide explanations in Table 1 of Annex I, the 'explain' disclosures refer to unclear procedures and lack of legal clarity).

NCAs identified a minor issue in errors in the calculation of different PAIs (then corrected before the new reporting period), non-inclusion of individual asset classes (corrected before the new reporting period), too extensive summaries, description of strategies incomplete or value, engagement policies not meaningfully explained, history and publication date missing.

One NCA noted that the quality of the PAI statement of asset management companies is overall satisfactory, with the exception of some smaller companies which did not use the templates in Annex I. In addition, the insurance undertakings who are part of a larger group (for example a bank insurer) provide more detailed information than smaller insurance undertakings.

One NCA reported as good practice that some asset managers indicate the degree of portfolio coverage the PAIs value refers to. In addition, some asset managers in that jurisdiction prioritise PAI in light of the investment criteria adopted in the investment process (e.g. potential negative screening criteria). In the banking sector, FMPs falling below the thresholds set in Article 4(3)-(4) SFDR have a low level of scoring because the reasons for not considering PAIs do not seem very satisfactory. These explanations refer to the availability of data from manufacturer and data providers which seems to be still limited and/or to the ongoing developments of the applicable sustainable finance legal framework. Instead, for FMPs that do consider PAI, the quality of the scoring is higher but there seems to be room for improvement in some parts of this disclosure, e.g. in the section dedicated to PAIs identification and prioritisation and in the description of engagement policies and in the reference to international standards.

One NCA reported that on the insurance undertaking side, the quality of PAI statement varies. Some undertakings published complex and detailed statements, while others were rather superficial. On the pension funds side, the quality of the disclosure has improved compared to last year, whereas on the banking side there are some differences based on the banks' ESG strategy. Usually, less ambitious ESG strategies implies shorter disclosures and vice-versa.

Another NCA reported as good practices in the banking sector the disclosure of data eligibility and data coverage, whereas a bad practice is low data coverage with respect to many indicators, lack of sound practices to develop estimates in the absence of actual data, as well as insufficient information disclosed to understand what the methodology is. Other bad practices were the

potential use of PAI indicators to ensure adherence to international standards, as well as insufficient information disclosed to understand whether a forward-looking climate scenario is used. On the investment firms' side, as good practice some firms provided the necessary explanations to understand their approach to PAIs, while others used Table 1 in Annex I and respected the rules linked to it. In terms of bad practices, some investment firms did not specify a publication date and / or document the date used for the update. In addition, some entities did not even use the Template, with data missing (e.g. date, articles, actions taken and forward-looking actions). Finally on the asset management side the NCA reported that overall, some progress was made since 2022 but work needs to be done, with some requirements being interpreted differently and a quite heterogeneous content of disclosures (e.g., disclosure of "a summary of the principal adverse impacts").

One NCA reported as good practice that one FMP clearly described their methodology and values for the respective PAI indicators. This FMP also arranged, where relevant, their impact into different sectors, and was transparent about their percentage of data coverage for those sectors, and this provides a good overview for the user making it easy to navigate in in terms of understanding where the numbers originate from and how the FMP came to the specific conclusions. As bad practice, some FMP's disclosed only a value/number under the "metrics" column in each PAI indicator without any further explanation of methodology, interpretation, or reasoning etc. in the explanation column, making it impossible to figure out, how the value/number had been found. In terms of difference between the sectors, there was an even spread of practices ranging from poor to good.

One NCA rated the quality of the statement of the PAI disclosures average, with the disclosures being formally present, but the Authority had questions to their quality and level of detail. As an example, the entities that opted not to consider PAIs for the time being, had often failed to provide clear reasoning and anticipated time when they may start considering such PAIs.

Another NCA noted that for the insurance sector it is an average assessment as there were companies for which the quality was high, but also the companies which estimated many PAIs at zero. Meanwhile, a bad practice listed by other NCAs was that not all indicators in Table 1 and optional indicators in Table 2 and 3 were disclosed and that there were several cases of irrelevant information.

One NCA noted that on the asset management side, when provided, the quality of the statements is overall correct. As a good practice, one Management Company has selected more than one additional indicator in the report. For investment firms and banks, the quality of the statement of PAI disclosures is also overall good.

One NCA stated that they did not identify any major deficiencies. Both asset management companies used the correct template. One asset management company did not include textual description / explanation in the Table 1 of Annex I. However, the Table 1 of Annex I did have description of explanation of actions undertaken. There were no major deficiencies on the insurance side, whereas on the pension side, two supplementary pension management companies covered by Article 4(1)(a) SFDR voluntarily disclose PAI Statement and they do that despite not having any Article 8 or Article 9 financial product. This is interesting, as in the asset management sector, asset management companies manage funds which disclose information under Article 8 SFDR but some of them are disclosing under Article 4(1)(a) SFDR and some under Article 4(1)(b) SFDR.

Finally, one NCA stated that those FMPs considering PAIs are of better quality than expected, given the more precise requirements. There is no difference in quality between the asset management, banking, or insurance sectors. Note again that further adjustments and refinements are necessary,

primarily in the engagement policy section, concrete descriptions related to each indicator of the actions taken, actions planned, or targets set for PAIs. Regarding PAI's negative statements, the quality is debatable because the same reasons are repeated year after year without clarification on how improvements will be made. This issue, as stated earlier, often refer to a lack of resources and insufficient data.

f. Quantification of actions taken - 1 (not satisfactory) to 5 (satisfactory)

Overall, NCAs have noted an important improvement compared to previous years.

One NCA reported that information of actions taken, especially milestones and details on the nature of the actions, could be improved. One NCA stated that none of the companies in the sample have reported appropriately on actions taken and planned, or on targets of the next reference period.

Another NCA noted that the information reported under this column is not very specific, the NCA often sees references to the stewardship policies or engagement reports. Another NCA stated that for credit institutions, while publications were complete on a general level, the declarations regarding measures taken for reducing the PAIs were not sufficiently detailed and not really sophisticated. Meanwhile, the NCA stated that on the asset management side some companies provided greater detail on the actions taken than others.

One NCA listed as good practice the fact that PAI disclosures contain extensive explanations, appear complete and are detailed, and that actions taken were clearly differentiated and specified for each indicator. In terms of bad practices, actions taken were worded vaguely and less specific, i.e. in a general way to be applied to all indicators. In one case, however, the descriptions of the actions taken are partly generic and do not contain any specific examples.

One NCA noticed that authorised asset management companies generally report actions to mitigate principal adverse impact in a satisfactory way. The case was similar for another NCA which reported a satisfactory level of compliance for both asset management and pension sector.

One NCA reported that for small entities on the banking side, the few examples examined show a generic reference to the application of exclusion policies in relation to certain sectors (e.g. controversial weapons), or the fact that investment policies focus mainly on sustainable investments. For larger entities instead, the illustration of the actions taken and planned to avoid or reduce PAIs by large banks acting as FMPs, compared to that of small entities, generally seems more detailed. The illustration typically focuses on the following types of actions: i) ongoing monitoring of data available directly from issuers/manufacturer and/or through external providers, ii) application of “negative” screening criteria based on the assessment of certain parameters, typically differentiated by PAI’s groups (e.g. excluding investments in companies with revenues deriving from the production of steaming coal or electricity produced from steaming coal above a certain threshold defined by the bank, sovereign bonds issued by countries that have not subscribed the 2016 UN Paris Agreement on climate change etc.), and iii) in some cases, the application of “positive” screening criteria when undertaking investment decisions for their managed portfolios classified under Article 8 SFDR (for example, through a best-in-class selection approach).

One NCA confirmed that the PAI statements by asset managers disclosing under Article 4(1)(a) SFDR include all mandatory environmental and social indicators, with an average of approximately 21 indicators reported, for which an average of 17 actions and targets are declared as adopted or planned for the next reference period (i.e. January - December 2023). The same NCA concluded that the FMPs have generally taken or planned at least one action or set a target for the next reference period for each of the mandatory adverse sustainability indicators. One FMP did not

provide any explanation of the actions taken or planned and targets set for the next reference period. Nine of the insurance undertakings declared 100 actions connected with adverse sustainability indicators. Those actions however vary in specificity (some are rather vague). In the pension fund sector, quantification of actions contains mostly general descriptions. Quantification of actions across banks that are taken under the relevant column varies from very ambitious ones to not at all ambitious, however, those comply with the overall banks' sustainability strategies. Given that only one investment firm has published its disclosure, it is not possible to identify any generic "good" and "bad" practices.

One NCA listed as bad practice on the banking side that actions taken make a general reference to exclusion policies, scoring/rating systems or provide repetitive details already provided in other sections of the report. In addition, there is often either absence of specific actions planned or quantitative references for targets set. On the investment firms' side, a good practice could be the fact that one investment firm took a lot of actions and described many actions to be taken. Moreover, this firm made a distinction between "public investments" and "private markets" for each point. In terms of bad practices instead, there is the absence of actions planned and the boxes are ticked but there is no measure to share. Finally for asset managers, the actions taken are sometimes not precise and the same action is regularly reported in relation to different adverse sustainability indicators.

One NCA described as good practice the fact that some FMPs clearly described their specific actions already taken or upcoming plans for actions or initiatives related to the specific PAI indicator in question. Other FMPs instead provided very vague descriptions of actions taken, which neither reflected the specific PAI indicator or were actual concrete actions. These descriptions were of very general and formalistic character and did not necessarily relate specifically to the PAI indicator in question. One example was an FMP that stated that they were aware of the importance of the PAI indicator in question, and that they "expect companies to act responsibly and comply with international standards in this regard." The FMP further stated: "We observe developments in data and frameworks for working with negative impacts on biodiversity. Based on these developments, the NCA will assess how and when we can initiate concrete measures to avoid or minimise negative impacts." This description does not provide any information on how they actually act, neither does the explanation include any information on actions taken. In terms of difference between the sectors, there was an even spread of practices ranging from poor to good.

One NCA noted that on the asset management side, the quantification of actions taken under the relevant column in Annex I is rated positively, as FMPs disclose quantitative/numerical data (levels/targets) to be achieved/adhered by the investee companies, set by the fund to ensure that the attainment of the ESG objectives can be measured and compared from a year to the next. As bad practice however, asset managers focus on the general forward-looking statements that do to not specify any quantifiable targets for the next periods, achievement of which could be verified.

According to another NCA, in several PAI disclosures, it was difficult to understand the explanations in Table I, in the column regarding the concrete actions taken by the FMP during the preceding year and the actions planned for the subsequent period to avoid or reduce the principal adverse impacts identified. The explanations of the FMPs include statements of overall policies of the FMPs rather than information of the concrete actions taken and planned.

One NCA reported that while 41% of the FMPs disclosed specific actions regarding the PAI indicators used, other 34% disclosed actions that were found to be incomplete or to be very high level. The remaining 16% of the disclosures were rated quite poorly (between 0 and 1), indicating that there is still room for improvement, namely ensuring more clarification the relationship between adopted actions and those planned for next years. No major differences were found between the insurance and the pension fund sector.

As a good practice, one NCA indicated the comprehensive descriptions of taken and planned actions such as development and implementation of internal monitoring tools for a specific theme, such as biodiversity.

One NCA noted that on the banking side the actions taken, actions planned, and targets set for the next reference period including general approach, collaboration and voting as relevant appeared overall satisfactory. Another NCA reported that the survey triggered the request from the majority of the asset managers (9 out of 13) to provide more information regarding actions taken, actions planned and targets set for the next reference period. As for banks and investment firms, only one bank has left unfilled the column relating to measures adopted/planned and objectives for the next period.

Finally, one NCA observed a low level of quantifications in terms of actions taken and planned, and targets set.

g. Compliance with the 30 June deadline - yes / no

A few NCAs reported that they had no visibility about whether the deadline had been respected but had no signal either to believe that a large number of FMPs had missed the deadline. One NCA mentioned that it had published a specific “instruction” requiring a submission of the SFDR reports if the PAI are taken into account. Such submissions are generally compliant with the 30 June deadline. Another NCA also raised the issue that since FMPs are not obliged to alert NCAs, they had no visibility on the actual date of publication.

Those NCAs who provided data reported that nearly all entities within the assessed sample had respected the deadline. According to an NCA while the majority of FMPs respected the deadline, the pension sector seems to lag behind. Another NCA mentioned that only two investment firms in their jurisdiction published after June.

Finally, one NCA noted that while the vast majority of FMPs had met the deadline, the statements for 2022 were still not up to date.

3) Of the Article 8 and Article 9 SFDR financial products in your jurisdiction, what share of those products disclose under article 7(1) SFDR? Has the number change in comparison to 2022?

- **Please include the breakdown between Article 8 and 9 SFDR**
- **Do the FMPs offering those products also disclose at entity level under Article 4 SFDR?**

There are more details provided in response to this question compared to last year, however NCAs seem to struggle with the data collection regarding products disclosure under Article 7 (1) SFDR, with a few NCAs clearly stating that there is no full tracking of disclosure at financial product level pursuant to Article 7(1) SFDR. Other NCAs have also reported a high number of products that did consider under article 7 SFDR but their FMPs did not report under Article 4 SFDR.

According to one NCA, all profit participation products in the sample disclosed under Article 8 SFDR, and all of them based their disclosures on their manufacturers’ entity level SFDR disclosures. However, the level of details included in the product’s SFDR disclosures remains uneven between FMPs. For instance, about half of them instruct to refer to the FMP’s institutional PAI statement (generally without providing a direct weblink to said statement), with only a minority providing a

precise list of PAI indicators directly in the product SFDR documentation. In addition, the periodic reporting remains irregular, and when is available online, PAI quantification for the period of reference is generally not included in the SFDR product reporting. While the information is generally available in the FMP's institutional reporting, no reference is provided in the product level reporting.

One NCA reported that most of the products in their jurisdiction (more than 70% of all funds disclosing under Article 8 SFDR and more than 90% disclosing under Article 9) consider PAIs, which are comparable numbers to 2022. Another NCA observed that audited investment management companies offering Article 8 or Article 9 products deviate from the usual practice and do not also disclose at entity level. Another NCA reported that data is only available for 2023, with most products disclosing under Article. Another NCA noted that the vast majority of funds consider PAIs, but they did not have statistics in terms of numbers but generally speaking, FMPs offering funds considering PAIs also consider PAIs at entity level.

One NCA reported that all funds disclosing under Article 9 considered PAIs, while it can be estimated that only 56% of funds disclosing under Article 8 disclosed under Article 7(1) SFDR. Almost all the management Companies in the jurisdiction offering such products also disclosed at entity level. Another NCA stated that on the asset management side 96.5 % of assessed products, which contained only Article 8 investment funds, disclose information under Article 7(1) SFDR. The share of Article 8 products disclosed under Article 7(1) SFDR has increased by 8.5% in comparison to 2022. Approximately 62.5 % of the FMPs offering Article 8 financial products also disclosed PAI statements at the entity level under Article 4(1)(a) SFDR. 37.5 % of the FMPs offering one or more Article 8 financial products do not consider adverse impacts of investment decisions on sustainability factors and disclose PAI information under Article 4(1)(b) SFDR. On the insurance side, all 15 products disclosed according to Articles 8 and 9 SFDR (3 products out of 15 can also be classified as products under Article 9) were also disclosed under Article 7(1) SFDR. In 2022, most of Article 8 and Article 9 products disclosed under Article 7(1) or (2) disclosures; all insurance undertakings offering those products also disclose PAI information at the entity level under Article 4. In both years (2022 and 2023), banks offered two Article 8 products. One of those products has considered PAI according to Article 7(1). Both banks that provided Article 8 products disclose PAI statements according to Annex I of the SFDR Delegated Regulation.

One NCA reported that out of the Article 8 and 9 (UCITS and AIFs), 426 out of 464 have disclosed under Article 7(1). The rest have disclosed under Article 7(2). It should be noted that due to data availability, the financial products only consist of UCITS and AIFs. Another NCA stated that while there was no data for investment firms, on the asset management side 83% of funds disclosing under Article 8 and 9 SFDR operate the required disclosures under Article 7(1) of SFDR. This population breaks down to 87% of funds disclosing under Article 8 SFDR and 13% under Article 9 SFDR. In line with the regulatory provisions, Article 9 SFDR funds duly consider PAIs. In addition, 62% of the FMPs offering those products are disclosing PAIs under Article 4 SFDR. Those figures cannot be compared to 2022 as they are based on different data sources, aligned with the NCA's objective to continue to build up its data driven supervision.

One NCA noted that as of 31 December 2023 there are 13 UCITS disclosing under Article 8 SFDR and none of Article 9 SFDR. All UCITS disclosing under Article 8 SFDR are managed by Management Companies applying Article 4(1)(b) SFDR and they have not committed to invest in sustainable investments. All of the Article 8 SFDR UCITS, disclose under Article 7 (2) SFDR. These UCITS have an investment policy and strategy based on sustainability related factors and criteria. No change has been noticed in comparison to the year ended 31 December 2022.

Another NCA stated that all FMPs offering Article 8 and Article 9 SFDR products also disclose at entity level. Most of IBIPs were offered in the form of MOP, but in most cases the investment

options selected by clients have not been focused on or not promoting ESG characteristics (funds not under Article 8 or 9 of SFDR).

Another NCA stated that 40% of the FMPs under their supervision offer financial products that disclose information under Article 8 or Article 9 SFDR. In all these products, FMPs stated in Annexes II and III of the SFDR Delegated Regulation that they were disclosing under Article 7(1) SFDR. However, it was not possible to make any comparison with last year's data.

One NCA stated that most of the financial products (73% disclose under Article 8 and 6% under Article 9 (Q4 2023) disclose under Article 7 (1) SFDR, and only a few cases do not disclose at entity level. Another NCA stated that on the asset management side also said that the comparison with last year was not possible, and that only the minority of funds disclosing under Article 8 and 9 SFDR do not disclose at entity level under Article 4 (1) (a) SFDR.

This approach was also confirmed by two more NCAs stating that, generally speaking, the FMPs offering Article 8 and Article 9 SFDR also disclose at entity level.

One NCA reported that on funds side, while it was not possible to get more granular data, many funds subject to Article 8 and Article 9 of the SFDR do confirm that they consider principal adverse impacts on sustainability factors. In addition, the same NCA confirmed that 20 (out of 20) firms offering those products disclose at entity level under Article 4 of the SFDR. From a fund's perspective, information disclosed in the pre-contractual documentation is only at a product level in accordance with Article 7 of the SFDR. The NCA does not have information at an entity level under Article 4 of the SFDR.

Another NCA stated that that in relation to the sample reviewed for collective investment schemes (361 CIS classified as Article 8 or 9 according to SFDR, from 47 management companies), 88.92 % considered PAIs at product level (100% Article 9, and 88.34% Article 8). In 2022 89.06% considered PAIs at product level (100% Article 9, and 85.41% Article 8). In 2023 there were more CIS disclosing under Article 8 than in 2022 and the number of these CIS not considering PAI is higher. Of the total number of CIS that disclose under Article 7(1) SFDR (321 CIS), 67.29% of them (216 CIS) are managed by management companies that disclose PAI consideration at entity level under Article 4 SFDR. Additionally, based on the review carried out on a sample of four banks (which includes the three main banks) and two investment firms (which disclose PAIs on a voluntary basis), most of the firms disclose under Article 7(1) SFDR using the template included in Annex II of the SFDR Delegated Regulation. In two firms (belonging to the same group) the disclosure is shorter, and they do not use the mentioned template but the contract of portfolio management or an extract not downloadable in its websites. The same NCA could not share information available to make the comparison to 2022. In addition, there were no Article 9 SFDR managed portfolio in the firms' website, only Article 8 SFDR, so the former response refers only to Article 8 SDFDR managed portfolio. All the FMPs offering those products also disclose at entity level under Article 4 SFDR.

Another NCA reported that the number of Article 8 and Article 9 SFDR financial products in or jurisdiction changed in comparison to 2022, with an increase in the number of those funds. All of FMPs offering those products (both on the asset management and insurance side) also disclose PAI consideration at entity level under Article 4.

4) Do you have any observation on FMPs' disclosures on the degree of alignment with the Paris objectives in the section "References to international standards" in the template in Table 1 of Annex I of the SFDR Delegated Regulation? Have you noticed an improvement compared to last year regarding i.e. the disclosure of methodologies?

The survey shows that the quality of disclosures on the degree of alignment with the Paris objectives in the section “References to international standards” in the template in Table 1 of Annex I of the SFDR Delegated Regulation is uneven. This is confirmed by one NCA who provided the following observations: two firms did not provide the list of responsible business conduct codes and internationally recognised standards they adhere to; two of them did not provide any information regarding their degree of alignment with the Paris objectives. As good practice observed in this context, the same NCA stated that firms detail the objectives of the internationally responsible business conduct codes and recognised standards the FMP adheres to, specify the operational impact of the adherence of the FMP to these codes and standards and provide a quantitative target of emissions reduction it and mention the actions undertaken to achieve it. The bad practices consist in making a broad reference to the Paris objectives without any further explanation and keeping the disclosure generic and refer to another document to get specific information.

One NCA reported that two companies committed to the decarbonisation of investments through the interim target of decarbonisation of -25% for the corporate portfolio by 2024. However, no specific conclusions were drawn on the asset management side.

A high number of NCAs did not have particular observations on this topic or the degree of alignment with the Paris objectives was not reported by the FMPs chosen in the sample. One NCA noted that when it was reported, small entities usually only generally refer to the alignment to the Paris Agreement objectives in their policy for integrating sustainability risks in the decision-making investment process, with no significant improvement from last year’s disclosures. For large entities, the section “References to international standards” focuses on the description (sometimes very detailed) of the international standards and initiatives that the bank has decided to subscribe or support (e.g. UN Principles for Responsible Banking, Net-Zero Banking Alliance (NZBA) from the UN, GCNI, ...). In addition, in a few cases, that NCA found details on the PAI indicators that are taken into account, in the provision of portfolio management service, as a way to measure the adherence to international standards (e. g. for violations of UN Global Compact principles and OECD guidelines for multinational enterprises reference is made to Indicators no.10 and 11). Sometimes, this information is only included in the last column of the table (within the action taken/planned to mitigate PAIs), in other cases it is included both in the table and in the dedicated section. Regarding the methodology for measuring the adherence or alignment to international standards, this information is often not disclosed. Where details are provided, reference is made to the assessment of information regarding the issuers of instruments in which the portfolio is invested or underlying the funds and ETFs in which the portfolio is invested, based on data acquired directly from issuers or through third party providers. There are just very few cases of disclosure regarding future use of forward-looking climate scenarios, typically related to net-zero emissions.

One NCA stated that in the asset management sector, FMPs disclosing under Article 4(1)(a) SFDR disclose information on compliance with business conduct codes and internationally recognised standards for due diligence and reporting. 62.5% of FMPs disclose the degree of their alignment with the objectives of the Paris Agreement. Furthermore, six insurance undertakings declared their alignment with the objectives of the Paris Agreement in PAI statements, while three disclosed more detailed methodology. Compared to previous years, disclosures were more detailed. Regarding the PAI statement of only one investment firm, the Paris Agreement was referenced in the relevant section of the disclosure, but no degree of alignment was stated.

One NCA did not notice any improvement in the banking sector, with banks often omitting the disclosure related to the degree of alignment with the Paris objectives within the PAI statement. Moreover, the few ones that make a reference to alignment with the objectives of the Paris Agreement, it is unclear how they contribute. Several entities have chosen as optional indicator from table 2 indicator number 4 (investments in companies without carbon emission reduction

initiatives). The same NCA did not notice any improvement in the investment firm and asset management sector.

One NCA reported that most of the FMPs that were considered for this survey did not disclose their degree of alignment with the Paris objectives in any way, with only two FMPs describing an actual methodology for assessing their alignment with the Paris Objectives.

One NCA reported that they did not notice any improvements in the disclosures of Management Companies of our sample regarding their alignment with the Paris objectives, particularly in the section referencing international standards as outlined in Table 1 of Annex I of the SFDR Delegated Regulation, with the exception of one UCITS ManCo which is being prepared to disclose a number of mandatory PAIs by the end of June 2024, on a best effort basis.

Another NCA reported that on the asset management side, according to the Article 4(1)(a) the FMPs are required to disclose the degree of their alignment with the objectives of the Paris Agreement only where applicable, the entities under assessment did not disclose the degree of alignment with the Paris objectives, as none of the entities under review manage financial products that have a reduction in carbon emissions as their investment objective. The objectives of the Paris Agreement were sometimes used as one of the aspects/guiding principles when selecting the investee companies.

One NCA reported a great degree of variation in the information provided by FMPs regarding the degree of alignment with the Paris objectives. Examples of the FMP's disclosures of alignment go from the objective for the investment portfolio to achieve net-zero greenhouse gas emissions by 2050, to the adoption of a climate roadmap in accordance with the Paris agreement, including an objective to double green investments, reduce investments in the fossil fuel industry by 75% until 2025 (compared to 2018), the involvement in UN Net Zero Asset Owner Alliance with commitment by the FMP to achieve net-zero greenhouse gas emissions by 2050, in alignment with the Paris objectives and with commitment to achieve specified emission reductions by 2025, 75% of invested capital shall be invested in companies with approved SBT by 2030 and conducting climate stress test in line with TCFD.

One NCA also reported improvements compared to previous years which is expected to improve even further as entities have been requested to clarify their positions and provide more details. Last year several management companies made vague references to the Paris Agreement but did not specifically publish the degree of alignment with the objectives of the Paris Agreement. This year more management companies explained their commitment with the Paris Agreement and disclosed the specific goals they have set. In the previous review, most of the entities limited themselves to listing the international standards to which they adhered without including information about their level of alignment with the long-term objectives of the Paris Agreement, although it has to be kept in mind that the Delegated Regulation was not yet applicable.

Another NCA noted that for asset management, 50% (13 out of 26) of authorised managers that disclose under Article 4(1)(a) disclose on the degree of alignment with Paris objectives, 3 out of 5 of the insurance undertakings, 80 % of banks, 33 % of investment firms and 67% of pension funds.

One NCA reported that only a minority of investment firms (5 out of 38) disclosed the degree of their alignment with the Paris Agreement objectives and only one had a dedicated webpage and supporting documentation that refers to the importance of the agreement and the commitment to ensure its investments align with the agreement. Another NCA stated that in relation to the sample reviewed, 88.92 % of the ManCos considered PAIs at product level (100% Article 9, and 88.34% Article 8). In 2022 89.06% considered PAIs at product level (100% Article 9, and 85.41% Article 8). According to the review carried out on a sample of 4 banks (which includes the three main banks)

and two investment firms (which disclose PAIs on a voluntary basis), most of the firms disclose under Article 7(1) SFDR using the template included in Annex II of the Delegated Regulation. In two firms (belonging to the same group) the disclosure is shorter, and they do not use the template but the contract of portfolio management or an extract not downloadable in its websites.

One NCA noticed slow progress on the insurance side, noting that data availability and comparability is a big issue. Finally, one NCA stated that the overall quality of disclosures has shown some improvement for entities that consider PAIs. However, a clearer link to PAIs is needed, along with additional explanation and information about the methodology and the data used. Some entities lack concrete references to which indicators they are referring to, as well as a description of the methodology. Concerning the degree of alignment with the Paris objectives (as well as all references to international standards), it was observed that the vast majority of them describe information from their parent groups when referring to international standards.

5) Have you noticed progress in FMPs' practices compared to last year's survey in, for example:

**-the quality of the rationale provided by entities that did not consider PAIs
-the degree of alignment of the objective with the Paris Agreement
-any uptake by FMPs of the good practices highlighted in the latest report?**

Did the use of the template in Table 1 of Annex I of the SFDR Delegated Regulation help or hinder this progress?

NCA's were split on this reply, but mostly going in the direction of no major improvement to be reported in the areas highlighted in the question.

One NCA stated that the quality of the rationale provided by entities that did not consider PAIs is improving, in particular because timelines are nevertheless frequently missing. Another NCA noted that there was no improvement reported, but that these elements would have been closely looked at in the context of case-by-case supervision.

One NCA stated that the biggest change compared to last year was the use of the Annex 1, which provided standardised disclosures, but no other progress could be reported based on current supervision. Another NCA stated that the information provided to investors is of enhanced quality. However, no specific conclusions concerning these specific elements were drawn. For example, solely two funds, which were launched only recently, make carbon-neutral claims.

This was confirmed also by another NCA who did not observe any significant progress, but the use of Annex I allowed more guidance on how to make the required disclosures. Another NCA reported that a significant development to report is that employees of FMP are actively receiving training, regulation requirements are becoming more difficult, and information supplied is becoming more accurate and thorough. Another NCA stated that on the asset management side, the use of the template in Table 1 of Annex I of the SFDR Delegated Regulation has standardised the information reported and ensured that it is more comparable between companies.

One NCA also confirmed that there was no quality enhancement of the rationale provided by entities that did not consider PAIs is observed. The reasoning on asset managers' decisions not to consider PAI on sustainability factors is precise and clear. Legal entities, which consider PAI, have not made changes to information on compliance with the Paris Agreement objectives. At this stage there are no good practices worth sharing. The reasoning on pension funds in scope decisions not to consider PAI on sustainability factors is precise and clear. Those which consider PAI, have not made changes to information on compliance with the Paris Agreement objectives.

One NCA did not notice any progress about the rationale provided by entities that did not consider PAIs or the degree of Paris Agreement alignment and in general no significant improvement in the quality of the rationale provided by entities that do not consider PAIs. But a general improvement in the “PAIs consideration” disclosure was observed, especially in the banking sector, which the NCA would explain as a positive effect of the application of the standardised template and related provisions set out in SFDR level 2. Similarly, no significant changes have been registered with respect to the degree of alignment of the objective with the Paris Agreement.

Another NCA reported that in the asset management sector, the quality of the rationale provided by FMPs that do not consider PAIs has improved as the entities justify this approach in a more relevant way compared to last year's survey. While not being able to make a comparison with last year, the same NCA noted that the use of the template in Table 1 of Annex I of the SFDR Delegated Regulation has helped the FMPs' practices in sustainability-related disclosures as it has unified the structure and served as a good guide for FMPs when informing about principle adverse impacts of their investment decisions on sustainability factors. The same NCA noticed positive progress in Article 4 disclosures in the insurance sector.

One NCA stated that the improvement can be caused by the template in the Delegated Regulation, which gives more detailed instructions for disclosures than the SFDR. There was an improvement compared to last year's survey, and the use of the mandatory templates with instructions in SFDR has helped significantly. Article 4 SFDR disclosures in the banking sector also improved, as PAI information was more detailed and structured. It is expected that the quality shall further improve with the availability of underlying ESG data. Regarding investment firms, no substantial improvements have been identified since the initial disclosure was made.

One NCA agreed with others that they did not identify major progress. The main argument issued to justify non-PAI consideration were the diversified investment strategies, the absence of readily available data on the market and estimates to fully comply with the reporting requirements, the absence of sufficiently robust processes, the group exemption. For investment firms, no progress reported either, as they often justify not taking PAIs into consideration while waiting for more guidance on this matter. They also highlight that it currently requires great effort. On the asset management side the information is clearer compared to 2022 data and easier to find for investors. The quality of PAI consideration data improved due to an increasing number of registered AIFMs disclosing the info on a website.

One NCA noted that on the asset management side, on the quality of the rationale provided by entities that did not consider PAIs, the NCA stated that they did not perform such exercise on yearly basis due to time and resource constraint but in the spirit of a risk-based basis priority was given to the FMPs that do consider PAIs or manage Article 8 or 9 funds. No noticeable progress has been identified. On the insurance side, the observations include the fact that the extent of FMPs explaining in sufficient details and provide clear reasons as to why they do not consider the adverse impact of their investment decisions under Article 4(1)(b) of the SFDR and when they intend to do so, is quite minimal. On the pensions side, there has been specific focus on ESG/Sustainable Finance as part of the supervisory engagement process.

One NCA stated that since FMPs started to comply with Articles 4 and 10 SFDR Delegated Regulation and to use the template set out in Annex I of the SFDR Delegated Regulation, disclosures under Article 4(1)(a) and Article 4(3)-(4) SFDR benefited from a general increase in their quality and clarity. However, only few FMPs that fully comply with all regulatory. In particular, although references to the alignment with the Paris Agreement can be found on the international standards section, few FMPs disclosed the indicators associated with that alignment in that specific section. Even though an NCA conducted a similar exercise in 2023, at the time, the deadline for FMPs to publish disclosures under Article 4 SFDR in accordance with SFDR Delegated Regulation had not yet been

met (supervisory analysis occurred before June 30, 2023). Thus, there are no aggregated data that allows us to make a comparison of the good practices highlighted in last year's report.

One NCA stated that SFDR information is more visible and easier to find on FMPs' websites, a little progress in the rationale provided by entities that did not consider PAIs. The template was helpful. Another NCA confirmed that most of the companies that consider PAIs have funds that invest into real estate or private equity and explained that the required data for all compulsory PAI indicators is not available. This rationale had not changed significantly from last year.

One NCA stated that overall, the quality of disclosures has improved. One management company has stated that it will proceed to the voluntary disclosure of certain PAIs included in Table 1 of Annex 1, which is an improvement compared to last year's report. The use of the template included in SFDR Delegated Regulation has been helpful. Also another NCA confirmed that the use of the template in Table 1 of Annex I of the SFDR Delegated Regulation helps to have a good quality and transparent disclosures of FMPs.

One NCA reported that for investment firms there were no particular differences from 2023 and overall the disclosures were similar to last year's survey. It was noted that some firms had updated their disclosures (from those in 2023). Another NCA noted that the quality of the rationale of 12 out of 27 entities that do not consider PAIs is not sufficient, or it is incorrect, so they have been requested to explain and justify their position (the survey has been filled out before receiving their answers). Interestingly, the same NCA did not consider that the use of the template has an impact on the progress as it serves as a checklist for entities to include all points of the regulation. One NCA reported that the progress in FMPs' practices regarding degree of alignment of the objective with the Paris Agreement it exists but is not significant as described earlier.

Finally, one NCA stated that from the point of view of the regulator, the publishing of templates complying with Table 1 Annex I SFDR helped to compare approaches of different companies. The published documents are comparable, so it helps to understand practices adopted at various asset management companies, insurance companies and pension funds.

6) On average, how many engagement practices have been disclosed in the section "Engagement policies" in the template in Table 1 of Annex I of the SFDR Delegated Regulation? Do the disclosures show any improvement in the investee companies' adverse impacts?

One NCA stated that they could not provide a clear answer to this question as the coverage ratio and methodologies are still evolving. Another NCA could note instead that the quality and comprehensiveness of disclosures in the section "Engagement policies" in the template in Table 1 of Annex I of the SFDR Delegated Regulation varies considerably. Amongst the good practices listed there is providing the number of engagement actions undertaking as well as the number of companies targeted, including their geographical and sectoral allocations, disclosing information on the votes made, on topics of focus for their engagement policies, describing the escalation policy implemented and providing the list of criteria the FMP analyses. In terms of bad practices, there is the failure to detail the resources dedicated to the implementation of the engagement policies, the failure of disclosing the objectives of the engagement policy as well as keeping the topics on which the FMP focuses its engagement policy generic and undefined.

One NCA stated that they often noted a general reference toward the engagement policy of the FMP, no specific mention of the number of engagement practices, whereas another NCA noted that on the asset management side FMPs are generally transparent on their engagement policies, unlike insurance and pensions.

One NCA reported that on average, three engagement policies per investment management company have been disclosed in the section “Engagement policies” (template in Table 1 of Annex I of the SFDR Delegated Regulation). No improvement in the investee companies’ adverse impacts observed and that predominantly, in the assessed sample the exercise of voting rights/proxy voting, dialogue with the companies, active stewardship are the elements disclosed more often.

One NCA stated that asset managers and pension funds are those disclosing engagement policies more often, whereas on the insurance side the disclosure is more partial. Another NCA said that usually asset management companies refer to their voting rights policy, their participation in collective engagement initiatives, monitoring of portfolio companies through dialogue and support to improve the governance of the portfolio company. The insurance undertakings mainly refer to their voting rights policy and to dialogue with the concerned companies.

One NCA reported that it has not been possible to identify any improvement in the adverse impacts of the investee companies. Another NCA suggested that banks disclose that they do not have engagement or stewardship policies on their own. In many instances, banks’ discretionary portfolio management services invest on funds that are managed within the banking group. It could be said that banks somehow “externalise” the engagement with the management companies, because they do not have a significant voting power via DPM investing only. On the investment firms side, many engagement practices were considered vague, whereas on the asset management side the engagement policies are mainly reported through the ongoing monitoring of investee companies and the conduct of engagement activities which are regularly made via the voting rights or attendance to the shareholder meetings.

One NCA stated that on average, all FMPs disclose at least one engagement practice. Usually, this practice is either exercising their voting rights through a proxy or establishing a dialogue with the company in question. Another NCA noted that all asset managers surveyed confirmed having no engagement policies in light of the fact that such policies were not required for the attainment of the investment objectives of the financial product under management.

One NCA noted that most FMPs vote at general meetings and carry out advocacy with the undertakings. Advocacy is carried out by own dialogues but also with the help of external suppliers and through cooperations with other investors (investor initiatives). Some FMPs are active in election committees. The dialogues can be proactive as well as reactive. Another NCA identified quite a few cases of generic disclosures. However, even if generic, such disclosures on engagement practices allow a better understanding on how FMPs work with its investees on sustainability, enabling to complement PAI disclosures and provides an overall perspective on this issue.

One NCA noted that in the section “Engagement Policies” the companies describe what kind of engagement practices they use. Companies usually mention three different kinds of engagement practices: industry initiatives such as Climate Action 100+, voting in general meetings, active ownership such as proactive engagement with companies. Another NCA said that almost every FMP’s have “Engagement policies” in the template in Table 1 of Annex I of the SFDR, however they did not observe the effect of these policies regarding the investee companies' adverse impact.

One NCA confirmed that different engagement practices have been disclosed in the abovementioned section, namely: engagement with assets management undertakings in case of outsourcing, communication with issuers or the exercise of rights arising from financial instruments, participation in assembly meetings of domestic issuers, on the management of which he may have a slightly greater influence, voting and occasionally proposing items on the agenda of the assembly meetings. Another NCA noted that none of the asset management companies in scope disclosed the number of practices in the “Engagement policies” section, they only explain or mention the kind of engagements. 3 out of the 13 entities considered have disclosed at least one

specific value/number in the table of indicators under the columns “Actions taken, and actions planned and targets set for the next reference period”. There are not values from previous year to compare. Most of the investment firms and banks surveyed indicate in this section that they do not have direct engagement policies because they have delegated portfolio management services to the investment funds management company of the group, or their management is limited to investment funds (in these cases it is the investment funds management company who engages with the investee companies and participates in the shareholders’ meetings of the investee companies); or their clients do not delegate their voting rights to them.

One NCA reported that the average number of engagement practices disclosed in the "Engagement policies" section of Table 1 of Annex I of the SFDR Delegated Regulation varies, with many reporting between 3 to 6 key practices. The same NCA concluded, for all sectors, that these disclosures are not enough detailed to indicate the improvements in investee companies' adverse impacts as information is mostly presented on a general basis.

One NCA has noted that the engagement practices mostly mentioned by asset managers are monitoring of invested companies and exercise of voting rights. As regards the banking sector the following observations were made: A) the few examples of “PAIs consideration” disclosures by small entities examined, show that entities typically state that they have chosen not to adopt an engagement policy pursuant to Article 3g of Directive 2007/36/EC because in the portfolios they manage on behalf of their clients they do not have significant holdings in listed companies. Moreover, they explain that they do not have other engagement policies because in their managed portfolios they mainly invest in funds. Therefore, in such instances, they follow the policy of actively assessing information directly acquired from Mancos on their approaches to sustainability, also with respect to PAIs consideration; B) for large entities, it has been observed that the details on the engagement policies are not always provided. In the cases where this information is indeed provided, most commonly the banks have chosen not to adopt an engagement policy pursuant to Article 3g of Directive 2007/36/EC for the following reasons: i) they only have minority holdings in listed companies so they would not be in the position to meaningfully impact shareholders’ decisions, ii) the contract for portfolio management service usually leaves the voting right directly to clients (unless s/he decides to delegate the bank), iii) in case of portfolios managed on behalf of clients mainly invested in funds, an assessment is made on Mancos’ approaches to sustainability, also with respect to PAIs consideration. In one case only specific details have been found on the adoption of an engagement policy, which is substantially based on the assessment of relevant public information on investee companies (e.g. on the composition of the management body and on transparency regarding their strategy on key sustainability aspect such as labour conditions and environment). Moreover, whenever possible, the same bank takes the opportunity for cooperating with other shareholders to try to influence certain important decisions or promoting engagement initiatives or other investor relations to informally engage with shareholders in relation to relevant sustainability issues.

7) What challenges did you encounter in supervising the PAI disclosures? How do you think these challenges could be overcome?

NCA's have provided interesting feedback to this question. One NCA noted two key challenges: the number of employees criteria is still an issue in the identification of FMPs subject to mandatory publications under Article 4 (3) – (4) SFDR, and a high number of small entities could be subject to Article 4 (1) (a)-(b) SFDR. The first challenge is the identification of the split between Article 4(1)(a) and 4(1)(b) SFDR, although it was noted that ongoing development should enable building a precise overview. The second issue is the supervision of those reports: internal guidelines have been built for reports under Article 4(1)(a), but NCA control focuses on compliance for the moment. An NCA noted instead three key challenges around information in the PAI disclosures 1) lack of reliable data; 2) their extremely high number 3) their clarity and relevance.

A few NCAs also specifically pointed out at the challenge to assess, handle, compare the reported data, given the high flow of information. Even if the process can be automated, the identification of best practices still requires qualitative analysis.

One NCA has explicitly called for the ESAs to include in their good and bad practices also recommendations on strategies.

The suggestion from one NCA is to create standardised internal processes for evaluating and reporting which can help overcome obstacles by offering clarity and uniformity. In addition, involving multiple stakeholders (community, experts, regulators, and industry representatives) could increase trust, and the same would apply for setting up auditing tools to verify algorithms and results.

One NCA pointed at the lack of standardisation in how PAI data is reported and interpreted across jurisdictions and industries. This disparity makes it difficult to consistently compare and assess the true impact of investments. Developing and maintaining the systems and expertise needed to monitor and report PAI disclosures can be resource intensive. In addition, there is also an element of having to keep pace with the regulatory landscape which can be challenging for both the market and regulators alike. The use of advanced data analytics, artificial intelligence and blockchain can streamline the collection, verification and reporting of PAI data. Encouraging collaboration between regulators, financial entities, data providers and NGOs could lead to innovative solutions to PAI disclosure challenges.

Another NCA reported that some smaller asset management companies have argued that the template is not suitable for their activities (for example companies that manage AIF invested in real estate or active in microfinance).

One NCA points to the small side of their market from the investment firms' side, typically with less than 500 full-time employees (FTE), and the challenge with assisting these firms in effectively integrating the PAI into their decision-making processes.

One NCA noted that no significant challenges have been encountered in supervising the PAI disclosures as they do not perform a "validity check" (e.g. content analysis cannot be performed due to the impossibility of verifying the very technical details of Article 4 disclosures).

One NCA noted that the main challenge is linked to the data reliability, interpretation and comparison between FMPs - for the banking sector, in particular quantitative figures on PAI indicators should be subject to the kind of external assurance on an on-site inspection to have the comfort that banks are disclosing all the negative impact generated. Another NCA noted that this exercise has allowed them to reach out to those insurance undertakings that had not published anything on the website or to those whose information published was hard to find.

Another NCA noted that it is worth mentioning that the explanation column was interpreted very differently by the FMPs. Some left it completely empty, even though they reported a value for the certain PAI indicator under metrics, while others spent a lot of time describing into details. Furthermore, when the FMP do not provide an explanation for their numbers, it is difficult to know/understand if the FMP has disclosed properly and provided the correct value under "metrics". Another important challenge is that some FMPs indicated N/A, 0% or filled in nothing, making it difficult to conclude whether the intention was to indicate that the value was not relevant for the specific FMP, not applicable or if the value is actually intended to be 0.

One NCA pointed at the entities disclosing under Article 4 (1) (b) SFDR use general phrases and do not provide information on an individual basis. More examples of good and bad practices provided by the ESAs could improve the supervision of PAI disclosures.

One NCA noted that from an asset management perspective the supervision of PAI disclosures is challenging due to the fact that any publications of such reporting – and subsequent changes – are not reported directly to the NCAs, which makes it difficult to assess the compliance of the information since the NCA is requested to extract it manually by going through the entities' websites and other documents, without chances to automate the process. In addition, as there are no common or comparable standards that can assist NCAs in challenging data and/or verifying the quality and/or completeness of the FMP's SFDR website disclosures, including the reasons given by entities for not considering PAIs, this adds to the challenge.

One NCA reported that insurance undertakings often use the argument of the lack of data, but the availability of data is expected to improve in the future, together with the overall level of disclosures. One NCA stated that the main challenge identified concerns the way to assess the accuracy of the information provided for in the disclosures under Article 4 SFDR. Even though the disclosures follow the template set out in Annex I of the SFDR Delegated Regulation, to assess the accuracy of such information, it would be necessary to access the investments made by FMPs.

One NCA stated that the biggest challenge was to find the PAI disclosures on the websites of the insurance undertakings and IORPs included in the survey. Another element was to compare the information provided in the PAI disclosures as many FMPs have made their own interpretation of how they should provide the information. There is a lot of information included in the PAI which does not need to be provided, which makes it more difficult to review the PAI disclosures. Additional Q&As would be preferred to overcome some challenges. Another NCA suggested that ESMA could give detailed instructions how supervisors should supervise PAI statements quality for example thresholds.

One NCA noted that FMPs could reconsider their approach on PAI disclosures when accurate data becomes available by the investee companies and ESG data providers. Supervision of PAI disclosures requires data which is not yet fully available. Data deriving from data providers needs validation. Expertise is needed at supervision level as well as enhancement of human and technical resources.

One NCA noted that for investment firms, only two firms' disclosures, out of 38, were difficult to find, and this challenge could be overcome through displaying the PAI disclosures in a more prominent and easily accessible location on firm websites. Another NCA listed as main challenges on the asset management side, in addition to the location of the disclosures, discussions with the entities that are still unsure on the application of the rules (e.g. misunderstanding that disclosure at product level means that they are disclosing at entity level or not providing any justification or an outdated one when not considering PAIs). There is still room for improvement for entities to disclose all legal information with enough detail but since they have provided entities with a detailed list of recommendations, they expect the next report to be more accurate and complete. Another challenge in the supervision of the PAI disclosures relates to the very technical nature of the sustainability-related information which requires trained staff and devoting resources to the supervision of these new obligations.

One NCA also reported that supervising the PAI disclosures can present several challenges. Given the volume of data and relevant information, even for smaller markets, the review of all PAI statements can be challenging and demanding for the NCA. This underscores the need for a well-established risk-based approach, adjustment of the internal organisation of supervision and additional resources. Another recognised challenge is the demanding nature of validating the data

and the sources, as there are no specified criteria for assessing the credibility and accuracy of the source data.

Finally, one NCA noted that given the limited number of PAI statements it was difficult to make conclusions and going forward there will be a comparison between 2023 and 2024 statements, as opposed to a comparison across different companies. The description of engagement policies of both asset management companies includes only a general description of the engagement policy of the company or its financial group, without providing any examples of types or number of actual interactions with an investee company during the reference period. Both templates included links to the group stewardship policies. The disclosures do not mention any improvement in the investee companies' adverse impacts, as a direct or indirect consequence of the engagement policy of the asset management company. The description of engagement policies of SPMC and insurance companies include only general high-level description of the engagement policy of the company or its financial group. When compared with asset management companies, there is a lack of granularity.