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## ESAs' Q&A on Sustainability-Related Disclosures

On 17 November 2022, the ESAs (ESMA, EIOPA, and EBA) published Questions and Answers (“Q&A”) on the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288 (“RTS”)).

The Q&A has been published in response to clarifications sought by financial market participants (“FMPs”) on the disclosure requirements imposed under the RTS.

### Scope

The Q&A covers six key topics:

1. Current value of all investments in PAI and Taxonomy-aligned disclosures
2. PAI disclosures
3. Financial product disclosures
4. Multi-option products
5. Taxonomy-aligned investment disclosures
6. Financial advisers and execution-only FMPs

### Key points

Some of the most notable elements of the Q&A include the following:

- **Interpretation of the concept of “current value of all investments” in PAI and Taxonomy-aligned disclosures**

According to the Q&A, the basis used to calculate the “current value of all investments” in the PAI indicators should be consistent with the definition of the “investee company’s enterprise value”.

With respect to the concept of “all investments”, the Q&A specifies that:

- **For PAI calculations**, “all investments” should be understood to mean both direct and indirect investments funding investee companies or sovereigns.

Additional considerations are set out for the PAI calculations of asset managers, insurers, IORPs and banks or investment firms providing portfolio management or investment advice services.

- For Taxonomy-alignment calculation, the investments in the numerator and denominator should be valued at market value and not at “net asset value”.

- **Clarifications on PAI disclosures, financial product disclosures and multi-option products (“MOPs”)**

- The Q&A indicates that it would be **good practice** to include the proportion of investments for which the FMP has relied on data obtained **directly from investee companies** and the proportion of investments for which the FMP has relied on data **obtained by carrying out additional research**.
- Where the management of a fund is delegated, disclosures on PAI should cover:
  - o at **product level**, all investments of the product, irrespective of whether or not the investment management is delegated;
  - o at **entity level**, all investments should be included in the reporting disclosed by the delegator.
- FMPs may **remove the sections that are deemed not relevant** for their financial product in the disclosure templates **only if those sections are accompanied by a red text instruction** limiting the scope of application of the section.
- The objective-aligned index designated as a reference benchmark **may not** be a broad market index.
- With respect to MOPs:
  - o Ahead of the 1 January 2023 application date, insurance undertakings providing MOPs should request the underlying option disclosures from the FMPs providing them.
  - o Periodic disclosures should be given with regard to any investment options invested in during the reference period, even if the investment options were not invested in during the whole reference period.

- **Clarifications on Taxonomy-aligned investment disclosures**

- **For their taxonomy-alignment KPI**, FMPs may count an investment in a **green bond** up to the level of taxonomy-aligned activities that the proceeds are intended to be used for. FMPs should **not take into account the issuer** of such instruments for the purpose of the taxonomy-alignment KPI of the financial product.
- Some PAI indicators could be applied at **“project” level and not at company** level where the investment is in a security that finances a specific project rather than the issuer issuing the security.
- The disclosure of the minimum extent of Taxonomy-alignment of investments of the financial product is a **commitment** which should be **met at all times**. Therefore, **the pre-contractual disclosure should not include “targets”** for Taxonomy-alignment, nor the actual achieved level of Taxonomy-aligned investments, **but only the minimum proportion which the financial product commits to meet**.
- When information on the Taxonomy-alignment of investments is not available from the public disclosures of investee companies, the use of **“equivalent information”** from investee companies or third-party providers is permitted.
- **To include investments (that are not derivatives)** in the numerator of the Taxonomy-alignment of a product, the financial product (i) **should own the investment**, and (ii) **should not swap the performance of this investment**.
- While an activity can contribute to several environmental and/or social objectives, **double counting should be avoided**.

- **Clarifications on the scope of application for financial advisers and execution-only firms**

- Only intermediaries/advisers providing advice are required to abide by the rules imposed under the SFDR.
- “Execution only” investment firms are not required to fulfil the obligations concerning the transparency of disclosures for financial products on websites under Article 10 SFDR.

Do not hesitate to contact our experts to help you meet the challenges of the constantly evolving ESG framework.

[To read the Q&A, click here\\_](#)

[To read our newsflash on the new CSSF FAQ – Sustainable Finance Disclosure Regulation, click here\\_](#)

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