

The three European Supervisory Authorities publish Final Report and draft RTS on disclosures under SFDR

The Joint Committee of the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) delivered today to the European Commission (EC) the [Final Report](#), including the draft Regulatory Technical Standards (RTS), on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR).

The proposed RTS aim to strengthen protection for end-investors by improving Environmental, Social and Governance (ESG) disclosures to end-investors on the principal adverse impacts of investment decisions and on the sustainability features of a wide range of financial products. This will help to respond to investor demands for sustainable products and reduce the risk of greenwashing.

Steven Maijor, Chair of the ESAs Joint Committee, said: *“The significant set of rules issued today provide a strong basis to improve ESG reporting and combat greenwashing. They strike a careful balance between achieving common disclosures across the range of financial products covered by the SFDR and recognising that they will be included in documents that are very diverse in length and complexity. The ESAs have listened to the consultation feedback from stakeholders and have adjusted the proposed disclosures”.*

Main proposals

Entity-level principal adverse impact disclosures

The principal adverse impacts that investment decisions have on sustainability factors should be disclosed on the entity’s website. The disclosure should take the form of a statement showing how investments adversely impact indicators in relation to

- climate and environment; and
- social and employee matters, respect for human rights, anti-corruption and anti-bribery aspects.

The ESAs have updated the list of indicators for principal adverse impacts. The principal adverse impact reporting in the SFDR is based on the principle of proportionality – for companies with fewer than 500 employees, the entity-level principal adverse impact reporting applies on a comply-or-explain basis.

Product level disclosures

The sustainability characteristics or objectives of financial products are to be disclosed in an annex to the respective sectoral pre-contractual and

periodic documentation in mandatory templates and on providers' websites.

Proposals relate to:

- **Pre-contractual information** should include details on how a product with environmental or social characteristics/ sustainable investment objective/ meets those/ that characteristics/ objective.
- **Information on the entity's website** on the environmental or social characteristics of financial products/ sustainable investment objective of the product and the methodologies used.
- **Information in periodic reports** specifying: (I) the extent to which products met the environmental and/or social characteristics by means of relevant indicators; and (II) for products with sustainable investment objectives, including products whose objective is a reduction in carbon emissions.
- **Information in relation to the 'do not significantly harm' principle:** specifying the details for how sustainable investments do not significantly harm sustainable investment objectives.

As the ESAs were not empowered to differentiate the disclosures between financial market participants and products, the RTS contain a harmonised approach to all financial products. Therefore, the same disclosures are required for a very broad range of products attached as annexes to existing sectoral disclosure documents that have different levels of granularity and length.

Next steps

The EC is expected to endorse the RTS within 3 months of their publication.

While financial market participants and financial advisers are required to apply most of the provisions on sustainability-related disclosures laid down in the SFDR from 10 March 2021, the application of the RTS will be delayed to a later date according to the [EC letter to the ESAs](#). The ESAs have proposed in these draft RTS that the application date of the RTS should be 1 January 2022.

The ESAs plan to issue a public supervisory statement before the application date of SFDR in order to achieve an effective and consistent application of the SFDR's requirements and consistent national supervision of the SFDR.

The ESAs will also publish a consultation on taxonomy-related product disclosures under the Taxonomy Regulation which amends the empowerments in Articles 8(4), 9(6) and 11(5) of the SFDR.

Background

On 9 December 2019, the SFDR was published in the Official Journal. The Taxonomy Regulation was published in the Official Journal on 22 June 2020.

The Final Report takes into account the feedback received on the [consultation paper](#) launched in April 2020.