Clear SFDR templates needed for sustainable investing

In brief Financial undertakings must commit to providing clearer disclosures regarding sustainable investing; SFDR templates are essential for this purpose. The clearer and more comprehensive the information entered in the templates, the better equipped investors, pension members and advisers are to understand products, make comparisons or offer suitable advice. Most companies indicate that they meet the basic requirements (Level 1), although some are still lagging behind. With regard to the delegated regulation, further work is still needed to enhance the use and completion of templates. The AFM offers support in this regard, with guidance to facilitate further improvement.

Summary

Increasingly, investors are prioritising investments that support the transition to a more sustainable economy. The financial sector facilitates this by offering suitable products and by being transparent about sustainability aspects. The Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants and financial advisers to provide transparency on the sustainability aspects of their investment policies and products and to furnish investors with clear and comparable information.

The AFM conducted a self-assessment among 115 fund managers, 97 asset managers and 155 pension providers to assess their compliance with the SFDR and the delegated regulation introduced in 2023. Most firms indicate that they meet the basic requirements ensuing from Level 1 of the SFDR. Some companies are still lagging behind. The delegated regulation, which gives further substance to the SFDR, requires firms among other things to use templates for providing disclosures regarding the reduction of adverse impacts as well as products with sustainable characteristics or objectives. Further work is still needed by the sector in particular with regard to the use and completion of the various templates. In this report, the AFM provides guidance aimed at facilitating improvement in this regard.

Most companies say they comply with basic requirements, product information not always available

The self-assessment shows that the vast majority of firms at entity level meet the basic requirements of Level 1 of the SFDR. At least 91% of firms publish a sustainability risk policy on their website, at least 87% place a statement on their website making it clear whether or not they take into account the adverse impact of investments and at least 81% have remuneration policies that are in line with the integration of sustainability risks. However, this also means that not all firms have this information available as yet.

The AFM has identified key areas of concern in relation to product-specific information. Firms indicate that they disclose how sustainability risks are integrated for at least three quarters of their products. For some of these products, however, there is a lack of additional information regarding the potential impact of sustainability risks on their returns. In addition, periodic reports relating to products with sustainable characteristics or objectives is not available in all cases. This is an area in which asset managers in particular are lagging behind. Compared to pension providers and fund managers, which issue periodic reports for at least 85% of their products, asset managers only provide such reports for about 25% of their products.

The basic Level 1 requirements have applied since 10 March 2021, giving companies sufficient time to comply. At this stage, the AFM expects all firms to be compliant with the basic SFDR requirements. Firms that do not make sufficient efforts in this regard will be addressed in relation to their non-compliance.

Majority of firms use mandatory templates

The AFM notes that firms are making progress in the use of mandatory templates. The pre-contractual templates have been used to disclose sustainability-related information for nearly all the products of pension providers and fund managers, for example. Among asset managers, this occurs for 73% of their products. In addition, the majority of firms – two-thirds of asset managers and nearly all pension providers and managers – use the standard template to report on adverse sustainability impact. By extension, therefore, some of these firms do not use the templates. The AFM encourages firms not currently using templates to begin implementing them.

Disclosures in templates often unclear or too general

It is important that investors understand how firms give substance to the sustainability aspects of products and what promises are made in that field. Currently, the disclosures made in pre-contractual templates are often difficult to understand. This is due in part to wording that is too vague and/or general. Also, the presentation of information occasionally does not meet the specified requirements, or the completed template is not placed on the website. In this report, the AFM shares areas of concern and guidance so that firms can further improve their use of templates and the disclosures made in those templates.

Templates serve as the foundation of sustainable investments

The delegated regulation requires firms to use templates. The information disclosed in those templates should be accurate, clear and balanced/not misleading. While it requires a lot of effort to get this right, it is nonetheless essential. The clearer and more comprehensive the information entered in the templates, the better equipped investors, pension members and advisers are to understand products, make comparisons or offer suitable advice. Moreover, the templates offer them greater insight into the substantiation of sustainability claims.

Firms do not always report on mandatory adverse sustainability impact data

Firms indicate that they cannot always report on all the mandatory sustainability indicators when reporting on the adverse impact of their investment decisions, because they do not have access to the right data. Where an investee company does not make this data available itself, firms are most likely to use external parties. Nevertheless, in a number of cases firms do not report on all the mandatory sustainability indicators.

The AFM calls on fund managers, asset managers and pension providers to make every effort to obtain the desired data. It is not permitted to omit mandatory sustainability indicators in the reports.

In addition, the AFM notes that the proportion of EU Taxonomy-aligned investments and the proportion of sustainable investments of mainly products with sustainable characteristics are often 0%, or are not capable of being determined by firms. The AFM encourages firms to continue making efforts to obtain the necessary data and to continuously evaluate whether the reported proportion remains appropriate, since these are key indicators for investors when deciding in which products to invest.

Market view: increasing number of funds and pension schemes with sustainable characteristics

Market views on the range of available products have been developed based on the information from the self-assessment. These show that there is an increasing number of funds and pension schemes with sustainable characteristics. This is a positive sign, as a broader range of products that provide insight into their sustainable characteristics allows investors to select products or accumulate assets in products that are in keeping with their sustainability requirements.

What does the AFM expect from you?

The AFM expects firms that do not currently meet the basic requirements (Level 1) of the SFDR to take immediate action to ensure their compliance within a short timeframe. The AFM expects all firms to use the findings and guidance provided in this report to further improve their sustainability-related disclosures. This is especially relevant given the critical importance attached to the quality and reliability of sustainability-related information. This enables investors to select suitable products. In addition, legislation regarding the provision of sustainability-related information is still evolving and it is crucial for firms to stay informed and be prepared to take appropriate measures.