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.

SUPERVISION REPORT

AFM

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REPORTING REPORT

Summary

Investors are increasingly prioritising investments that support the transition to a more sustainable economy. The financial sector facilitates the sustainability drive by offering appropriate products and making transparent sustainability-related disclosures. The Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants and financial advisers to be transparent about the sustainability-related aspects of their investment policies and products, and to provide 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 respondents indicated that they met the basic requirements ensuing from Level 1 of the SFDR. That said, some of them are lagging behind. One of the requirements of the delegated regulation, which provides further clarification of the SFDR, is that financial market participants use templates for their disclosures about reducing adverse impacts and about products with sustainable characteristics or sustainable investment objectives. The sector needs to intensify its efforts, mainly in terms of using and completing the different templates. In this report, the AFM will provide guidance to drive further improvements.

Most respondents claim to comply with basic requirements; product information not always available

The self-assessment shows that the vast majority of financial market participants met the SFDR Level 1 basic requirements at entity level. At least 91% of respondents had published a sustainability risk policy on their websites, at least 87% had posted website disclosures on whether or not they consider adverse impacts of investment decisions, and at least 81% had included in their remuneration policies information on how those policies were consistent with the integration of sustainability risks. These figures also demonstrate, however, that not all financial market participants are in fact making these disclosures.

The AFM has identified key areas of concern regarding product-specific information. The respondents indicated that they made disclosures on how they deal with the integration of sustainability risks for at least 75% of their product offering.

Additional information about the likely impacts of sustainability risks on returns is not available for some of these products. Furthermore, financial market participants do not always produce periodic reports on products with sustainable characteristics or sustainable investment objectives. Asset managers, in particular, are lagging behind in this regard. Where pension providers and fund managers issue periodic reports for at least 85% of their products, asset managers only do so for about 25% of their product offering.

Given that the Level 1 basic requirements have been in effect since 10 March 2021, financial market participants have had plenty of time to ensure compliance. At this stage, the AFM expects all financial market participants to meet 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 respondents use required templates

The AFM notes that firms are making progress in the use of mandatory templates. The pre-contractual templates for making sustainability-related disclosures were used for nearly all products offered by pension providers and fund managers, for instance. Asset managers used these templates for 73% of their products. In addition, the majority of respondents, i.e. two-thirds of asset managers and nearly all pension providers and fund managers, used the standard template to report on adverse sustainability impacts. This means that some financial market participants do not use the templates. The AFM encourages financial market participants 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 – building blocks for sustainable investing
The delegated regulation requires financial market participants to use templates. The information disclosed in these templates should be accurate, clear, fair and not misleading. This is a challenging, yet essential, exercise. The clearer the disclosures in the templates, the better equipped investors, pension members and advisers will be to understand a product, compare alternatives or offer appropriate advice. The templates also offer them a better understanding of the substantiation of sustainability claims.

Failure to report on adverse sustainability impacts

The respondents indicated that they were not always in a position to report on all required sustainability indicators in relation to the adverse impacts of their investment decisions because they did not have access to the right data. If an investee company does not provide these data, financial market participants are most likely to rely on third-party data providers to obtain this information. That said, there are a number of instances in which financial market participants will not report on all required sustainability indicators.

The AFM urges fund managers, asset managers and pension providers to make every effort to gain access to the required data. Financial market participants are not permitted to omit required sustainability indicators in their reports.

The self-assessment also showed that the share of EU Taxonomy-aligned investments and the share of sustainable investments (mainly in products with sustainable characteristics) tended to be 0% or could not be ascertained. The AFM encourages financial market participants to persist in their efforts to obtain the required data and to evaluate on an ongoing basis whether the reported percentages remain appropriate, since these key indicators enable investors to take informed decisions.

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

Market perspectives on product offerings were developed based on the information garnered from the self-assessment. These show that an increasing number of funds and pension schemes have sustainable characteristics. This is a positive development. As sustainability-related disclosures are provided for a broader range of products, investors will be able to take better informed decisions and choose the investment products that best meet their sustainability requirements.

What does the AFM expect from financial market participants?

The AFM expects financial market participants that fail to comply with the basic SFDR requirements (Level 1) at this time to take immediate action to ensure compliance in the near future. The AFM expects all financial market participants to use the findings and guidance offered in this report to further improve their sustainability-related disclosures, which is especially relevant given the critical importance attached to the quality and reliability of this information as it allows investors to select products that suit their preferences. In addition, legislation regarding sustainability-related disclosures continues to evolve. Financial market participants would be well-advised to monitor any developments in this area so that they can take appropriate action where needed.

1. Introduction

An increasing number of investors are interested in investments that contribute to the sustainability transition.[1] That is why transparency about the sustainable characteristics and sustainability risks of products is key. Transparent product information will give retail and institutional investors an understanding of a product's sustainable characteristics and will help them and their clients take informed decisions.

The financial sector is owning its role in the sustainability transition by providing accurate, clear, fair and non-misleading information about the sustainability of financial products[2] (*products*) and by offering an increasing number of products that are geared towards the sustainability requirements of investors or pension members (hereinafter jointly referred to as *investors*).

1.1 Sustainability legislation

The Level 1 requirements of the Sustainable Finance Disclosure Regulation (SFDR)[3] have been in effect since 10 March 2021. This Regulation sets out requirements for sustainability-related disclosures in the financial services sector. Its aim is to give investors and advisers a better understanding of the sustainability-related aspects of investment policies and products on offer. In addition, the Level 2 requirements of the delegated regulation (Regulatory Technical Standards)[4,5] which provide more specific rules for transparency of sustainability-related disclosures, came into force on 1 January 2023. This regulation imposes additional requirements for the presentation, methodologies and format of sustainability-related disclosures, such as standard templates for reporting on adverse sustainability impacts and on the sustainable characteristics and sustainable investment objectives of products.

1.2 Status review

As early as in 2021 and 2022, the AFM carried out reviews of compliance with the Level 1 requirements among alternative investment fund managers (AIFMs) and managers of undertakings for the collective investment in transferable securities (UCITSs) (hereinafter jointly referred to as fund managers), credit institutions and investment firms (hereinafter jointly referred to as asset managers), and pension funds, premium pension institutions and pension insurers (hereinafter jointly referred to as pension providers). As these reviews showed that not all requirements were being met, the AFM decided to share its findings and concerns with the market. By now, the AFM expects the sector to comply with the Level 1 requirements.

The aim of this new review is to gain a market-wide perspective of the level of compliance in the financial sector with the relevant statutory and regulatory requirements. The study also focuses on issues that need to be addressed with a view to meeting the Level 2 requirements. This review will help the selected financial market participants[6] to assess their current position and identify any necessary actions. The study is also meant to gain an understanding of how financial market participants go about completing the pre-contractual templates and to formulate some guidance based on their practices. These templates are one of the best ways to gain insight into the sustainable characteristics of a financial product. What is more, financial market

1 The AFM Consumer Monitor shows that half of the respondents are interested in sustainable investing.
2 As defined in Article 2(12) of the SFDR.
3 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.
4 Commission Delegated Regulation (EU) 2022/1288of 6 April 2022 supplementing Regulation (EU) 2019/2088.
5 Commission Delegated Regulation (EU) 2023/363of 31 October 2022 supplementing Regulation (EU) 2022/1288.
6 As defined in Article 2(1) of the SFDR.

participants can use these insights to tweak their own sustainability-related disclosures.

Finally, the review will help to create an overview of the product landscape by type of financial market participant. This overview will tell us more about the transparency requirements by which financial market participants claim their products are governed as well as the features that are inherent in products with sustainable characteristics or sustainable investment objectives.

1.3 Review methodology and limitations

The review was carried out in two parts. Part 1 was a self-assessment that was distributed among financial market participants. The outcomes of the self-assessment are based on self-reporting by the selected financial market participants. The AFM did not independently verify whether the financial market participants' answers accurately reflected the actual situation.

In addition, the questions asked as part of the self-assessment focused mainly on the availability of certain information and documents, and on whether specific processes were followed. The outcomes do not shed light on the quality of the information or the processes. Part 2 of the review involved a scan of the templates. This was aimed at how the templates were completed. The scope of the scan did not extend to reviewing whether the information disclosed in the templates, such as the investment strategy pursued, was consistent with a financial market participant's actual practices. Simultaneously with this review, the AFM also conducted a study of the integration of sustainability risks by fund managers in the context of an ESMA Common Supervisory Action. This review also focused partly on the SFDR; the outcomes of this study will be communicated separately. For a more detailed elaboration on the review methodology, see the appendix to this report.

2. Sector-wide observations

Based on our review, we have made a number of sector-wide observations about compliance with the Level 1 and Level 2 requirements that are relevant to all types of financial market participants. In this chapter, we will elaborate on our key observations, starting with the transparency requirements governing sustainability-related disclosures at entity level, followed by the pre-contractual and periodic transparency requirements governing sustainability-related disclosures at product level.

2.1 Most respondents make sustainability-related disclosures at entity level

Most respondents indicated that they complied with the Level 1 requirements at entity level. Of the selected financial market participants, at least 91% said that they had published a sustainability risk policy on their websites. Aspects to be addressed in a sustainability risk policy include a financial market participant's processes for identifying and monitoring sustainability risks. In addition, 87% of asset managers, 97% of pension providers and 94% of fund managers had published website disclosures on whether or not they consider the adverse sustainability impacts of their investment decisions. Finally, 81% of asset managers, 88% of pension providers and 93% of fund managers indicated that they had integrated sustainability risks into their remuneration policy. A remuneration policy is not to encourage excessive risk-taking.

Although most financial market participants meet these Level 1 requirements, a small number of them do not. In the AFM's opinion, non-compliance with the Level 1 requirements is unacceptable at this stage. Where necessary, the AFM will conduct oversight interviews with any financial market participants that do not fully meet these requirements.

Financial market participants should publish any required sustainability-related disclosures at entity level on their websites.

2.2 Some respondents report on adverse sustainability impacts

Financial market participants can decide to reduce any adverse environmental, social or governance impacts they may have, for instance by excluding or limiting investments in businesses with a relatively large carbon footprint or companies that do not clearly demonstrate their respect for human rights. They may also choose to engage with companies to promote responsible conduct and sustainable practices.

Financial market participants that consider the adverse sustainability impacts of their investment decisions are required to report on these impacts on an annual basis. Such impacts would include greenhouse gas emissions, impacts on biodiversity and impacts on employee matters (hereinafter jointly referred to as sustainability indicators). They can use templates to report on the adverse impacts of their investments and the actions they are taking to reduce these impacts. They are expected to report on a number of required sustainability indicators and on at least two optional sustainability indicators. This promotes transparency and helps investors, pension members and advisers to take informed decisions or provide better advice.

Financial market participants with more than 500 employees are required to report on the adverse impacts of their investment decisions. This is optional for smaller firms. Financial market participants that do not consider the adverse impacts of their investment decisions are expected to make a statement to that effect on their website.

The self-assessment showed that there were differences between fund managers, asset managers and pension providers in terms of considering the adverse sustainability impacts of their investment decisions. While 40% of fund managers and pension providers said that they considered such adverse impacts, just 20% of asset managers did the same. A large number of financial market participants that do report on their adverse impacts do so voluntarily.[7] All financial market participants with more than 500 employees indicated that they reported on the adverse impacts of their investment decisions.

Of the group of financial market participants that claimed to consider the adverse sustainability impacts of their investment decisions, 65% of asset managers, 99% of pension providers and 94% of fund managers used the required template to report these impacts. The AFM urges financial market participants that do not use these templates at this time to start doing so.

Financial market participants should make a clear statement as to whether they consider adverse sustainability impacts. In reporting on adverse sustainability impacts, financial market participants should use the appropriate template.

2.3 All respondents take extra steps to obtain data on adverse impacts

To ensure effective reporting on adverse impacts, a financial market participant will need the right data. The self-assessment showed that the required sustainability data are not always readily available. If an investee company or investment property does not provide these data, they can be obtained from other sources, including third-party data providers. If those sources cannot provide data either, financial market participants are free to make reasonable assumptions. In the self-assessment, all financial market participants indicated that they used their best efforts to obtain data if they were not readily available, mostly by relying on third-party data providers or external experts. Fund managers were the only type of financial market participants that claimed to contact investee companies.

That said, the self-assessment showed that the templates were not always fully complete. Of asset managers using a template, for instance, 27% did not complete it for all required indicators. In addition, 13% of asset managers did not report on at least two optional indicators. A small share of the selected pension providers (6%) did not include any disclosures on required and optional indicators in their templates. Of fund managers, 3% did not report on all required indicators and 8% did not report on at least two optional indicators. Financial market participants are always under the obligation to report on all required and at least two optional sustainability indicators.

If data on sustainability indicators are not publicly reported by an investee company, a financial market participant should seek out other data sources, for instance by cooperating with third-party data providers or external experts, or making reasonable assumptions. Financial market participants should fully complete the template.

7 These financial market participants are not required to report based on their size.

2.4 Considerable number of respondents lack data on impacts of sustainability risks on returns

Climate change and social developments are causing sustainability risks to be prioritised. A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could have an adverse material impact on the value of an investment. Such risks would be incurred, for instance, by a fund engaging in agricultural investments, which might become onerous due to extreme drought (physical risks), or by a fund investing in carbon-intensive businesses that are subject to value erosion due to climate-related and environmental measures (transition risks).

In order to take responsible investment decisions, investors need to know which sustainability risks are associated with a product and how these might impact returns. The SFDR requires providers of financial products, irrespective of whether they make sustainability-related disclosures, to make pre-contractual disclosures to investors to inform them of the principal sustainability risks associated with the product and how these might impact returns. The impact on returns might be difficult to quantify if there is a lack of reliable data and models. In such instances, financial market participants are permitted to use qualitative indicators so as to allow investors to weigh these risks in their investment decisions. If sustainability risks are deemed not to be relevant to a product, a financial market participant should explain why they are not relevant.

The study showed that a considerable number of products did not come with information about the likely impacts of sustainability risks on returns. The AFM reached this conclusion in earlier reviews as well. This study showed that 44% of the reviewed asset management portfolios, 30% of the selected largest pension schemes and 18% of the assessed investment funds did not provide any information on the impact of sustainability risks on returns.[8] When they did provide information, the disclosures were limited to a qualitative statement. The AFM has insisted on the relevance of this information earlier, urging financial market participants to make it available. In the AFM's opinion, it is unacceptable at this stage that some products do not come with this information. Failure to provide this information will result in an oversight interview.

Financial market participants should disclose for each product the principal sustainability risks that could cause adverse material impacts on the value of the investment and describe the likely impacts of these risks on returns.

2.5 Majority of respondents use pre-contractual templates

The AFM is committed to ensuring that investors are able to choose financial products that suit their sustainability preferences. For this reason, in their pre-contractual disclosures, financial market participants should be transparent about the sustainable characteristics or sustainable investment objectives of their products, and to explain how these are met or attained. Products can have varying degrees of sustainable ambitions. Based on these pre-contractual disclosures, investors can decide whether a product is a good enough match for their expectations or sustainability requirements.

Financial market participants are required to complete a pre-contractual template for each product that promotes sustainable characteristics or sustainable investment objectives. In the template, a financial market participant should describe which sustainable characteristics a product promotes or which sustainable investment objective a product has, and how the product aims to meet those characteristics or attain that objective. In addition, the template should be provided to potential investors before a contract is signed and be published on the financial market participant's public website. This fosters transparency of how a financial market participant seeks to meet the sustainable

8 Under the SFDR, financial market participants have the option to state that they deem sustainability risks not to be relevant to a product. In that case, they should include in the pre-contractual disclosures a clear and concise explanation of why these risks are not relevant.

characteristics or attain the sustainable investment objectives of a product. The standard format makes it easier for investors to assess the principal characteristics and to compare products.

The self-assessment showed that asset managers used pre-contractual templates for 73% of their products with sustainable characteristics or sustainable investment objectives, as opposed to 100% of pension providers and 99% of fund managers. The templates have mostly been posted on their public websites.

In the next chapter, we will look at a number of areas of concern and examples regarding the completion of pre-contractual templates.

> Financial market participants should make use of the standard template for pre-contractual disclosures about products with sustainable characteristics or sustainable investment objectives. The information provided should be accurate, clear, fair, and not misleading, it should meet the presentation requirements and it should be published on the financial market participant's website. The guidance provided later on in this report is meant to assist financial market participants in completing a template.

2.6 Majority of respondents do not make sustainable investments

Within the parameters of the SFDR, financial market participants are free to set their own criteria for determining whether an investment qualifies as sustainable. In the pre-contractual disclosures about a product with sustainable characteristics or sustainable investment objectives, they are required to disclose the minimum percentage of investments that will be based on these criteria. Given that financial market participants set their own criteria for sustainable investments, it is difficult to make a one-on-one comparison of their share of sustainable investments expressed as a percentage of total investments. At the same time, the share of sustainable investments in a product does shed some light on its sustainability.

The outcomes of the self-assessment showed that a large number of financial market participants had not committed to making sustainable investments within their products with sustainable characteristics. Firms often report a minimum percentage of 0% or indicated that they did not have any data to verify whether an investment was sustainable. Lack of data should never be the reason why financial market participants do not disclose the minimum share of sustainable investments in their pre-contractual disclosures, however.

As expected, the share of sustainable investments was much higher for products with a sustainable investment objective. Save for some exceptions, there were no products that did not commit to making sustainable investments, at least in part.

The actual share of sustainable investments may be at variance with the minimum percentages that were promised in the pre-contractual disclosures. If so, this should have been addressed in the periodic reports. The AFM has not verified this as it was outside the scope of this review.

The AFM encourages financial market participants to persist in their efforts to obtain the required data so as to verify the share of sustainable investments and to evaluate on an ongoing basis whether the reported percentages remain appropriate, since these key indicators enable investors to take informed decisions.

2.7 Small share of investments are EU Taxonomy-aligned

The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. As such, the share of EU Taxonomy-aligned investments provides a key understanding of the degree to which a financial product is environmentally sustainable. Since the EU Taxonomy is a joint European set of criteria, the reported share of EU Taxonomy-aligned investments allows for better mutual comparison than the percentage of sustainable investments.

The self-assessment showed that few financial market participants engaged in EU Taxonomy-aligned investments, which is due, in part, to the limited availability of such investments at this time. Respondents also indicated that they were unable to verify their alignment because of a lack of data. In addition, a number of asset managers said that, despite being under the obligation to do so, they did not currently make pre-contractual disclosures about the minimum share of EU Taxonomy-aligned investments for all products with sustainable characteristics or sustainable investment objectives. It is critical that these disclosures are in fact provided, so that investors are able to choose financial products that suit their preferences.

★ Financial market participants should persist in their efforts to obtain the required data about the share of sustainable and EU Taxonomy-aligned investments that are needed to make the relevant disclosures. These key metrics offer investors quantifiable indicators of the level of environmental and social characteristics of different products.

2.8 Variances in periodic reporting on sustainability performance

Investors that have an interest in sustainable investments need to know about a product's sustainable performance history. Was the product's performance in line with the sustainable characteristics or the sustainable investment objective disclosed in the pre-contractual information? For instance, if the objective of a product is to reduce carbon emissions by 30% against a specific benchmark, the financial market participant should report periodically whether and to what extent this objective was attained.

Financial market participants should report annually on the sustainability performance of their products with sustainable characteristics or sustainable investment objectives. They are required to use a standard template for their periodic reports. This enhances uniformity of reporting and comparability of the extent to which they deliver on their sustainability claims. The periodic reporting template should be available to investors and it should be published on the financial market participant's website.

The self-assessment showed that periodic reports were mostly made available by fund managers and pension providers. Of the largest schemes with sustainable characteristics offered by pension providers, 92% made available a periodic report, while just 25% of asset management portfolios with sustainable characteristics or sustainable investment objectives did so. For fund managers, this percentage was 87%. [9]All financial market participants should use the standard template for their periodic reports for the year 2023.

The AFM will conduct oversight interviews with financial market participants that have failed to publish a periodic report on their websites. Given that we have stressed earlier that this information needs to be available, the AFM will no longer accept the lack of this information for some products.

★ Financial market participants should make use of the standard periodic reporting template and publish this template on their websites to ensure that investors can assess the sustainability performance of their products.

9 Where fund managers are concerned, these percentages pertain to funds that make use of the required template. If some of them make disclosures without using this template, this percentage might be higher.

3. Guidance on pre-contractual disclosures

How to complete a template

Presentation

- Follow the **format** of the template as much as possible.
- **Delete** any non-applicable subsections.
- Follow the **order** of the sections and do not add any sections.
- At the top of the template, tick the **appropriate options**.

Disclosure

- Formulate as **clearly** as possible what the sustainable characteristics or the sustainable investment objectives of a product are.
- Use relevant **sustainability indicators** to measure performance.

  Examples: *avoided carbon emissions, share of organic farming, water consumption of investee companies.*

Comprehensibility

- Use **specific** language.
- Provide information about **binding elements**.
- Make sure that **all relevant information** is disclosed in the template.

Website

- **Publish** the templates on your website.

The pre-contractual templates serve as a key tool for investors to decide in which sustainable products to invest. Also, they help advisers provide useful information to investors. That is why, in the AFM's opinion, the templates should be of robust quality.

Most financial market participants use the required pre-contractual template to report on the sustainable characteristics or sustainable investment objectives of products. The AFM expects them to make accurate, clear, fair and non-misleading disclosures.

The Guidelines on Sustainability Claims offer guidance on how to ensure that sustainability-related disclosures meet these criteria.[10] The disclosures should also be presented such that they allow investors to compare product information. Additionally, the template should be easy to find on a financial market participant's website.

The AFM has defined areas of concern based on the outcomes of its study. It expects financial market participants to evaluate their pre-contractual templates and improve them where needed.

10 It is up to financial market participants to thoroughly review, within the parameters of the template, where they see scope for following the principles outlined in these Guidelines in their messages to investors.

3.1 Presentation requirements

- **Follow the format of the template as much as possible.**
  If financial market participants follow similar template formats, it is easier for investors to compare products. We urge financial market participants not to change the font, the font size and the colour unless they are detrimental to the comprehensibility and readability of the template.

- **Delete any non-applicable subsections**.
  In its study, the AFM came across a number of templates with superfluous subsections. As per the template instructions, such sections can be deleted. For instance, if no index has been designated as a reference benchmark, the related subsection can be left out. This results in a shorter and more manageable template.

- **Follow the order of the sections and do not add any sections.**
  Most financial market participants followed the order of the sections in the template. That said, the AFM also came across templates with randomly added sections, which detracts from the templates' comparability.

- **At the top of the template, tick the appropriate options.**
  It should be clear at a glance from the top of the template what the product's principal characteristics are as this is one of the key factors in an investor's initial product selection. The AFM came across templates where financial market participants had not ticked the right boxes. In some templates, for instance, the box for sustainable investments with an environmental objective had not been ticked, while the provided explanation showed that the product had this exact objective. This discrepancy is a source of confusion for investors.

3.2 Section-based disclosures

- **Formulate as clearly as possible what the sustainable characteristics or the sustainable investment objectives of a product are.**
  The description of the sustainable characteristics or the sustainable investment objectives tends to be rather general in nature. Financial market participants will, for instance, refer to their contribution to all themes of the Sustainable Development Goals, i.e. people, planet and prosperity. Alternatively, they will explain that a product seeks to invest in businesses that help to further a social or environmental objective. Such descriptions are too broad for an investor to properly assess how a product actually promotes sustainability. Investors would be well-served by a breakdown of product objectives as a minimum or, if there are too many objectives to mention, by a number of specific examples.

- **Use relevant sustainability indicators to measure performance.**
  When identifying sustainability indicators to measure the attainment of sustainable characteristics or a sustainable investment objective, financial market participants are expected to select the most relevant indicators possible. This might go beyond monitoring the formulated characteristics, such as not investing in excluded companies or achieving minimum overall ESG ratings.

We identified the following examples of specific and potentially relevant indicators:
- gender equality – number of women employed by investee companies
- avoided carbon emissions
- share of organic farming
- water consumption of investee companies
- number of affordable rental properties completed

The selected indicators are obviously dependent on the chosen sustainable characteristics or the sustainable investment objectives.

3.3 Comprehensibility of disclosures

- **Use specific language.**
  In its review, the AFM came across pre-contractual templates with rather vague wording, such as 'as much as possible', 'a type of' 'a certain percentage', 'resource-intensive sectors', 'preference for investments in (...)'. This kind of vague wording makes it difficult for investors to assess a product's pledge, particularly if no further elaboration is provided, and to measure retrospectively whether and to what extent a product delivered on its sustainability claims. That is why financial market participants should be specific in their wording.

- **Provide information about binding elements.**
  The template should only include binding elements, i.e. elements to which the product pledges a minimum pre-contractual commitment. A template stating a target for EU Taxonomy-aligned investments of 7.5% and a current share of 0% is not acceptable. Financial market participants should not use any targets or bandwidths in the templates.

  In highly exceptional cases only do we see scope for expressing the minimum share of sustainable investments (or EU Taxonomy-aligned investments) as a bandwidth, for instance when it comes to lifecycle products, which may automatically adjust their asset allocation based on an investor's age. The share of sustainable investments might then fluctuate accordingly, depending on the life of the product. A bandwidth can be used to indicate the minimum share of the investment portfolio that will be allocated to sustainable investments.

- **Make sure that all relevant information is disclosed in the template.**
  In its review, the AFM came across pre-contractual templates in which financial market participants refer to other documents. References to additional information are permitted provided that the template itself contains all relevant information investors need for their investment decisions. Investors should not have to go through other documents to find out how a company gives effect to the key information disclosed in the template.

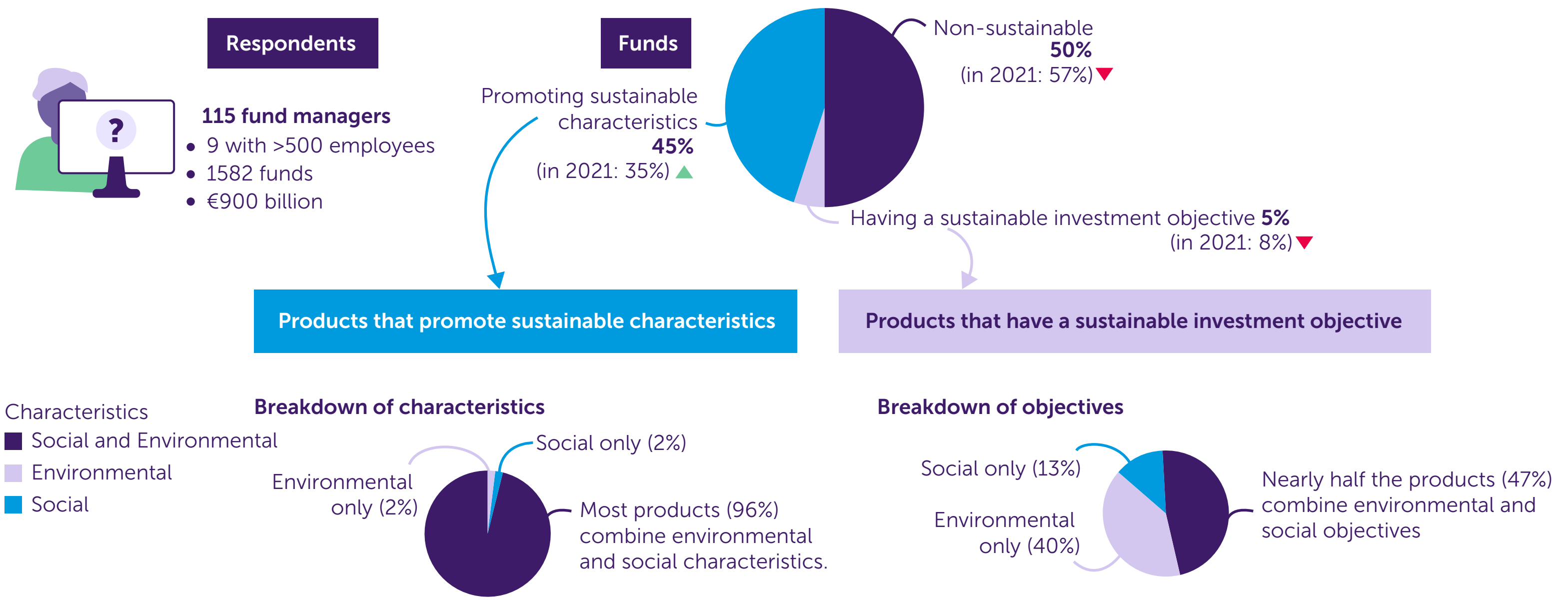
3.4 Website

- **Publish the templates on your website.**
  Financial market participants should publish the pre-contractual templates on their public websites where they are easily accessible to investors. The AFM came across some instances in which financial market participants had published a description of the sustainable characteristics or sustainable investment objectives of their products on their website, without them having a pre-contractual template for these products, despite being under the obligation to use such a template.

4. Fund managers

An increasing number of investors are interested in investments that contribute to the sustainability transition. To accommodate their wishes, the financial sector is offering more and more sustainable products. It is important that the sustainability offering continues to grow and that financial market participants are transparent about how their products contribute to the sustainability transition. This information will help investors choose products that suit their sustainability requirements.

4.1 Investment funds – product landscape

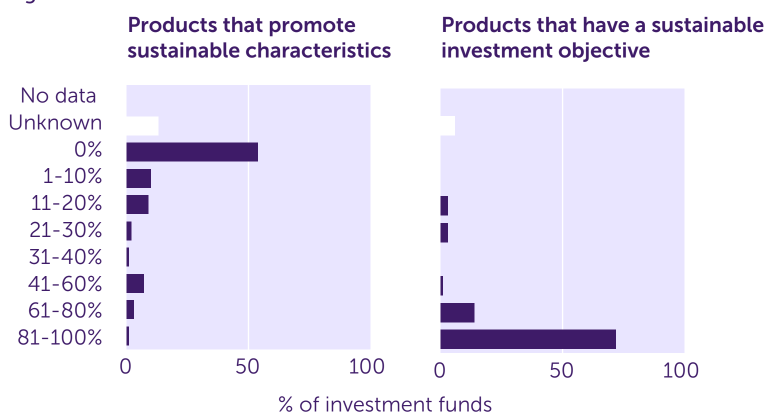


4.1.1 Share of sustainable investments

Within the parameters of the SFDR, financial market participants are free to set their own criteria for determining whether an investment qualifies as sustainable. In their pre-contractual information for a product with sustainable characteristics or a sustainable investment objective, financial market participants are required to disclose the minimum percentage of investments that will be based on these sustainability criteria. Given that financial market participants set their own criteria for sustainable investing, it is difficult to compare their share of sustainable investments expressed as a percentage of total investments. At the same time, the minimum share of sustainable investments in a product does shed some light on its sustainability.

The charts below show, for both investment funds that promote sustainable characteristics and investment funds that have a sustainable investment objective, what they claim their minimum sustainable investments entail.

Figure 1: Minimum share of sustainable investments



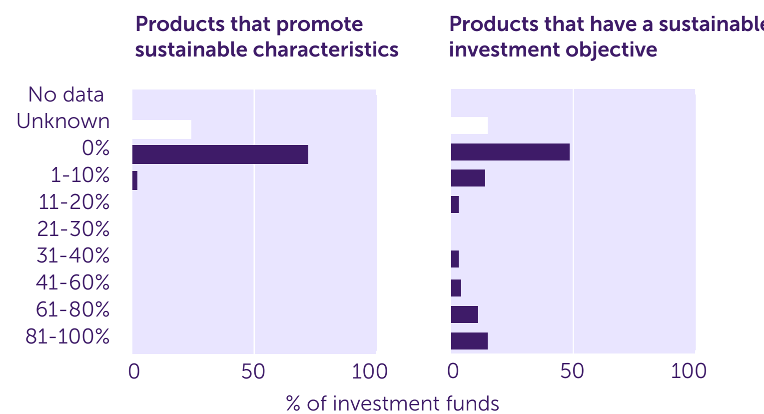
Observations
There are relatively many funds that promote sustainable characteristics, but do not commit to making sustainable investments. If this applied that have a sustainable investment objective, however, do commit to a minimum percentage of sustainable investments: nearly 75% of funds claimed that at least 81% of their investments qualified as sustainable.

4.1.2 Share of EU Taxonomy-aligned investments

The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. In the pre-contractual information for a product that promotes sustainable characteristics or sustainable investment objectives, financial market participants are required to disclose the minimum percentage of investments that will be based on these criteria. As such, the share of EU Taxonomy-aligned investments provides a key understanding of the degree to which a financial product is environmentally sustainable. Since the EU Taxonomy is a joint European set of criteria, the reported share of EU Taxonomy-aligned investments allows for better mutual comparison than the percentage of sustainable investments.

The charts below show, for both funds that promote sustainable characteristics and funds that have a sustainable investment objective, what they claim their minimum EU Taxonomy-aligned sustainable investments will entail.

Figure 2: Minimum share of EU Taxonomy-aligned investments



Observations
There are many funds that have not committed to making a minimum percentage of EU Taxonomy-aligned investments. This is partly attributable to the limited availability of such investments at this time. In addition, some respondents claimed that the lack of data was a reason for them not yet having committed to EU Taxonomy-aligned investments.

The AFM encourages fund managers to continue exploring ways of obtaining the data that are required for making sustainable investments or EU Taxonomy-aligned investments. They also need to evaluate whether the committed share of sustainable investments or the disclosed minimum share of EU Taxonomy-aligned investments is still appropriate.

4.2 Key findings

The AFM is positive about compliance with the SFDR among fund managers, the vast majority of which said that they met the basic SFDR requirements (Level 1). The AFM expects fund managers that fail to comply with these requirements at this time to take immediate action to ensure compliance in the near future. Firms that do not make sufficient efforts in this regard will be addressed in relation to their non-compliance.

In addition, the AFM has established that the provisions of the delegated regulation are increasingly being followed. That said, there is room for improvement, particularly in terms of using templates for periodic reporting.

Below, we have set out our findings regarding a number of specific requirements.

4.2.1 More than one-third of fund managers consider the adverse impacts of investment decisions on ESG factors

More than 40% of fund managers said that they considered the adverse impacts of their investment decisions on ESG factors. This includes all nine fund managers that are required to do so because of their size as well as 40 smaller fund managers that do so on a voluntary basis. The AFM views it as a positive development that fund managers consider the impacts of their investments, even if they are under no obligation to do so. Of fund managers that claimed to consider adverse impacts, nearly all (94%) said that they used the standard template to report on these impacts.

Fund managers also consider the adverse impacts of their investment decisions at investment fund level. More than 75% of funds that promote sustainable characteristics said that they considered the adverse impacts of investment decisions in accordance with Article 7 of the SFDR. This percentage was about 90% for funds that have a sustainable investment objective. These also include fund managers that claimed not to consider the adverse impacts of their investment decisions at entity (i.e. manager) level, but to effectively consider these impacts at product level, at least for some products.

Most fund managers cooperate with third-party data providers to obtain missing data
Fund managers said that it could be difficult at times to obtain the data required to identify adverse impacts. As part of the self-assessment, the AFM asked fund managers about their procedures for dealing with situations in which information relating to any of the indicators used was not readily available.[11] In those situations, managers largely relied on external data: 80% of fund managers that had difficulty obtaining data said that they cooperated with third-party data providers. 41% of fund managers carried out additional research to obtain information, 34% said that they obtained the information directly from investee companies, and 32% claimed to use other methods to gather information.

11 Multiple answers possible.

Finally, 41% indicated that they made reasonable assumptions if data was not readily available otherwise.

> Fund managers should report on the adverse sustainability impacts of their investment decisions using the designated template, fully complete this template and publish it on their websites. If data are not readily available, they should use other data sources or – as a last resort – make reasonable assumptions.

4.2.2 Majority of fund managers make required sustainability-related disclosures

The majority of fund managers provided sustainability-related disclosures based on the Level 1 SFDR requirements. At entity level, this involved the publication of policies (91%) and the integration of sustainability risks into remuneration policy (85%). Disclosures at fund level were mostly available as well. At fund level, fund managers are required to provide information for all funds about the sustainability risks associated with the investments[12] and how these might impact returns. Of fund managers, 90% made disclosures about likely sustainability risks and 82% provided information about the likely impacts of these risks. Where products with sustainable characteristics or a sustainable investment objective are concerned, the required pre-contractual sustainability-related disclosures were made using the designated templates (99%); in most cases, these templates were published on the financial market participant's website.

> Fund managers should publish all required sustainability-related disclosures at entity and fund level.

4.2.3 Majority of fund managers makes periodic disclosures on sustainability performance

Fund managers should be transparent about the performance of their sustainable investment funds. To ensure this, since January 2023, the SFDR has required financial market participants offering products covered by Article 8 or Article 9 to provide periodic product information using the designated standard templates. The self-assessment showed that more than 82% of funds with sustainable characteristics and 79% of funds with a sustainable investment objective now meet this requirement. The AFM has also established that the vast majority of funds that do not currently provide periodic product information using standard templates have valid reasons not to do so. Fund managers claimed that, in the reporting period, those funds were inactive or brand-new, or had only recently been classified as an Article 8 or Article 9 fund.

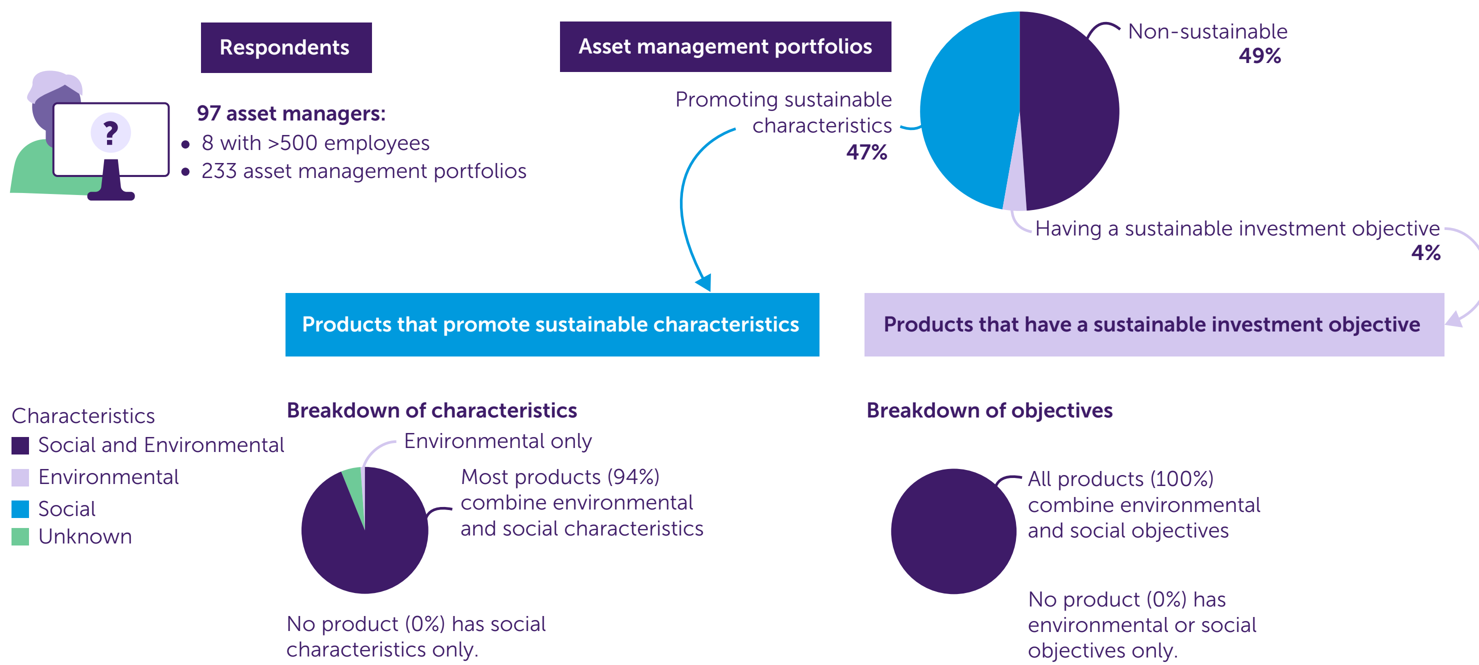
> Fund managers should make use of the standard periodic reporting template and publish this template on their websites to ensure that investors can assess the sustainability performance of their products.

12 Under the SFDR, financial market participants have the option to state that they deem sustainability risks not to be relevant to a product. In that case, they should include in the pre-contractual disclosures a clear and concise explanation of why these risks are not relevant.

5. Asset managers

An increasing number of investors are interested in investments that contribute to the sustainability transition. To accommodate their wishes, the financial sector is offering more and more sustainable products. It is important that the sustainability offering continues to grow and that financial market participants are transparent about how their products contribute to the sustainability transition. This information will help investors choose products that suit their sustainability requirements.

5.1 Asset management portfolios – product landscape

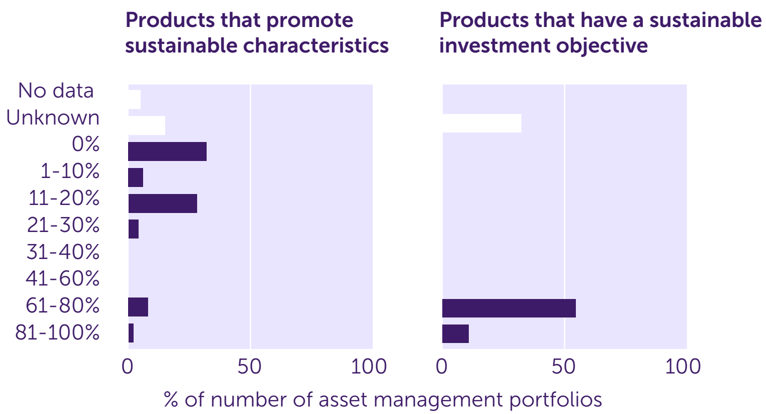


5.1.1 Share of sustainable investments

Within the parameters of the SFDR, financial market participants are free to set their own criteria for determining whether an investment qualifies as sustainable. In their pre-contractual information for a product that promotes sustainable characteristics or has a sustainable investment objective, financial market participants are required to disclose the minimum percentage of their investments that will be based on these sustainability criteria. Given that financial market participants set their own criteria for sustainable investing, it is difficult to compare their share of sustainable investments expressed as a percentage of total investments. At the same time, the minimum share of sustainable investments does shed some light on a product's sustainability.

The charts below show, for both asset management portfolios that promote sustainable characteristics and asset management portfolios that have a sustainable investment objective, what they claim their minimum sustainable investments entail.

Figure 3: Minimum share of sustainable investments



Observations
Asset managers said that they had not committed to sustainable investments for nearly one-third (32%) of their total number of asset management portfolios, i.e. products, with sustainable characteristics. If this applied to them, they reported a minimum of 0% sustainable investments. Asset managers claimed that they had effectively committed to sustainable investments for 48% of products. Of this group of products, the vast majority (28%) consisted of between 11% and 20% sustainable investments.

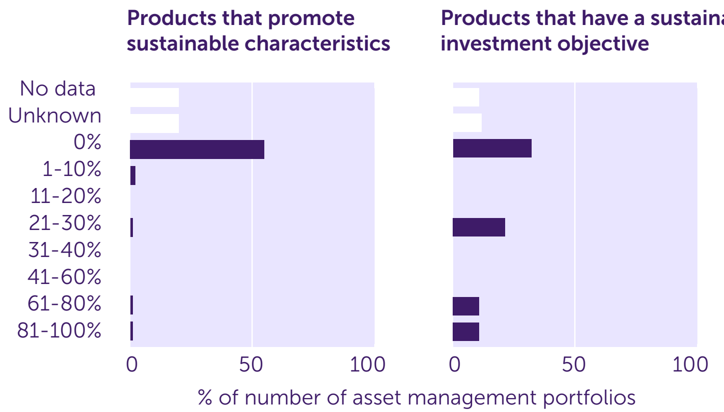
The opposite is true for products with a sustainable investment objective; in this category, most products do in fact commit to a minimum percentage of sustainable investments. Just over half of these products (56%) consisted of between 61% and 80% sustainable investments. A small share of the products consisted of between 81% and 100% sustainable investments. No information was provided for the remaining share.

5.1.2 Share of EU Taxonomy-aligned investments

The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. In their pre-contractual information for a product with sustainable characteristics or a sustainable investment objective, financial market participants are required to disclose the minimum percentage of their investments that will be based on these criteria. The share of EU Taxonomy-aligned investments provides a key understanding of the degree to which a financial product is environmentally sustainable. Since the EU Taxonomy is a joint European set of criteria, the reported share of EU Taxonomy-aligned investments allows for better mutual comparison than the percentage of sustainable investments.

The charts below show, for both asset management portfolios % of number of asset management portfolios that promote sustainable characteristics and asset management portfolios that have a sustainable investment objective, what they claim their minimum EU Taxonomy-aligned sustainable investments will entail.

Figure 4: Minimum share of EU Taxonomy-aligned investments



Observations

There are many asset management portfolios that have not committed to making a minimum percentage of EU Taxonomy-aligned investments. This is partly attributable to the limited availability of such investments at this time. In addition, some respondents claimed that the lack of data was a reason for them not yet having committed to EU Taxonomy-aligned investments.

The AFM encourages asset managers to continue exploring ways of obtaining the data that are required for making sustainable investments or EU Taxonomy-aligned investments. They also need to evaluate whether the committed share of sustainable investments or the disclosed minimum share of EU Taxonomy-aligned investments is still appropriate.

5.2 Key findings

The AFM is positive about asset managers' compliance with the Level 1 requirements at entity level. The vast majority of asset managers said that they met these requirements. The AFM has established, however, that compliance with the Level 1 requirements at product level is lagging behind. Product information about the impacts of sustainability risks on returns and periodic reporting tends to be unavailable. The AFM expects asset managers that fail to comply with these requirements at this time to take immediate action to ensure compliance in the near future. Firms that do not make sufficient efforts in this regard will be addressed in relation to their non-compliance.

In addition, the AFM has established that the provisions of the delegated regulation are increasingly being followed. That said, there is room for improvement, particularly in terms of using the template for reporting adverse sustainability impacts and the pre-contractual templates.

Below, we have set out our findings regarding a number of specific requirements.

5.2.1 One-fifth of asset managers consider adverse sustainability impacts

Of asset managers, 20% said that they considered the adverse impacts of their investment decisions on ESG factors. This includes all eight asset managers that are required to do so because of their size[13] as well as 18 smaller fund managers that do so on a voluntary basis. The AFM views it as a positive development that asset managers consider the impacts of their investments, even if they are under no obligation to do so.

Of this group, two-thirds (65%) used the standard template. The AFM expects the asset managers who have failed to use a template to date to start doing so in the near future and to publish this template on their websites, the reason being that the template helps to create transparency by ensuring that the required information about actual impacts and counteracting measures are presented in a standardised manner. This makes it easier for investors to compare asset managers and to select the one that best suits their sustainable investing requirements.

13 Under Article 4 of the SFDR, financial market participants with more than 500 employees are required to consider the adverse impacts of their investment decisions on ESG factors and to report on these impacts

Some asset managers (13%) have not published any type of adverse impacts statement on their websites, despite being under the obligation to do so.

At portfolio level, asset managers also considered the adverse impacts of their investment decisions, indicating for nearly two-thirds (64%) of products that promote sustainable characteristics that they considered such impacts. For products with a sustainable investment objective, this percentage was 100%.

Lack of data – additional efforts

As part of the self-assessment, the AFM asked asset managers about their procedures for dealing with situations in which information relating to any of the indicators used was not readily available.[14] All asset managers said that they went to additional efforts to obtain data if they were not readily available. In the vast majority of cases, they relied on third-party data providers to obtain these data (87%). A quarter of asset managers carried out additional research to obtain information. A small number of asset managers (7%) indicated that they made reasonable assumptions. None of the asset managers said that they obtained the information directly from investee companies.

> Asset managers should report on the adverse sustainability impacts of their investment decisions using the designated template, fully complete this template and publish it on their websites. If data are not readily available, they should use other data sources or – as a last resort – make reasonable assumptions.

5.2.2 Pre-contractual information is partially available

The majority of asset managers indicated that they had published the SFDR-mandated sustainability-related website disclosures. This applied in particular to the required entity-level disclosures, such as the policy on sustainability risks (91%) and the remuneration policy that should be consistent with sustainability risks (81%).

The AFM established that the product-level disclosures sometimes lagged behind. Financial market participants are expected to include in their disclosures the likely impacts of sustainability risks on the returns of each of their financial products, regardless of whether or not a product promotes sustainable characteristics. These disclosures were available for just over half (56%) of the total number of products offered.[15] When they were available, the disclosures on the likely impacts tended to be exclusively qualitative in nature (83%); in some cases, they were a combination of qualitative and quantitative descriptions (15%). Where this information was not available at product level, the AFM expects financial market participants to add it forthwith.

In addition, since 1 January 2023, financial market participants have been required to use the pre-contractual template for describing the sustainable characteristics or the sustainable investment objectives of products. Of asset managers offering products with sustainable characteristics or sustainable investment objectives, 73% used this template. These templates were not always published on their websites. The AFM expects asset managers that do not use the template or publish website disclosures at this time to do so forthwith.

> Asset managers should publish any required sustainability-related disclosures at entity level on their websites.eriodic disclosures on sustainability performance are lagging behind

14 The self-assessment allowed for multiple responses.

15 Under the SFDR, financial market participants have the option to state that they deem sustainability risks not to be relevant to a product. In that case, they should include in the pre-contractual disclosures a clear and concise explanation of why these risks are not relevant.

5.2.3 Periodic disclosures on sustainability performance are lagging behind

Asset managers are required to report annually on the sustainability performance of their products that are covered by the transparency requirements of Article 8 or Article 9 of the SFDR. These periodic disclosures are to be made in the standard template, which should be published on their websites as part of the fourth quarterly report. Given that asset management portfolios are occasionally tailored to individual needs and may contain confidential information, asset managers are permitted to make both pre-contractual and periodic disclosures about a model portfolio.[16]

The self-assessment showed that asset managers made periodic disclosures (whether using the template or not) about 25% of their products with sustainable characteristics or sustainable investment objectives. In some cases, they gave a valid reason for not yet making any periodic disclosures, stating, for instance, that a product had only been covered by the transparency requirements of Article 8 or Article 9 of the SFDR since 2023. The AFM would stress that asset managers are under the obligation to publish periodic website disclosures using the template for all products governed by the requirements. This makes it easier for investors and potential investors to measure a product's performance against the claims made in the pre-contractual disclosures.

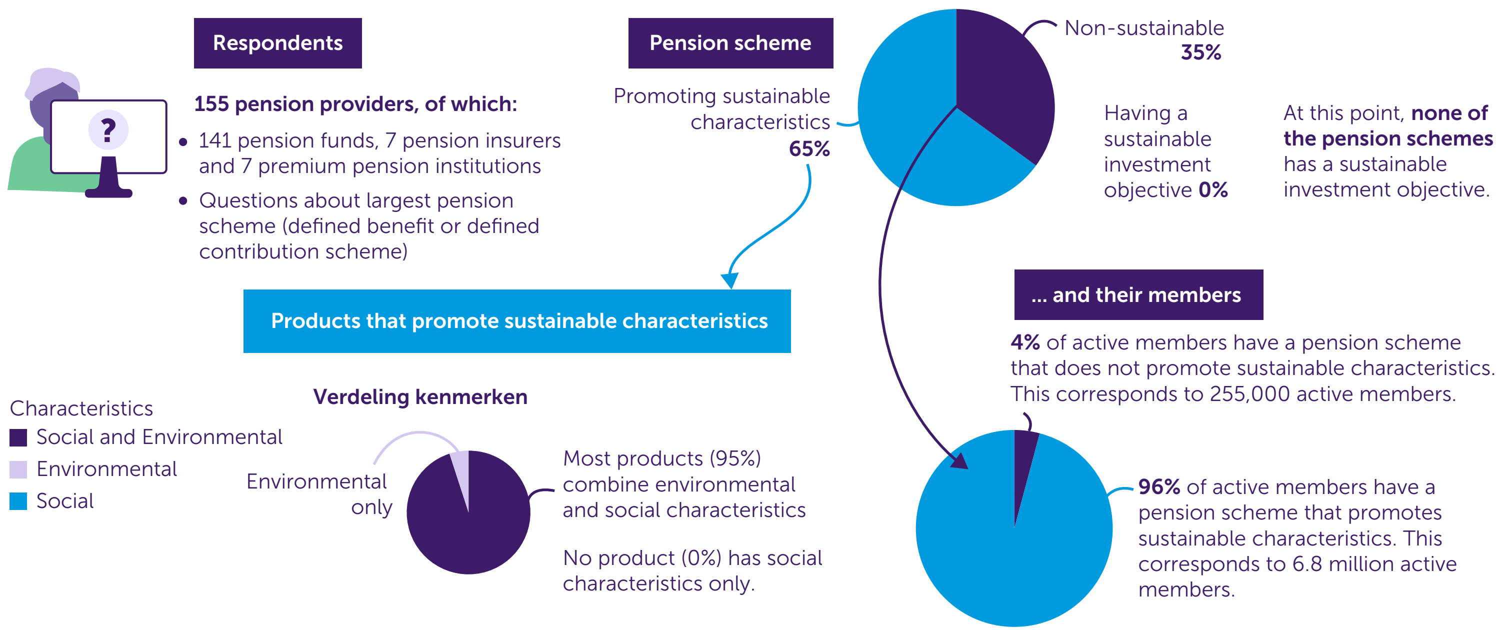
16 https://www.afm.nl/nl-nl/sector/themas/duurzaamheid/sfdr/toelichting

6. Pension providers

An increasing number of investors are interested in investments that contribute to the sustainability transition. To accommodate their wishes, the financial sector is offering more and more sustainable products. It is important that the sustainability offering continues to grow and that financial market participants are transparent about the sustainability performance of their products. Based on this information, investors will know how their pension schemes contribute to the sustainability transition.

As part of the self-assessment, pension providers were asked about their largest pension schemes in the second pillar (occupational pension schemes) that were open to new active members.[17] For the purposes of the self-assessment, it was irrelevant whether a scheme qualified as a defined benefit scheme or a defined contribution scheme.[18] In total, 155 pension schemes were reviewed. Below, we have set out the product landscape of these pension schemes.

6.1 Largest pension schemes – product landscape



17 In the context of the self-assessment, we asked about the sustainability-related disclosures on products in the third pillar (individual pension schemes) that were open to new active members. The products were not included in the report since they are limited to a small number of pension providers.

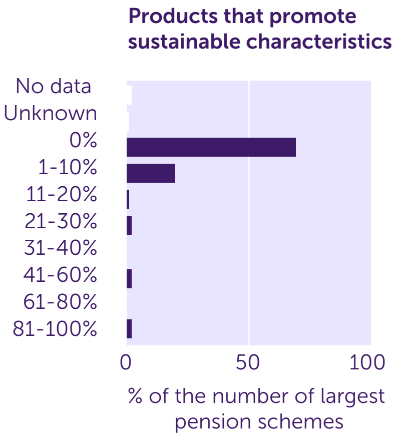
18 Where pension insurers were concerned, we only asked about defined contribution schemes, which is not to say that defined benefit schemes are not governed by the SFDR.

6.1.1 Share of sustainable investments

Within the parameters of the SFDR, financial market participants are free to set their own criteria for determining whether an investment qualifies as sustainable. In their pre-contractual information for a product that promotes sustainable characteristics or has a sustainable investment objective, financial market participants are required to disclose the minimum percentage of their investments that will be based on these sustainability criteria. Given that financial market participants set their own criteria for sustainable investing, it is difficult to compare their share of sustainable investments expressed as a percentage of total investments. At the same time, the minimum share of sustainable investments does shed some light on a product's sustainability.

The table below breaks down the minimum share of sustainable investments by the largest pension schemes with sustainable characteristics.

Figure 5: Minimum share of sustainable investments by pension schemes that promote sustainable characteristics



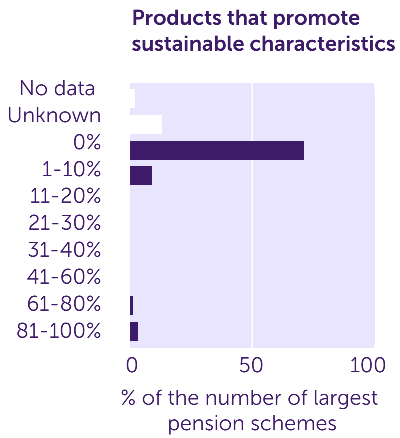
Observations

There are relatively many pension schemes that promote sustainable characteristics, but do not commit to making sustainable investments. For 70% of pension schemes with sustainable characteristics, the share of sustainable investments was 0%.

6.1.2 Share of EU Taxonomy-aligned investments

The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. In their pre-contractual information for a product with sustainable characteristics or a sustainable investment objective, financial market participants are required to disclose the minimum percentage of their investments that will be based on these criteria. The share of EU Taxonomy-aligned investments provides a key understanding of the degree to which a financial product is environmentally sustainable. Since the EU Taxonomy is a joint European set of criteria, the reported share of EU Taxonomy-aligned investments allows for better mutual comparison than the percentage of sustainable investments. The table below breaks down the minimum share of EU Taxonomy-aligned investments by the largest pension schemes with sustainable characteristics.

Figure 6: Minimum share of EU Taxonomy-aligned investments for pension schemes with sustainable characteristics



Observations

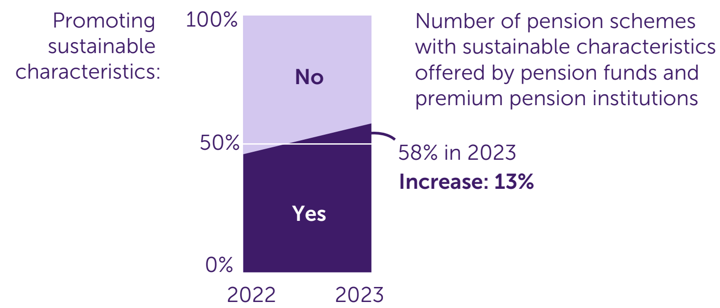
There are many pension schemes that have not committed to making a minimum number of EU Taxonomy-aligned investments. This is partly attributable to the limited availability of such investments at this time. In addition, some respondents claimed that the lack of data was a reason for them not yet having committed to EU Taxonomy-aligned investments.

The AFM encourages pension providers to continue exploring ways of obtaining the data that are required for making sustainable investments or EU Taxonomy-aligned investments. They also need to evaluate whether the committed share of sustainable investments or the disclosed minimum share of EU Taxonomy-aligned investments is still appropriate.

6.1.3 Increase in pension schemes that promote sustainable characteristics

We conducted a similar self-assessment about the SFDR among pension funds and premium pension institutions in 2022 as we did in 2023. As a result, the outcomes for various disclosure requirements can be benchmarked against previous outcomes.[19] In 2022, the self-assessment showed that just under half of the largest pension schemes offered by pension funds and premium pension institutions promoted sustainable characteristics (46%). This percentage has increased over the span of one year. In 2023, just over half of the largest pension schemes promoted sustainable characteristics (58%).

Figure 7: Increase in pension schemes that promote sustainable characteristics



Please note: the percentages in this chart relate to pension schemes that are either open or closed to new members.

6.2 Key findings

The AFM is positive about compliance with the SFDR among pension providers, the vast majority of which said that they met the basic SFDR requirements (Level 1). The AFM expects pension providers that fail to comply with these requirements at this time to take immediate action to ensure compliance in the near future. Firms that do not make sufficient efforts in this regard will be addressed in relation to their non-compliance.

The AFM has also established that the provisions of delegated regulation are increasingly being followed. Where disclosures were not available, the AFM expects pension providers to publish them on their websites in the near future.

Below, we have set out our findings regarding a number of specific requirements.

19 Pension insurers were not included in the scope of the study the AFM conducted in 2022. For this reason, the outcomes for this target group do not lend themselves to benchmarking with previous outcomes.

6.2.1 Just over 40% of pension providers report on adverse impacts on ESG factors

Of pension providers, 43% said that they considered the adverse impacts of their investment decisions on ESG factors. Virtually all these pension providers did so on a voluntary basis; only a small number of pension providers are required to report on these adverse impacts due to their size.[20] All pension providers that are under the obligation to report on their adverse impacts did in fact make these disclosures.

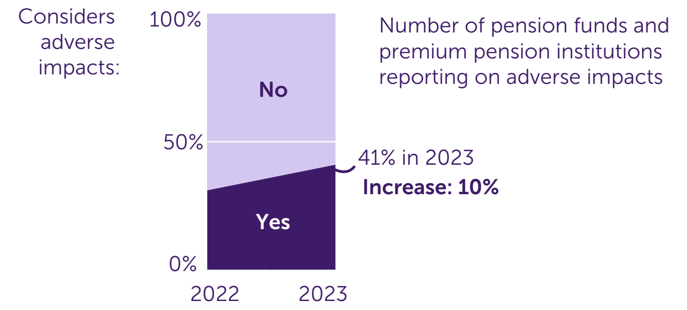
Nearly all of them (99%) made use of the required template to provide the relevant information. The AFM was encouraged to find that pension providers considered the adverse impacts of their investments and practised transparency on these impacts in accordance with the required template. We expect pension providers who do not report in accordance with the required template to do so forthwith. The template should be published on their websites.

A small share of pension providers (3%) did not publish any type of adverse impacts statement on their websites, despite being under the obligation to do so. Where such a statement was not available, the AFM expects pension providers to add it in the near future.

Increasing number of pension funds and premium pension institutions consider their adverse impacts

In 2023, 41% of pension funds and premium pension institutions indicated that they considered the adverse impacts on ESG factors. This represents a 10% increase on 2022, when 31% of pension funds and premium pension institutions said that they considered their adverse impacts.

Figure 8: Increase in reporting on adverse impacts



Most pension providers cooperate with third-party data providers to obtain missing data

As part of the self-assessment, the AFM asked pension providers about their procedures for dealing with situations in which information relating to any of the indicators used was not readily available.[21] The vast majority of pension providers (92%) said that they cooperated with third-party data providers if they had difficulty obtaining data. 18% stated that they made other efforts to obtain the data they needed. One pension provider said that they carried out additional research to obtain the data. None of the pension providers indicated that they requested information directly from investee companies or made reasonable assumptions.

Pension providers should report on the adverse sustainability impacts of their investment decisions using the designated template, fully complete this template and publish it on their websites. If data are not readily available, they should use other data sources or – as a last resort – make reasonable assumptions.

20 The number of pension providers with more than 500 employees that participated in the self-assessment was very small. Just three pension providers reported that they had over 500 employees.

21 The self-assessment allowed for multiple responses.

6.2.2 Majority of pension providers make required sustainability-related disclosures

The self-assessment showed that most pension providers made entity-level website disclosures, such as the policy on sustainability risks (98%) and the remuneration policy that should be consistent with sustainability risks (88%).

The AFM has established that the information provision about the pension schemes is lagging behind when it comes to disclosures on the sustainability risks associated with a pension scheme and how these might impact returns.[22] These disclosures should be made for each pension scheme, irrespective of whether or not it has sustainable characteristics. About one-third (30%) of pension providers did not make such disclosures. When they did provide information about the impacts of sustainability risks on returns, this tended to be limited to a qualitative description. All pension providers (100%) said that they used a template to make pre-contractual disclosures and published the template on their websites if they offered pension schemes that promoted sustainable characteristics.

Where entity-level and/or product-level information is not available, the AFM expects pension providers to add it forthwith.

★ Pension providers should publish any required sustainability-related disclosures at entity level on their websites.

6.2.3 Periodic disclosures on sustainability performance of pension schemes are usually available

Pension providers are required to be transparent about the sustainability performance of the pension schemes they administrate. Their periodic disclosures should be made in the standard template, which should be published on their websites as part of the annual report.

About 92% of pension providers indicated that they published periodic disclosures on their sustainability performance (whether or not using the required template). This allows most members to assess the sustainability performance of their pension schemes. Pension providers occasionally gave a valid reason for why periodic disclosures had not yet been published, stating, for instance if they had administrated a pension scheme that promoted sustainable characteristics since 2023. The AFM would stress that all pension providers that are under the obligation to make periodic website disclosures should do so (using the template).

★ Pension providers should make use of the standard periodic reporting template and publish this template on their websites to ensure that their members can assess the sustainability performance of their products.

22 Under the SFDR, financial market participants have the option to state that they deem sustainability risks not to be relevant to a product. In that case, they should include in the pre-contractual disclosures a clear and concise explanation of why these risks are not relevant.

7. Conclusion

In this chapter, the AFM will address the follow-up to the self-assessment it conducted among financial market participants. We will also look at SFDR-related developments. Finally, we will elaborate on our market outlook.

The AFM has established, based on the self-assessment, that financial market participants are generally in compliance with the Level 1 requirements of the SFDR. At the same time, the AFM found that a small number of financial market participants are failing to meet all Level 1 requirements at this time. At this stage, the AFM expects all financial market participants to be compliant with the SFDR Level 1 basic requirements. Firms that do not make sufficient efforts in this regard will be addressed in relation to their non-compliance.

In addition, the AFM has established that the provisions of the delegated regulation are increasingly being followed. That said, there is room for improvement for a considerable group of financial market participants. The AFM attaches great value to the disclosures that are made in the standard templates and expects all financial market participants governed by the SFDR requirements to use these templates.

7.1 Developments in SFDR

The SFDR is a dynamic piece of legislation. On 4 December 2023, the Joint Committee of European Supervisory Authorities published a report setting out proposals for changes to the current Level 2 requirements.[23] These proposals include adjustments to the product templates, adjustments to the sustainability indicators for reporting on adverse impacts, and additional requirements of the presentation of information. This report has been submitted to the European Commission for approval.

Not until the European Commission has officially approved the report will the implementation date of these changes be set. The AFM urges financial market participants to monitor any developments in this regard.

Besides the actual proposal for adjustments to the Level 2 requirements, the European Commission announced in 2023 that it was planning to review the Level 1 requirements. The consultation for input into the effectiveness of this legislation has already been conducted. A review of the Level 1 requirements may well have a major impact, while at the same time offering greater opportunities for attaining the overarching objectives of the regulations. The AFM has expressed its opinion on this issue and published a position paper in which it outlined a number of suggestions for improvement.[24] The review process is currently in the early stages. The scope and implementation timeline of the changes, if any, is unclear. Until we know more, financial market participants are expected to comply with the current requirements.

7.2 Outlook

Although the SFDR is still evolving and while it can be challenging for financial market participants to obtain the required sustainability data, the Regulation has been in effect for some time now. Besides compliance with the transparency requirements, the AFM expects all financial market participants to take note of the findings and guidance presented in this report and to improve their sustainability-related disclosures where relevant. The AFM also expects financial market participants to maintain a continuous focus on the quality of their sustainability-related disclosures. In our future supervision, the AFM plans to place even greater emphasis on the quality and reliability of sustainability-related disclosures.

23 JC 2023 55 - Final Report SFDR Delegated Regulation amending RTS (europa.eu)
24 AFM publishes position paper on SFDR

Appendix 1 – Review methodology

The SFDR review, which was conducted between August 2023 and January 2024, consisted of two parts.

Part 1: self-assessment

The first part of the review was a self-assessment. Respondents were asked to answer questions about their compliance with the SFDR and the related delegated regulation. Other questions pertained to their offering of financial products[25] they believe to be covered by the transparency requirements of the SFDR. All selected respondents qualified as financial market participants (as listed below) and were subject to AFM supervision:

- Alternative investment fund managers (AIFMs) and undertakings for the collective investment in transferable securities (UCITSs) (in total: 115)
- Credit institutions and investment firms offering asset management services (in total: 97)
- Pension funds, premium pension institutions and pension insurers (in total: 155); these were requested to provide information about their largest pension schemes only[26]

Part 2: scan of product templates

The second part of the review was a scan of how the respondents had completed their pre-contractual disclosure templates. Financial market participants are required to use these templates if they offer products that promote sustainable characteristics or products with a sustainable investment objective. The pre-contractual disclosures[27] should be provided to investors in a standard template, which is to be published on their websites. The AFM reviewed a total of 15 templates on the websites of different types of financial market participants. The scan focused on the inclusion of required sections, the lay-out and the comprehensibility of disclosures. The scan resulted in some generic guidance for financial market participants to use when duly completing the templates.

Limitations of this review

The outcomes of the self-assessment are based on information provided by the financial market participants in the form of self-reports. The AFM did not independently verify whether the financial market participants' answers accurately reflected the actual situation. In addition, the questions asked as part of the self-assessment focused mainly on the availability of certain information and documents, and on whether specific processes were followed. The outcomes do not shed light on the quality of the information or the processes.

The scan of the templates was aimed at how they were completed. The scope of the review did not extend to reviewing whether the information disclosed in the templates, such as the pursued investment strategy, was in line with a financial market participant's actual practices.

25 See Article 2(12) of the SFDR.

26 The self-assessment focused on the largest pension schemes that were open to new members.

27 In the context of pension schemes, pre-contractual disclosures refer to information that is provided to a member within three months of having joined a pension scheme.