

# Sustainability risks and sustainability-related disclosure obligations in investment fund activities

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## 1 Background, objectives and conclusion of the thematic review

### 1.1 Background of the thematic review

In 2023–2024, the Financial Supervisory Authority (FIN-FSA) conducted a thematic review about the integration of sustainability risks in UCITS and non-UCITS funds (hereinafter also “investment funds”) and their sustainability disclosures. The thematic review is part of a Common Supervisory Action (CSA) coordinated by the European Securities and Markets Authority (ESMA).<sup>1</sup>

In June 2023, the FIN-FSA sent a survey to all management companies and alternative investment fund managers (AIFM) (hereinafter collectively also “companies”) concerning the sustainability disclosures of funds managed by them and the integration of sustainability risks. In addition, the FIN-FSA sent a more extensive survey to eight companies on the same theme, also including open-ended questions and a request to submit additional material, such as fund documentation and the company’s internal instructions. All eight companies were management companies, and six of them were also authorised as AIFMs.

The thematic review is divided into two areas, comprising:

1. Questions concerning the prevention of greenwashing risk and
2. Other questions about the integration of sustainability risks and disclosure obligations concerning sustainability information.

The findings of the first area of the thematic review were published in March 2024.<sup>2</sup>

### 1.2 Objectives of the second part of the thematic review

The most important objectives of the first and second part of the thematic review are to:

- assess whether the companies adhere to applicable regulation in practice;
- collect additional information on greenwashing risks associated with investment funds; and
- identify relevant supervisory and regulatory interventions to address greenwashing risk and sustainability risk.

This report, which concerns the second part of the thematic review, describes the findings about how sustainability risk is being taken into account in the organisation of activities of the companies and

<sup>1</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-and-ncas-assess-disclosures-and-sustainability-risks-investment-fund>

<sup>2</sup> <https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2024/thematic-review-greenwashing-risk-taken-into-account-in-a-relatively-limited-manner-in-investment-fund-activities/>

whether the companies in practice comply with company- and fund-level disclosure obligations pertaining to sustainable finance.

Fund-level disclosure obligations were assessed with respect to funds managed by companies participating in the more extensive survey. These pre-selected 21 investment funds were divided as follows: six funds disclosed information under Article 6, eight funds under Article 8 and seven funds under Article 9 of the SFDR<sup>3</sup> at the time of response to the survey.

### 1.3 Summary of key findings of the second part of the thematic review

The following findings are mainly related to the eight companies participating in the more extensive survey, but they should also be considered by other companies.

- Descriptions of the integration of sustainability risks in the investment decision-making process varied across the companies. A few of the companies lacked more detailed descriptions of the sustainability risks integrated and the methods used. Most of the companies lacked disclosures of the procedure followed when significant sustainability risks are detected. This finding concerned both policies under Article 3 of the SFDR and fund-specific disclosures under Article 6.
- The companies' internal descriptions concerning the allocation of responsibilities and reporting lines failed to crystallise the role of the risk management function in the integration of sustainability risks in the investment decision-making process. The integration of sustainability risks may not be a task for the portfolio management function alone.
- Some of the companies did not discuss sustainability risks on its board of directors.
- The companies' risk management policies did not describe the integration of sustainability risks comprehensively enough. For example, a few companies lacked a clear description of how the risk management function monitors sustainability risks and what risk limits have been set by the company for sustainability risks.
- Some of the companies had not published a statement of principal adverse impacts on sustainability factors (PAI statement) at the company level.
- Some investment funds, that do not promote sustainability characteristics or have sustainable investment as their objective under the SFDR, were nevertheless found to monitor sustainability factors and report on them in connection with the integration of sustainability risks. This may give misleading information to investors about the objectives of the fund and increase the risk of greenwashing.
- Investment funds under Articles 8 and 9 of the SFDR were found to have many shortcomings pertaining to their disclosure obligations. The pre-contractual disclosures (Annex II–III) and disclosures in periodic reports (Annex IV–V) were not found clear, concise without repeating the same information, simple, accurate and consistent across the Annexes with respect to all investment funds scrutinised.

<sup>3</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (hereinafter the "SFDR").

## 1.4 Overview of regulation

Application of the SFDR<sup>4</sup> started in main respects on 10 March 2021. The Regulation requires the disclosure of sustainability information on both fund managers and fund products. The Commission SFDR Delegated Regulation<sup>5</sup> entered into force in main respects on 1 January 2023.

Disclosure obligations under the Taxonomy Regulation<sup>6</sup> concerning the two first environmental objectives, i.e. climate objectives, have been in force since 1 January 2022. As of 1 January 2024, the disclosure obligation was extended to cover the other four environmental objectives under the Taxonomy Regulation, being related to water, circular economy, pollution prevention and biodiversity. Furthermore, the Taxonomy Regulation provides standardised statements that must be used in circumstances where a fund's investments do not take the criteria for environmentally sustainable economic activities into account.<sup>7</sup>

In making sustainability-related disclosures, financial market participants and financial advisers must ensure that information required by the SFDR and the Commission Delegated Regulation are easily accessible and not misleading. The information must be made available free of charge in a manner that is non-discriminatory, prominent, simple, concise, comprehensible, fair, and clear. Financial market participants and financial advisers must present and lay out the required information in a way that is easy to read, and use characters of readable size and a style that facilitates understanding.<sup>8</sup> Financial market participants refer to management companies and AIFMs, among others.<sup>9</sup>

Furthermore, new obligations have been introduced for fund managers about considering sustainability risks in the company's investment operations and risk management. These obligations are implemented in FIN-FSA regulations and guidelines 3/2011 applicable to management companies.<sup>10</sup> Obligations concerning AIFMs are provided in Commission Delegated Regulation (231/2013, hereinafter the "AIFMR").<sup>11</sup>

<sup>4</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (hereinafter "the SFDR").

<sup>5</sup> Commission Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of "do no significant harm", specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports (hereinafter the "Commission SFDR Delegated Regulation").

<sup>6</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereinafter the "Taxonomy Regulation").

<sup>7</sup> Taxonomy Regulation, Articles 6–7.

<sup>8</sup> Commission SFDR Delegated Regulation 2022/1288, Article 2(1).

<sup>9</sup> SFDR, Article 2(1).

<sup>10</sup> Regulations and guidelines (3/2011 Organisation of investment fund activities and code of conduct (in Finnish)).

<sup>11</sup> Commission Delegated Regulation (EU) No 231/2013 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositories, leverage, transparency and supervision (AIFMR). Commission Delegated Regulation (EU) 2021/1255 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers

## 2 About the integration of sustainability risks in the investment decision-making process

### 2.1 Criterion

Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.<sup>12</sup>

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.<sup>13</sup>

### 2.2 Findings

All eight companies participating in the more extensive survey had published information on their website about policies applying to the integration of sustainability risks in their investment decision-making process.

The manner in which this information was published varied across the eight companies. Three companies had a separate document describing how sustainability risks were considered in investment decisions. Two companies had a brief statement about policies applying to the integration of sustainability risks in investment decisions. Two companies included a description of the integration of sustainability risks in their principles for responsible investment, however, as a separate section within the document. Two companies did not have a separate description of their policies, but they referred in their response to a description of the integration of sustainability risks in the fund prospectus. The fund prospectus also made reference to principles for responsible investment on the website.

Seven companies had defined sustainability risk in line with its regulatory definition<sup>14</sup>. In addition, six companies had described in more detail what they mean by sustainability risk; e.g. that sustainability risk means risk related to climate change, inequality, employment relations, corruption and bribery, and that it covers both physical risks and transition risks.

One of the companies' description of the integration of sustainability risks was at a very general level and failed to indicate the methodologies applied in the context of the integration of sustainability risks. Five companies had more detailed descriptions of these methodologies. According to the descriptions, the methodologies and tools applied varied by asset class. One of the companies' policies described the integration of sustainability risks by fund category and partly also by fund, and assessed the relevance of the sustainability risks. Three companies integrated sustainability risks in investment decisions by excluding certain companies and sectors, and three companies did so through norms-based screening.

<sup>12</sup> SFDR, Article 3.

<sup>13</sup> SFDR, Article 2(22).

<sup>14</sup> SFDR, Article 2(22).



Three companies also described the actions to be taken if such sustainability risks are detected that must be escalated or reacted to.

Six companies explained they use external data sources in the integration of sustainability risks, but five of them did not disclose in their policies the relevant service provider whose data sources are used.

## 2.3 FIN-FSA's view

According to regulation, companies shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.

Regulation does not specify in more detail how or in which document this information should be provided. However, according to the FIN-FSA's view, it would be clearest that this information is given as a stand-alone document or a separate section on the company website. The information must be easy to find on the company website. If the information is given as part of other principles, such as the company's principles for responsible investment, the principles must have a separate section indicating the relevant policies and describing how sustainability risks are integrated in decision-making concerning investments.

In accordance with Article 6 of the SFDR, pre-contractual disclosures shall include a description of the manner in which sustainability risks are integrated into investment decisions. However, this description does not satisfy the requirements of Article 3 of the SFDR on the publication of policies.

According to the FIN-FSA's view, investors must be given sufficiently detailed and concrete information on how sustainability risks are integrated in investment decision-making.

The policies should cover at least the following:

- What is meant by sustainability risk. In addition to a general definition of sustainability risk, the definition should describe in more detail potential risks related to the environment, society and governance that are considered by the company in its investment decision-making process.
- A description of the process of integrating and monitoring sustainability risks in the context of making investment decisions.
- A description of the methods used in the monitoring of sustainability risks, and an indication of any external service providers used therein.
- Actions to be taken by the company in the event that the materialisation of sustainability risks requires actions.

## 3 Integration of sustainability risks in the organisation of the company's activities

### 3.1 Criterion

More detailed provisions about the integration of sustainability risks in the organisation of a management company's activities are implemented in FIN-FSA regulations and guidelines 3/2011 and, with respect to AIFMs, in the Commission Delegated Regulation. General requirements about the organisation of activities and control exercised by the personnel and management are very similar for management companies and AIFMs. Below is a presentation of regulatory criteria from the perspective of a management company and corresponding references to regulation on AIFMs. In applying regulatory requirements, companies must take into account the nature, scope and complexity of their activities.

#### **Integration of sustainability risks in general requirements for the organisation of activities**

The management company shall take sustainability risks into account in meeting the following regulations concerning general requirements:

- The management company shall have up-to-date decision-making procedures and organisational structure which specify reporting lines and allocates functions and responsibilities in a clear and documented manner. The board of directors of the management company shall supervise and review the effectiveness of the decision-making procedures and organisational structure and take appropriate measures to address any deficiencies.
- The management company shall ensure that persons in a position of influence are aware of the procedures which must be followed for the proper discharge of their responsibilities.
- The management company shall establish adequate internal control mechanisms designed to secure compliance with decisions and procedures in its operations.
- The management company shall have effective and up-to-date arrangements for internal and external reporting and communication of information.
- The management company shall maintain adequate and orderly records of its business and internal organisation.<sup>15</sup>

#### **Integration of sustainability risks in the exercise of control by management**

The management company shall ensure that its executive management:

<sup>15</sup> Regulations and guidelines 3/2011, chapter 4.2, paragraphs 9–15, and AIFMR, Article 57(1).



- a) Is responsible for the implementation of the general investment policy for each investment fund, as defined, where relevant, in the prospectus, the fund rules or the instruments of incorporation of the investment company;
- b) Oversees the approval of investment strategies for each investment fund.
- c) Is responsible for ensuring that the management company has a permanent and effective compliance function, even where this function is performed by a third party;
- d) Ensures and verifies on a periodic basis that the general investment policy, the investment strategies and the risk limits of each investment fund are properly and effectively implemented and complied with, even if the risk control function is performed by a third party;
- e) Approves and reviews on a periodic basis the adequacy of the internal procedures for undertaking investment decisions for each investment fund, so as to ensure that such decisions are consistent with approved investment strategies;
- f) Approves and reviews on a periodic basis the risk management policy and arrangements, processes and techniques for implementing that policy, including the risk limit system for each managed investment fund (for example, more stringent internal investment limits set at the management company than those allowed by the fund rules);
- g) Is responsible for the integration of sustainability risks in activities referred to in points (a) to (f).<sup>16</sup>

## **Integration of sustainability risks in the resources and expertise of the company's personnel**

The management company shall retain the resources and expertise necessary for the effective integration of sustainability risks in the application of the following items:

- The management company shall have personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- The management company shall have the resources and expertise necessary to effectively monitor the activities carried out by third parties on the basis of an arrangement with the management company, especially with regard to the management of the risk associated with those arrangements.
- The management company shall ensure that the performance of multiple functions by a person in a position of influence does not and is not likely to prevent that person from discharging any particular function soundly, honestly, and professionally.<sup>17</sup>

<sup>16</sup> Regulations and guidelines 3/2011, chapter 7.1, paragraph 4; with respect to AIFMs, AIFMR, Article 60(2).

<sup>17</sup> Regulations and guidelines 3/2011, chapter 4.3, paragraphs 20–24; with respect to AIFMs, AIFMR, Article 22.

## 3.2 Findings

### Integration of sustainability risks in the company’s decision-making procedures and organisation of its activities

All but two of the companies (24/26) responded they had integrated sustainability risks in their decision-making procedures. The majority of the companies responded they also integrate sustainability risks in their organisation structure and different functions (see chart below).



Chart 1. Integration of sustainability risks in different functions

The eight companies responding to the more extensive survey described their decision-making procedures and activities related to the integration of sustainability risks through their responsible or sustainable investment principles, in an internal description of operations or risk management guidelines. However, one of the companies’ responsible investment principles failed to describe investment activities from the perspective of sustainability risks.

The documents supplied by the companies described the tasks and roles of various participants in decision-making. The investment decision-making procedures highlighted, in addition to the role of the portfolio manager and the investment function, contribution and steering by various ESG specialists and boards. In one of the companies, a corporate responsibility team supported portfolio management, the business lines and risk management in this task. A majority of the companies referred to the role of risk management in the integration of sustainability risks, but only three of these companies mentioned the role of the compliance function in this context. Although the descriptions referred to the roles of different functions, the division of tasks and responsibilities and the reporting lines between portfolio

management and risk management remained unclear in many cases. It is also possible that the descriptions were left at a general level because the description submitted by these companies consisted of the sustainable investment principles from their website instead of an internal code of conduct.

## **Integration of sustainability risks in the resources and expertise of the company's personnel**

A majority of the companies (24/26) responded that executive management is responsible for the appropriate integration of sustainability risks in the governance of the company. Four companies named the board of directors and eight companies the chief executive officer as the responsible party. Nine of the companies responded that several parties are responsible, for example the chief executive officer together with the board of directors, or the chief executive officer together with the chief risk officer. In one of the companies, responsibility was vested with the administrative director, and in another company, with the chief risk officer. One of the companies responded that the personnel of an entity conducting portfolio management as an outsourced service, including its risk management director, are responsible for the integration of sustainability risks into decision-making procedures.

According to the responses, some of the companies also had various bodies in place for the management of ESG matters. For example, one company mentioned an ESG board including representatives from the investment function and risk management, and another company referred to a steering group for responsible investment.

All companies participating in the more extensive survey had personnel specialising in sustainability risks (6–40% of the company's total personnel resources). According to the companies' responses, these personnel had relevant experience in sustainability risks; four companies responded their experience amounted to more than 5 years, three companies responded 3–5 years and one company 1–2 years. These persons were positioned within the company organisation in many different ways.

The companies responding to the more extensive survey reported they ensure and maintain their personnel's expertise pertaining to sustainability risks by arranging regular internal or external training and by providing an induction programme to new employees. The training was mandatory at many of the companies. One company responded it ensures expertise through performance discussions, and another company responded their relevant personnel obtains an ESG certification from an external service provider.

A majority of the companies (22/26) responded they discuss matters related to sustainability risks on the board of directors, but at a highly variable frequency. Eight companies responded they discuss these matters four times a year and five companies responded they are discussed in every board meeting. Four companies responded that matters related to sustainability risks are not addressed by the board of directors.

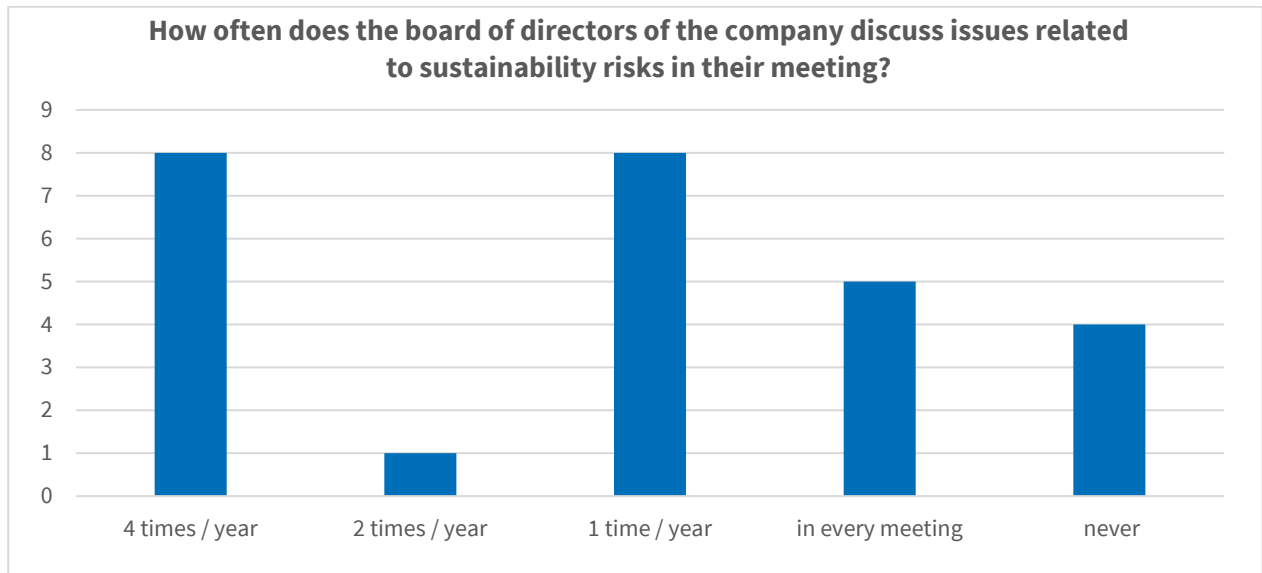


Chart 2. How often does the board of directors of the company discuss issues related to sustainability risks?

### 3.3 FIN-FSA’s view

In accordance with regulation, companies shall have the necessary resources, administrative procedures and supervision systems in place for conduct of their activities.<sup>18</sup> The integration of sustainability risks has been included in regulation by making reference to pre-existing requirements on the organisation of activities. The integration of sustainability risks has brought about new tasks for companies and thereby required companies to update their internal procedures and control systems. In the FIN-FSA’s view, the preparation and publication of policies under Article 3 of the SFDR does not constitute an adequate description of the organisation of the company’s activities; in addition, the company must have updated its internal principles and guidelines describing its activities and internal procedures at a more detailed level. The board of directors of the company is responsible for the organisation of reliable governance. Executive management also plays a crucial role in implementing the organisation of activities and ensuring the up-to-datedness of procedures.

The company shall retain resources and expertise necessary for the effective integration of sustainability risks in its activities. Considering that regulation concerning sustainable finance is a relatively new and still developing area of regulation (valid from 2021), the FIN-FSA finds that companies should pay particular attention to the sufficiency of the expertise of their personnel for their respective areas of responsibility and duties. The FIN-FSA also finds it important that the company has clear internal guidance on how the integration of sustainability risks is carried out in practice and whose area of responsibility it belongs to. If the company has various ESG boards or committees, their roles and responsibilities should be defined in more detail. If a representative of the risk management

<sup>18</sup> Mutual Funds Act (2019/213), chapter 4, section 1, AIFM Act (2014/162), chapter 6, section 1 and chapter 7, sections 1 and 2

function participates in such boards, its organisation must reflect the independence of risk management.

The description of the organisation of companies' activities and their procedures must clearly highlight the supervisory role of the risk management function in the investment decision-making process. It cannot be regarded as adequate organisation of activities to merely state that the duties of the portfolio management function, an individual portfolio manager or an ESG specialist include the integration of sustainability risks. It should also be noted that where portfolio management is outsourced, the same outsourcee cannot be responsible for the supervision of sustainability risks, which is the risk management function's duty. The risk management function of the company must at least verify and supervise sustainability risk reviews performed by other personnel.

Risk management policies and internal guidelines shall include descriptions and procedures about the integration of sustainability risks and the roles of the personnel responsible for sustainability risks. Reporting by the risk management function shall consider sustainability risks along with other risks, and they shall be addressed on a regular basis by the board of directors (see section 4 below).

The compliance function should also review the application of regulation on sustainable finance within the company in its risk assessments and oversight duties related to regulatory compliance.

## 4 Description of sustainability risks and related procedures in the company's risk management policies

### 4.1 Criterion

Provisions concerning the integration of sustainability risks in the organisation of a management company's activities are implemented in FIN-FSA regulations and guidelines 3/2011 and, with respect to AIFMs, in the Commission Delegated Regulation. General requirements about the contents of the risk management policy and the measurement and management of risks are similar for both management companies and Alternative Investment Fund Managers. AIFMs have even more detailed regulation, for example, with respect to the contents of the risk management policies concerning safeguards for conflicts of interests, liquidity risks, risk limits and the review of the risk management policies. Below is a presentation of regulatory criteria from the perspective of a management company and corresponding references to regulation concerning AIFMs.

## **Description of sustainability risks in the company's risk management policies**

Management companies shall have appropriate and documented risk management principles enabling the identification of risks, to which investment funds under their management are exposed. The risk management policy shall be implemented in the ordinary course of the business and updated on a regular basis.

The risk management policy shall comprise such procedures as are necessary to enable the management company to assess the exposure of each investment fund it manages to market, liquidity, sustainability and counterparty risks, as well as all other risks, including operational risks, which may be material for an individual investment fund managed by the management company.

The risk management policy shall describe and determine at least the following:

- a) techniques, tools and arrangements that enable the management company to comply with obligations concerning the measurement of risks and the calculation of global exposure;
- b) allocation of responsibilities within the management company pertaining to risk management;
- c) terms, contents and frequency of reporting of the risk management function to the board of directors and to the management and, where appropriate, to the supervisory function.

The risk management policy shall be proportionate with the nature, scope and complexity of the business of the management company and the investment funds managed by it.

The management company shall assess, monitor and periodically review the risk management policy, arrangements, processes and techniques established to measure and manage risks as well as the adequacy and effectiveness of the measures taken.

The management company shall notify the FIN-FSA of any material changes to the risk management procedures.<sup>19</sup>

## **Measurement and management of sustainability risks**

The board of directors of the management company shall establish appropriate and effective arrangements, processes and techniques allowing the management company to manage and measure, in real time, the risks to which investment funds under its management are exposed.

The risk management procedures and risk measurement techniques shall be proportionate with the nature, scope and complexity of the business of the management company and appropriate for the risk profile of the investment fund.

The management company shall take the following actions for each investment fund it manages:

- a) put in place such risk measurement arrangements, processes and techniques as are necessary to ensure that the risks of taken positions and their contribution to the overall risk profile are

<sup>19</sup> Regulation 3/2011, chapter 8.1, paragraphs 3–8 and AIFMR, Articles 40–41.

- accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented;
- b) conduct appropriate periodic back-tests in order to review the timeliness and appropriateness of risk measurement arrangements, such as model-based forecasts and estimates;
  - c) conduct appropriate periodic stress tests and scenario analyses to address risks arising from potential changes in market conditions that might adversely impact the investment fund;
  - d) establish a documented system of internal limits concerning the measures used to manage and control the relevant risks for each investment fund, taking into account the exposure to market, liquidity and counterparty risks, and all other material risks that are relevant for each investment fund it manages while ensuring consistency with the investment fund's risk-profile;
  - e) ensure that the current level of risk complies with the risk limit system as set out in point d) for each investment fund;
  - f) establish, apply and maintain adequate procedures that, in the event of actual or anticipated breaches of the risk limit system for an investment fund, result in timely remedial actions in the best interests of unitholders.<sup>20</sup>

Regulation concerning AIFMs also describes requirements for the calibration of risk limits in more detail. An AIFM shall establish and implement quantitative or qualitative risk limits, or both, for each AIF it manages, taking into account all relevant risks. If it establishes only qualitative limits, it must be able to justify this to the FIN-FSA. When setting risk limits, the AIFM shall take into account the strategies and assets employed in respect of each AIF it manages as well as the national rules applicable to each of those AIFs. Those risk limits shall be aligned with the risk profile of the AIF and approved by the governing body.<sup>21</sup>

The management company shall, when implementing its risk management policy, and where it is appropriate after taking into account the nature of a foreseen investment, formulate forecasts and perform analyses concerning the investment's contribution to the fund portfolio composition, liquidity and risk and reward profile before carrying out the investment. The analyses must only be carried out on the basis of reliable and up-to-date information, both in quantitative and qualitative terms.<sup>22</sup> In meeting these requirements, the management company shall consider sustainability risks and also principal adverse impacts if it considers them in accordance with Article 4 of the SFDR.<sup>23</sup>

## 4.2 Findings

Based on the responses to the survey, all but one of the companies (25/26) had updated their risk management policy to include sustainability risks. One of these companies did not review or update the methodologies and tools for assessing sustainability risks on a regular basis. A majority of the companies had reviewed and updated the methodologies and tools for assessing sustainability risks

<sup>20</sup> Regulation 3/2011, chapter 8.2, paragraphs 9 a), 10–11 and AIFMR, Articles 44–45.

<sup>21</sup> AIFMR, Article 44(1) and (3).

<sup>22</sup> Regulations and guidelines 3/2011, chapter 4.11, paragraph 73, and AIFMR, Article 18 (2-3).

<sup>23</sup> Regulations and guidelines 3/2011, chapter 4.11, paragraphs 75–76, and AIFMR, Article 18(5-6).



once or several times a year. Five companies responded another frequency, meaning a review on an ongoing basis, but at least annually.

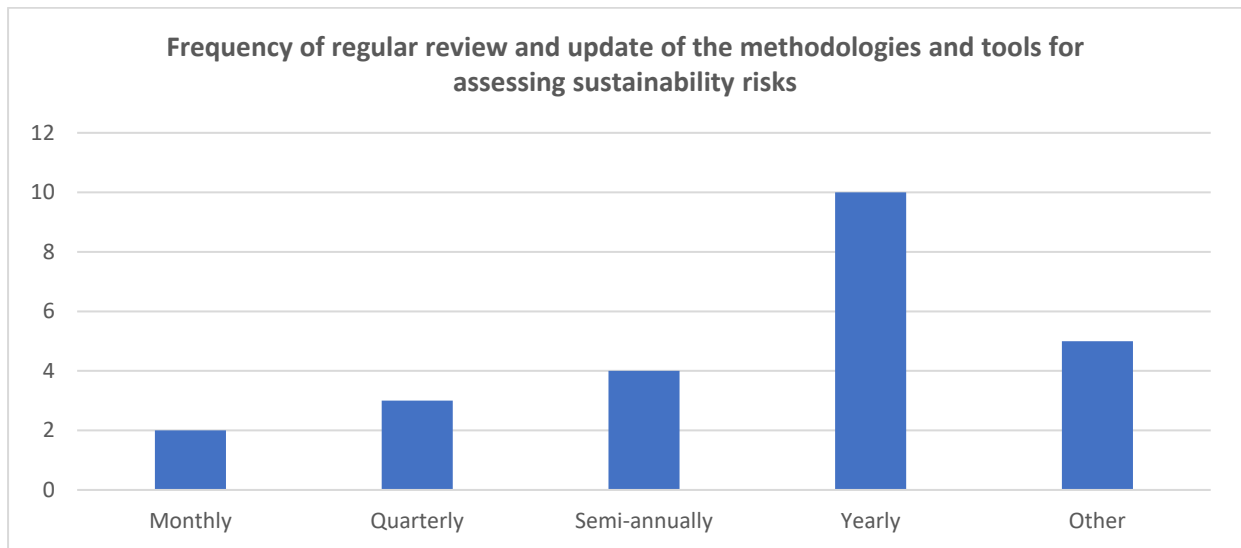


Chart 3. Frequency of regular review of the methodologies and tools for assessing sustainability risks

All companies were also inquired whether they map events resulting from sustainability risks. Most of the companies (18/26) had mapped events that could occur as a result of sustainability risk. The majority of the companies (18/26) responded having prepared a database for the review of the investment funds' sustainability risks.

The descriptions of procedures for the review of sustainability risks given by the companies participating in the more extensive survey were scrutinised in more detail. Four companies' risk management policies lacked a more detailed description of which sustainability risks were defined by the company as sustainability risks to be monitored. Furthermore, three companies lacked a more detailed description the procedures and/or risk limits applied by the company in the monitoring of sustainability risks. However, a majority of the companies had stated in their risk management policy that it is checked in the monitoring of sustainability risks that no investments have been made in companies or sectors that are on the company's exclusion list. One of the companies did not provide its internal risk management guidelines; hence, this part of the review did not cover this company.

Some of the companies described in more detail in their survey responses the processes and methodologies applied by them in the monitoring of sustainability risks. The companies stated they apply the following methodologies in the analysis and monitoring of sustainability risks: integration of sustainability risks in the ESG Due Diligence process and separate thematic surveys related to sustainability, ESG risk ratings by an external service provider, climate indicators, monitoring of norm violations and inclusion in the portfolio manager's sustainability analysis tool.

One of the companies had a clearly defined process comprising several stages to review pre-defined sustainability risk areas with respect to each new investment fund or an existing fund being updated. In the process, a risk indicator is determined for each fund on a pre-defined scale, and it is monitored on a regular basis which funds exceed their sustainability risk limits. Some of the funds also described in their risk management policy how they would respond if an investment fund's sustainability risks exceed their respective limits or a violation of international norms occurs.

According to four companies' risk management policy, the risk management function also played a role in the monitoring of sustainability risks; for example, by reviewing sustainability risk reports and reporting on sustainability risks to management and the board of directors. One of the companies mentioned that part of its sustainability risk integration and monitoring was carried out by an outsourced portfolio manager.

Five companies described in their risk management policy how frequently sustainability risks are monitored. The companies monitor sustainability risks on a daily, monthly, quarterly or annual basis. One of the companies proclaimed in its policy to monitor sustainability risks on a regular basis. In addition, according to four companies' risk management policies or responses, sustainability risks are monitored both before making an investment and during the life of the investment.

## 4.3 FIN-FSA's view

Regulation determines clearly what has to be described in risk management principles at the minimum, and this also applies to sustainability risks:

- techniques, tools and arrangements enabling the measurement and management of sustainability risks;
- internal division of responsibilities specifying the duties, responsibilities and roles of all personnel monitoring and reporting on sustainability risks;
- time and frequency of reporting by the risk management function on sustainability risks to the board of directors, executive management, and, where necessary, the control function, and the contents of these reports.

In their risk management policy, companies must define and describe clearly which sustainability risks are monitored by them. Where necessary, sustainability risks can be determined on a fund-specific basis if they vary.

In addition, companies must determine and describe the methodologies used in the monitoring of sustainability risks. The company must have clear pre-set risk limits, according to which the sustainability risk level of each fund is determined at the inception stage and updated in connection with ongoing analysis and monitoring and also whenever the fund's investment strategy is adjusted. If risk limits are exceeded, the company must have a procedure for remediating actions and reporting.

In addition, companies must determine and describe the frequency of the monitoring of sustainability risks. In the FIN-FSA's view, sustainability risks must be considered in connection with investment

decisions and monitored on a regular basis during the life of the investment. The FIN-FSA finds that the risk management function must monitor sustainability risks at least on a monthly basis and document this monitoring and any findings made. Risk management must monitor these risks more frequently if significant sustainability risks have been identified in respect of the investment fund or if required by the fund's investment policy.

The FIN-FSA finds that, the risk management function must report on sustainability risks at least on a quarterly basis to the management company's board of directors and operative management in order for the management of the company to have the actual possibility to have information on the effectiveness of the company's risk management, any measures taken, and to take remediating actions when necessary.

The risk management report must indicate, among other things, whether there were any overruns of the risk limits established for the investment funds during the review period, what the reason for any such overrun was and what actions were taken as a result.

The risk management policies and procedures determined therein must be reviewed at least annually and updated when necessary.

## 5 Sustainability risks in the company's remuneration policy

### 5.1 Criterion

Financial market participants and financial advisers shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and shall publish that information on their website.<sup>24</sup> The information referred to above shall be included in remuneration policies established and maintained by the company.<sup>25</sup>

In accordance with regulation on investment funds, the remuneration scheme shall be consistent with sound and effective risk management in the management company. The remuneration scheme may not encourage risk-taking that is inconsistent with the rules or risk profiles of the investment funds managed by the management company. The remuneration scheme shall be consistent with the business strategies, investment objectives, values and best interests of the management company, the investment funds being managed and the investors.<sup>26</sup>

<sup>24</sup> SFDR, Article 5(1).

<sup>25</sup> SFDR, Article 5(2).

<sup>26</sup> Mutual Funds Act, chapter 4, sections 3–5 §, AIFM Act, chapter 7, section 7. More detailed provisions on the remuneration scheme are laid down in Ministry of Finance Decrees and ESMA Guidelines.

In accordance with the Mutual Funds Act, the fund prospectus shall contain:

- 1) detailed and up-to-date information on the management company's remuneration policy and a description of how remuneration and benefits are calculated, the identity of the persons responsible for awarding the remuneration and benefits and, if the company has a remuneration committee, its composition; or
- 2) a summary of the management company's remuneration policy and a statement that the detailed information on the management company's remuneration policy referred to in paragraph 1 is available on the website of the management company, the website address and a statement that the fund prospectus will be supplied to investors on paper upon request, free of charge.<sup>27</sup>

## 5.2 Findings

According to their responses, a majority of the companies (23/26) had integrated sustainability risks into their remuneration policy.

The prospectuses of the eight companies participating in the more extensive survey described the integration of sustainability risks in the remuneration policy briefly, and all but one of the prospectuses contained a link to a remuneration policy, which was a group-level one in five of the companies, on the company website. The web address specified in the prospectus with the remuneration policy was the common corporate website address, and only two companies provided a specific URL exactly where the remuneration policy can be found on the company website. One of the companies' prospectus stated in the context of remuneration policy that additional information is available from the company upon request. Two of the companies also had a separate description of their remuneration policy from the perspective of Article 5 of the SFDR.

The remuneration policies of the companies participating in the more extensive survey integrated sustainability risks, for example, in individual targets, personal development discussions, performance reviews and the assessment of qualitative criteria for the employees, including the development of ESG integration and the fulfilment of set sustainability targets. Four companies referred to the integration of sustainability risks in remuneration in a limited manner without detailed information. One of the companies referred to responsibility in their remuneration policy instead of sustainability risks, and one of the companies' remuneration policy explained that the structure of remuneration in itself prevents any kind of risk taking, without reflecting on the integration of sustainability risk.

## 5.3 FIN-FSA's view

Article 5 of the SFDR requires that companies' remuneration policy includes information on how the policy is consistent with the integration of sustainability risk. The information on sustainability risks

<sup>27</sup> Mutual Funds Act, chapter 15, section 3(2).

shall therefore be included in the description of the remuneration policy, and there is no need to prepare a separate statement or document about the section of the remuneration policy concerning sustainability risks. The information required by Article 5 of the SFDR may therefore be included in the description of the remuneration policy included in the prospectus published on the company website or in the description of the remuneration policy found on the company website. In the latter case, the prospectus shall provide a summary of the policy and information of the web address where the detailed information can be found. The web address or link in the prospectus must be adequately detailed to facilitate the finding of the information.

In providing the information under Article 5 of the SFDR, the company shall state how the remuneration policy is consistent with the integration of sustainability risks. The FIN-FSA does not consider it an adequate description that the company only makes reference to a text aligned with Article 5 of the SFDR in the remuneration policy provided on the website, but the remuneration policy must be described in an adequate manner. The Mutual Funds Act already determines which information on the remuneration policy shall be provided in the prospectus and/or company website. Regulation concerning AIFMs defines what must be covered by the remuneration policy, but it does not provide obligations to publish the information on the company website. Nevertheless, AIFMs<sup>28</sup> must publish a concise description of their remuneration policy on their website in order to be able to describe in accordance with Article 5 of the SFDR how the policy is consistent with the integration of sustainability risks.

In the FIN-FSA's view, remuneration can effectively steer and encourage the appropriate integration of sustainability risks in the management of investment funds' portfolios. It may also be important for investors to receive more detailed information on the company's remuneration policy, including for example, how the company remunerates the portfolio managers of the investment funds.

## 6 Statement of principal adverse impacts on sustainability factors

### 6.1 Criterion

Financial market participants shall publish and maintain on their websites:

- a) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scope of their activities and the types of financial products they make available; or

<sup>28</sup> Regarding authorized AIFMs

- b) where they do not consider adverse impacts of investment decisions on sustainability factors, clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts.<sup>29</sup>

Articles 4–10 and Annex I to Commission SFDR Delegated Regulation describe in more detail the information that must be given in the PAI statement.<sup>30</sup>

Companies shall publish a PAI statement on their website by 30 June at the latest in a separate section titled: “Statement on principal adverse impacts of investment decisions on sustainability factors”. The PAI statement shall be issued in the standardised template format (Annex I), providing information on all 14+4 indicators presented in Table 1 of Annex I and at least one indicator from Table 2 and one indicator from Table 3. Furthermore, the section on Table 1 shall disclose information about actions taken and actions planned as well as targets set with respect to the indicators.<sup>31</sup>

More detailed criteria for the summary section in Table 1 of Annex I are laid down in Article 4 of the Commission SFDR Delegated Regulation. The summary must be prepared in Finnish or Swedish, and English.<sup>32</sup> In addition, the PAI statement shall describe the policies to identify and prioritise principal adverse impacts on sustainability factors and how those policies are kept up to date and applied. In this context, it must also be described how the information was obtained, if information relating to the indicators used is not readily available.<sup>33</sup>

In accordance with Article 9 of the Commission SFDR Delegated Regulation, financial market participants shall describe in the section “References to international standards” in Table 1 whether and to what extent they adhere to internationally recognised standards and, where relevant, the degree of their alignment with the objectives of the Paris Agreement. The description given by financial market participants shall include the following information:

- a) the indicators used and that measure adherence or alignment;
- b) the methodology and data used to measure the adherence or alignment, including a description of the scope of coverage, data sources, and how the methodology used forecasts the principal adverse impacts of investee companies;
- c) whether a forward-looking climate scenario is used, and, if so, the name and provider of that scenario and when it was designed;
- d) where no forward-looking climate scenario is used, an explanation of why the financial market participant does consider forward-looking climate scenarios to be irrelevant.<sup>34</sup>

<sup>29</sup> SFDR, Article 4(1).

<sup>30</sup> PAI statement = statement by financial market participants that they do consider principal adverse impacts of their investment decisions on sustainability factors. PAI = principal adverse impacts.

<sup>31</sup> Commission SFDR Delegated Regulation, Articles 4 and 6.

<sup>32</sup> Commission SFDR Delegated Regulation, Article 5.

<sup>33</sup> Commission SFDR Delegated Regulation, Article 7.

<sup>34</sup> Commission SFDR Delegated Regulation, Article 9.

## 6.2 Findings

According to the responses to the thematic review, 18 companies considered principal adverse impacts on sustainability factors, while eight companies did not consider them. The responses concerned the PAI statement for 2022.

The more detailed findings about this section are related, in certain respects, to the PAI statements of the eight companies responding to the more extensive survey.

Two of the eight companies responding to the more extensive survey of the thematic review had given the PAI statement at the company level. Four companies had not given the PAI statement at company level, but at the group company level. The PAI statement for one of the companies had been given by a company to which the portfolio management of the investment funds was outsourced. One of the companies did not consider investment decisions' principal adverse impacts on sustainability factors.

Five companies' PAI statement was reasonably easy to locate on the company website.

The FIN-FSA identified the following shortcomings in the PAI statements:

- The date of issue was missing from the PAI statement
- No PAI statement had been given by the due date
- The PAI statement lacked data about two voluntary PAI statement lacked data about two voluntary indicators
- The PAI statement was not found under the title "Statement on principal adverse impacts of investment decisions on sustainability factors".
- No summary of the PAI statement was given in the member state's official language, but only in English.
- The PAI statement was not published according to lay out in table 1 of Annex 1 of Commission SFDR Delegated Regulation.

In connection with the thematic review, the FIN-FSA assessed the descriptions given in the PAI statements in the section "Actions taken, and actions planned and targets set for the next reference period" with respect to three selected indicators (greenhouse gas emissions, biodiversity, UN Global Compact). The FIN-FSA made the following findings:

- Descriptions were at a very general level
- Relevant information was altogether or partly missing with respect to some PAI indicators
- Actions and targets concerning greenhouse gas emissions were described more comprehensively than those concerning biodiversity, for instance.
- As regards the biodiversity indicator, major differences were also identified in the descriptions across companies. Some of the companies listed concrete actions taken or planned, such as the development and roll-out of an internal monitoring tool.

Furthermore, the thematic review explored whether the company had given a description of the degree of alignment with the objectives of the Paris Agreement in the section "References to international standards". Four companies responded they had described the degree of alignment with the objectives



of the Paris Agreement. In accordance with Article 9 of the Commission SFDR Delegated Regulation, in this case the company shall provide detailed information on the indicators, methodology, data sources and scenarios used to measure the degree of alignment with the Paris Agreement. As regards these four companies, the FIN-FSA was not able to find all information required by regulation. Three companies responded they do not provide information on the degree of alignment with the Paris Agreement in their PAI statement.

With respect to references to other international standards adhered to by the company, a few companies mentioned only the name of the relevant international standard, and not the more detailed information as required by regulation, on the indicators, methodologies and data used to measure the adherence.

In connection with the first part of the thematic review, the FIN-FSA assessed the descriptions given by the companies in the PAI statement about their engagement policies pertaining to Article 8 of the Commission SFDR Delegated Regulation.<sup>35</sup>

## 6.3 FIN-FSA's view

With respect to the PAI statement, Article 4(1) of the SFDR refers to a financial market participant. A management company and an AIFM are financial market participants, and therefore the information shall be provided at the company level, and not as a joint statement with the parent company or other group companies. If the company considers principal adverse impacts on sustainability factors, the company needs to provide a specific PAI statement about it.<sup>36</sup> In addition, in its PAI statement, the company must take into account the investments of all funds under its management, regardless of any portfolio outsourcing arrangements.

The FIN-FSA requests companies to pay particular attention to the topics reviewed by the FIN-FSA and in respect of which shortcomings were identified:

- The information required by the SFDR and the Commission SFDR Delegated Regulation must be easy to find on the company website under the title “Statement on principal adverse impacts of investment decisions on sustainability factors”.
- All information on mandatory indicators and two voluntary indicators must be reported using the formatting under Annex I.
- The PAI statement must be published by the annual deadline (30 June).
- The date of publication must be indicated in the PAI statement.
- The summary of the PAI statement must be given in Finnish or Swedish, and English.
- Sufficiently detailed information must also be given about the PAI indicators with respect to actions taken and planned as well as well as targets to that investors can assess them.

<sup>35</sup> <https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2024/thematic-review-greenwashing-risk-taken-into-account-in-a-relatively-limited-manner-in-investment-fund-activities/>

<sup>36</sup> Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288) question IV.1.

- If the company adheres to international standards and describes the degree of alignment with the objectives of the Paris Agreement, the detailed information under the Commission SFDR Delegated Regulation must also be given about indicators, methodologies and data used to measure the adherence. This information is to be given in the section “References to international standards”.
- European Supervisory Authorities’ report regarding financial market participant’s PAI-statements<sup>37</sup> includes also supervisors’ views on good and bad practices. FIN-FSA recommends companies to examine the report.

## 7 Fund disclosures under Article 6 of the SFDR and the Taxonomy Regulation

### 7.1 Criterion

Financial market participants shall include descriptions of the following in pre-contractual disclosures:

- a) the manner in which sustainability risks are integrated into their investment decisions; and
- b) the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.

Where financial market participants deem sustainability risks not to be relevant, the descriptions referred to in the first subparagraph shall include a clear and concise explanation of the reasons therefor.<sup>38</sup>

Where a financial product is not subject to Article 8(1) or to Article 9(1), (2) or (3) of the SFDR, the information to be disclosed in accordance with the provisions of sectoral legislation referred to in Articles 6(3) and 11(2) of that Regulation shall be accompanied by the following statement: “The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.”<sup>39</sup>

As regards UCITS investment funds, the information shall be disclosed in the prospectus, and as regards Alternative Investment Funds, in connection with material and sufficient information.<sup>40</sup>

<sup>37</sup> <https://www.esma.europa.eu/press-news/esma-news/esas-publish-2024-joint-report-principal-adverse-impacts-disclosures-under>

<sup>38</sup> SFDR, Article 6(1).

<sup>39</sup> Taxonomy Regulation, Article 7.

<sup>40</sup> SFDR, Article 6(3).

## 7.2 Findings

The integration of sustainability risks in investment decisions concerns all investment funds. For the purposes of this section, the criterion concerning the integration of sustainability risks was assessed through fund prospectuses. The findings are related to information disclosed in the fund prospectuses of the companies participating in the more extensive survey as well as disclosures on sustainability risks with respect to investment funds whose objective is not to promote environmental or social characteristics or make sustainable investments.

### **Description of the manner of integrating sustainability risks in investment decisions**

All fund prospectuses reviewed contained a description of what is meant by sustainability risks, and most (6/8) of the descriptions also used directly the definition of sustainability risk provided in Article 2 of the SFDR. Five companies had also described sustainability risks in more detail, including risks related to climate change (both physical and transition risks) and risks pertaining to inequality, labour relations, corruption and bribery. A few prospectuses also divided sustainability risks into environmental, social and governance-related risks.

All eight companies stated in their fund prospectus that consideration of sustainability risk is part of the investment decision-making process. The descriptions mentioned, for example, that the consideration of sustainability risks is systematically integrated into the selection of investments, monitoring and reporting, that sustainability risks are part of the assessment of overall risk in connection with the investment selection process along with other risks, or the operative process was described in more detail in the principles for responsible investment. One of the companies integrated sustainability risks by avoiding sectors involving a high degree of risk from the perspective of sustainability. Two companies described sustainability risks and related procedures in more detail on a fund-specific basis. A few companies also required their asset management partners to comply with certain ESG criteria and also consider sustainability risks in their investment activities.

### **Sustainability risks in other investment funds**

Out of the six investment funds that were not funds under Article 8 or 9 of the SFDR, five were found to consider have sustainability risks. One of the funds was found not to consider sustainability risks due to its investment strategy, but on the other hand sustainability risks in respect of the fund were monitored and reported on. In addition, one of the funds was mentioned to integrate sustainability factors in its investment activities, and another fund was reported to integrate sustainability risks among other things by exclusion, monitoring of violations of international norms and owner engagement. Two funds applied sustainability analysis also in the evaluation of external asset managers. One of the fund prospectuses even stated that such investments are primarily selected into the portfolio that promote environmental or social characteristics or have sustainable investment as their objective even if they are not related to the fund's investment strategy. In respect of these funds, three companies also published an ESG or responsibility report, or information on the website highlighting sustainability

factors. One of the companies responded it presents information on the carbon footprint of all of its funds regardless of their sustainability rating.

All but one of the investment funds reviewed provided a statement under Article 7 of the Taxonomy Regulation.

## Impact of sustainability risks on return

A majority (6/8) of the companies participating in the more extensive survey provided a general and concise description in the fund prospectus of the impact of sustainability risks on the return of investments, and only one of the companies presented these impacts on a fund-specific basis. For example, the descriptions stated that sustainability risks may have an impact on return; if realised, there may be a negative and material impact on return; or the risk was assessed to have a limited impact on return. It was also stated that the exclusion of certain sectors is expected to reduce sustainability risk, but in the long term, the integration of sustainability risks will not have a significant impact on return. One of the companies stated there is no widely accepted calculation method or model, and for the time being, the company does not make detailed assessments of the impact of sustainability risks on the return of financial products. One of the companies' fund prospectus did not address the topic in any way.

## 7.3 FIN-FSA's view

The disclosure obligations under Article 6 of the SFDR concern partly the same information as the policies to be disclosed on the company website under Article 3 of the SFDR (see section 2). The information under Article 6 of the SFDR must be included in the fund prospectus, or with respect to AIFs, to the material and sufficient information. The FIN-FSA points out that the disclosure obligations provided in different articles of the SFDR do not replace one another even if they may repeat similar requirements and if the information is published on the company website.

The FIN-FSA refers to its view presented in section 2.3 of this report, which may also be applied to this section in terms of the integration of sustainability risks. In contrast with the company-specific policies under Article 3 of the SFDR, the disclosures under Article 6 of the SFDR are more fund-specific. If sustainability risks are only described at a general level or through the definition provided in the SFDR, it is not enough to meet the regulatory requirements on how the company integrates sustainability risks in its investment decisions and how it assesses the relevance of sustainability risks for funds under its management. The company must have appropriate and effective arrangements and procedures for the assessment of sustainability risks. The clarity and consistency of the disclosures is also important to ensure, for example, that funds whose objective is not to promote environmental characteristics or make sustainable investments do not provide a misleading image of sustainability factors.

According to the FIN-FSA, fund-specific information would be clearer and more concrete for the investor than general descriptions. The FIN-FSA also finds it good practice that sustainability risks are described

in more detail using the breakdown of the sustainable finance framework into environmental, social and governance, i.e. ESG, risks.

Regulation does not provide more detailed instructions or calculation models about the impact of sustainability risks on fund returns. However, the SFDR requires the company to present the result of the impact assessment, and the assessment cannot be omitted. In the FIN-FSA's view, the impact assessment requires that the relevance of risks is assessed on a fund-specific basis. If the company considers sustainability risks in its investment funds, it must also be able to assess their probable and actual impacts, in particular if monitoring of sustainability risks has already been carried out for a longer time.

## 8 Fund disclosures under Articles 8 and 9 of the SFDR

### 8.1 Pre-contractual fund disclosures

#### 8.1.1 Criterion

##### **General principles for the presentation of information**

The company shall provide the information required in a manner that is easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading. The information shall be presented and laid out in a way that is easy to read, and use characters of readable size and a style that facilitates understanding. Companies may adapt size and font type of characters and colours used in the templates set out in Annexes I–V.<sup>41</sup>

##### **Pre-contractual fund disclosures under Article 8 of the SFDR**

Financial market participants shall include descriptions of the following in pre-contractual disclosures<sup>42</sup>:

- a) information on how environmental or social characteristics are met;
- b) if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics. In addition, the information to be disclosed shall

<sup>41</sup> Commission SFDR Delegated Regulation, Article 2(1).

<sup>42</sup> SFDR, Article 6(1) and (3). As regards UCITS investment funds, the information shall be disclosed in the prospectus, and as regards Alternative Investment Funds, in connection with material and sufficient information.

include an indication of where the methodology used for the calculation of the index is to be found.<sup>43</sup>

Where a financial product is also aligned with Article 6 of the Taxonomy Regulation, this information shall include, as applicable, a description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable.<sup>44</sup>

Articles 14–17 of the Commission SFDR Delegated Regulation describe in more detail how product disclosures are to be given in accordance with Annex II.

## **Pre-contractual fund disclosures under Article 9 of the SFDR**

Where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark, financial market participants shall include descriptions of the following in the pre-contractual disclosures<sup>45</sup>:

- a) information on how the designated index is aligned with that objective;
- b) an explanation as to why and how the designated index aligned with that objective differs from a broad market index.

Where a financial product has sustainable investment as its objective and no index has been designated as a reference benchmark, the information to be disclosed shall include an explanation on how that objective is to be attained.

Where a financial product has a reduction in carbon emissions as its objective, the disclosures must include a detailed explanation of the targeted low level of carbon emissions in view of achieving the long-term global warming objectives of the Paris Agreement.

Where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark in accordance with Regulation (EU) 2016/1011( 3 ) of the European Parliament and of the Council is available, the disclosures shall include a detailed explanation of how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the long-term global warming objectives of the Paris Agreement.

Financial market participants shall include in the information to be disclosed an indication of where the methodology used for the calculation of the indices and benchmarks applied in the financial product are to be found.<sup>46</sup>

<sup>43</sup> SFDR, Article 8.

<sup>44</sup> Taxonomy Regulation, Article 6.

<sup>45</sup> SFDR, Article 6(1) and (3). As regards UCITS investment funds, the information shall be disclosed in the prospectus, and as regards Alternative Investment Funds, in connection with material and sufficient information.

<sup>46</sup> SFDR, Article 9.

Where a financial product is aligned with Article 5 of the Taxonomy Regulation, this information shall include a description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable.<sup>47</sup>

Articles 18–19 of the Commission SFDR Delegated Regulation describe in more detail how the product disclosures are to be made in accordance with Annex III.

## **Fund disclosures on principal adverse impacts in connection with disclosures under Articles 8 and 9 of the SFDR:**

Where financial market participants consider the principal adverse impacts of investment decisions on sustainability factors<sup>48</sup>, the following items should be included in the fund disclosures:

- a) a clear and reasoned explanation of whether, and, if so, how a financial product considers principal adverse impacts on sustainability factors;
- b) a statement that information on principal adverse impacts on sustainability factors is available in the information to be disclosed pursuant to Article 11(2).

Where a financial market participant does not consider the principal adverse impacts of investment decisions on sustainability factors, the fund disclosures shall include a statement thereof, with clear reasons therefor.<sup>49</sup>

A financial market participant that does not consider the adverse impacts of investment decisions at the company level may, however, consider them at the financial product level.<sup>50</sup>

### **8.1.2 Findings**

In the thematic review, the FIN-FSA reviewed the pre-contractual disclosures of Article 8 funds (total of 8 funds) and Article 9 funds (total of 7 funds) provided by the companies participating in the more extensive survey. Below is a description of the FIN-FSA's most significant findings on these funds' documentation with reference to the titles of Annex II and Annex III.

#### **Findings on pre-contractual fund disclosures under Article 8 of the SFDR (Annex II)**

*What environmental and/or social characteristics are promoted by this financial product?*

- Indication of the environmental and/or social characteristics promoted by the fund was insufficient.

<sup>47</sup> Taxonomy Regulation, Article 5.

<sup>48</sup> SFDR, Article 4(1)(a), (3) and (4).

<sup>49</sup> SFDR, Article 7.

<sup>50</sup> Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288), question IV.2.



*What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?*

- A clear description of all indicators followed was missing.

*What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?*

- Indicator thresholds were missing for funds making sustainable investments.
- Three companies' responses indicated that thresholds had been set for sustainable investment indicators, but a description of the thresholds was missing from Annex II.

*How do the sustainable investments that the financial product partially intends to make not cause significant harm to any environmental or social sustainable investment objective?*

- Thresholds for indicators on the "do no significant harm" criteria were missing.

*Does this financial product consider principal adverse impacts on sustainability factors?*

- Among the funds considering principal adverse impacts on sustainability factors, funds' disclosures lacked a description of how the indicators are monitored and a reference to Annex IV where information on the indicators is provided.

*What investment strategy does this financial product follow? What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?*

- In the section on investment strategy, the fund's strategy is only described at a general level, overlooking the sustainability perspective.
- In the section on binding elements, the criteria were not clearly indicated.
- The description of the policy to assess good governance practices was at a too general level.
- The description made reference to responsible investment principles on the website and its strategies, i.e. ESG integration and exclusion. The companies being excluded in the determined segments were not named, but there was only a reference to the principles on the website.

*What is the asset allocation planned for this financial product?*

- A description of investments and their minimum allocations was entirely or partly missing from above the graph.
- Under the question, there was a description of the long-term average, although according to the instructions, there should be an indication of the minimum allocation committed to.

## Findings on pre-contractual fund disclosures under Article 9 of the SFDR (Annex III):

*What is the sustainable investment objective of this financial product?*

- As regards the sustainable investment objective, there was a fund with both an environmental and social investment objective only providing a description of the environmental objective and not of the socially sustainable objective.
- Disclosures lacked a detailed and clear description of how the sustainable investment objective is to be attained. The disclosures provided examples and made reference to information generated by an external service provider.
- Fund, including sustainable investments, with an environmental objective did not disclose information according to article 5 of Taxonomy regulation.
- Lack of information on whether the fund has a reference benchmark designated for a specific purpose of attaining the sustainable objective.

*What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?*

- Clear descriptions of all indicators followed were missing. Indicators were only mentioned as examples of the indicators monitored.
- Indicator thresholds were missing.

*How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective? How have the indicators for adverse impacts on sustainability factors been taken into account?*

- Funds lacked thresholds for indicators and descriptions of indicators monitored with respect to the “do no significant harm” criteria.
- The following indicators were not described.

*Does this financial product consider principal adverse impacts on sustainability factors?*

- Among the funds considering principal adverse impacts on sustainability factors, funds’ disclosures lacked a description of how the indicators are monitored.
- A reference to periodic disclosures (Annex V) was missing, where information on the indicators is provided.

*What is the asset allocation and the minimum share of sustainable investments?*

- Some of the descriptions indicated that the allocations should be seen as long term average, while also stating that the percentages reported are minimum allocations.
- A verbal description of asset allocation was altogether missing.

*To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?*

- Six out of the seven funds reviewed were committed to allocating 5–99% of their assets in Taxonomy-aligned investments.
- The descriptions of Taxonomy-aligned investments referred to incomplete information.

*What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?*

- “Not sustainable” investments also included investments other than those for hedging or liquidity purposes.

*Is a specific index designated as a reference benchmark to meet the sustainable investment objective?*

- Misleading information disclosed of a benchmark index, which was not a benchmark in accordance with the rules of the fund.

## 8.2 Fund disclosures provided in periodic reports

### 8.2.1 Criterion

Where financial market participants make available a financial product as referred to in Article 8 or Article 9 of the SFDR, they shall include a description of the following in periodic reports:

(a) for a financial product as referred to in Article 8, the extent to which environmental or social characteristics are met;<sup>51</sup>

b) for a financial product as referred to in Article 9<sup>52</sup>

- the overall sustainability-related impact of the financial product by means of relevant sustainability indicators; or
- where an index has been designated as a reference benchmark, a comparison between the overall sustainability-related impact of the financial product with the impacts of the designated index and of a broad market index through sustainability indicators.

Articles 50–64 of the Commission SFDR Delegated Regulation describe in more detail the information to be given in periodic reports in accordance with Annex IV and Annex V.

The periodic disclosures shall be provided in the annual report for the investment fund.<sup>53</sup>

### 8.2.2 Findings

In the thematic review, the FIN-FSA reviewed the periodic reports for Article 8 funds (total of 8 funds) and Article 9 funds (total of 7 funds) provided by the companies participating in the more extensive

<sup>51</sup> SFDR, Article 11(1)(a).

<sup>52</sup> SFDR, Article 11(1)(b).

<sup>53</sup> SFDR, Article 11(2).

survey. Below is a description of the FIN-FSA's most significant findings on these funds' documentation with reference to the titles of Annex IV and Annex V.

## Findings on periodic fund disclosures under Article 8 of the SFDR (Annex IV)

*To what extent were the environmental and/or social characteristics promoted by this financial product met?*

- A description of the degree to which ESG characteristics had been attained was missing.
- The attainment of the characteristics was described partly using examples of the.

*How did the sustainability indicators perform?*

- Information on indicators considered in monitoring the fund's sustainability targets was missing or inadequate. For example, the indicators described in Annex II were not consistent with those described in Annex IV, which have been used to track performance.
- With respect to one fund, information on the performance of the sustainability indicators was missing, and reference was only made to a fund-specific sustainability report on the website.
- The sustainability indicators were specified but the information on performance was incomplete.

*What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?*

- Description on how sustainable investment had promoted the attainment of the objectives set was not described in enough detail.
- The information was missing even though some of the fund's investments were sustainable. The information regarding sustainable investments should be disclosed although the fund's objective is not to make sustainable investments.

*How did the sustainable investment that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?/ How were the indicators for adverse impacts on sustainability factors taken into account?*

- A description of the performance of the indicators was missing for two funds. If the indicators were the same as those in the following question, a reference to the indicators was missing. The information was missing even though some funds had sustainable investments.

*How did this financial product consider principal adverse impacts on sustainability factors?*

- As regards the PAI indicators monitored, the results achieved were not disclosed.

*What was the proportion of sustainability-related investments? What was the asset allocation?*

- Out of the eight SFDR Article 8 funds reviewed, three were committed to making sustainable investments. All of these funds' sustainable investment allocation was at least consistent with the level to which they were committed.

- The description or chart does not indicate the exact investment allocation using percentage shares, or the reported investment allocation was inaccurate
- The descriptions left it unclear whether current fund allocations are being reported, or whether the minimum level committed to, as reported in Annex II, is being repeated

*To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?*

- Out of the eight AFDR Article 8 funds reviewed, none was committed to making Taxonomy-aligned sustainable investments. One of the funds held this kind of investments.
- The Taxonomy-alignment of the sustainable investments was not reviewed.

*What actions have been taken to meet the environmental and/or social characteristics during the reference period?*

- Engagement actions have been disclosed only on a general level, not on a fund-specific basis during the reporting period.

## **Findings on periodic fund disclosures under Article 9 of the SFDR (Annex V)**

*How did the sustainability indicators perform?*

- Information of the indicator scores relative to the thresholds set was missing.
- A more detailed description of the meaning of the results of indicators used by an external service provider was missing.
- As regards sustainability indicators described in Annex III, the performance of all indicators was not reported.

*How did the sustainable investments not cause significant harm to any sustainable investment objective?*

*How were the indicators for adverse impacts on sustainability factors taken into account?*

- Outcomes of the PAI indicators were not described or compared against the set thresholds for three funds.

*How did this financial product consider principal adverse impacts on sustainability factors?*

- As regards the PAI indicators monitored, the results attained were not disclosed.
- Fund's PAI indicators are disclosed in a separate fund-specific PAI statement.

*What was the proportion of sustainability-related investments? What was the asset allocation?*

- All but one of the seven Article 9 funds reviewed had the allocation of sustainable investments at least at the level to which they were committed. One of the funds' allocation to sustainable investments was 1.5% below its commitment, the reason being that its cash assets were exceptionally high on the reporting reference date.
- The reported investment allocation was inaccurate.

*To what extent were sustainable investments with an environmental objective aligned with the EU Taxonomy?*

- Out of the seven funds reviewed, six funds were committed to making Taxonomy-aligned investments, and such investments were higher than the commitment level. At the reporting reference date, the allocation to Taxonomy-aligned investments ranged from 10% to 99%.
- The allocation to Taxonomy-aligned investments was missing. Even if Taxonomy-aligned investments were not stated as an objective for the fund, the current allocation to Taxonomy-aligned investment must nevertheless be indicated in the fund's periodic report.

*What actions have been taken to attain the sustainable investment objective during the reference period?*

- The engagement methods were not described on fund-specific basis.
- As regards the actions taken, there was only a reference to the applicable process for the fund provided in Annex III.

## 8.3 FIN-FSA's view on disclosures under Articles 8 and 9 of the SFDR

The FIN-FSA urges companies to familiarise themselves better with the requirements of the Commission SFDR Delegated Regulation. The FIN-FSA points the attention of the fund companies, in particular, on the following issues with respect to sustainability disclosures on investment funds under the SFDR.

*General findings:*

- The information given in the pre-contractual disclosures (hereinafter Annexes II and III) and in the periodic report (hereinafter Annexes IV and V) is *fund-specific information*; therefore, copying the information from a fund to another is not necessarily appropriate and may result in a too generic description.
- The descriptions shall be *sufficiently detailed, clear and accurate*.
  - The descriptions should not repeat the formulations of regulation; instead, they should describe in detail the characteristics or objectives promoted by the fund, the indicators monitored and thresholds, if any. Too generic and unclear descriptions do not provide investors with the information required by regulation.
  - The instructions in Annexes II-V should be followed.
  - For the clarity of information, it is recommended that such sections are removed from Annexes II-V that can be removed according to the instructions of the annexes, where they are inapplicable to the fund.
- Sustainability disclosures shall be consistent with facts and justifiable. The descriptions may not be misleading. If a fund reports it does not make sustainable investments, it may not describe how it promotes *sustainable* environmental or social characteristics.
- Information shall be given in a *simple and concise format*.

- For each of the topic areas and questions, one should provide information pertaining to that section, and it is not appropriate to repeat the same information in several responses to keep the information clear and easily understood by investors.
- Information to be presented in Annexes II–V may not be presented by reference to another document (for example, the fund’s ESG or sustainability report), but the information required by regulation must be presented in the Annexes. At the end of Annexes II and III, there is a specific section for links to more detailed product-specific information.
- Information provided in Annexes II–III and IV–V shall be mutually *consistent*.
  - For example, where the sustainability indicators used are stated in Annexes II–III, the performance of the same indicators over the review period must be reported in Annexes IV–V. The FIN-FSA recommends the companies to review the consistency of their fund-specific sustainability information and to cross-check the pre-contractual disclosures and periodic reports for their investment funds.
- Annexes II and III must be found in the prospectus or in the material and sufficient information, and Annexes IV and V must be provided as an attachment to the annual report. Where Annexes II–V are also found separately on the company website, the relevant date must be shown in therein.
- Financial market participants should use the templates in the Annexes II-V of Commission Delegated SFDR regulation. Financial market participants may adapt size and font type of characters and colours used. Annexes may not be adapted in another way, for example the headings should be kept according to the Annexes.

### *What environmental and/or social characteristics are promoted by this financial product?*

- Annex II: the description must indicate whether the fund promotes environmental or social characteristics, or both. In addition, the key environmental and/or social characteristics promoted by the fund must be described.
- Annex II: Sustainability indicators for the measurement of their promotion must also be defined for funds promoting environmental and social characteristics. The attainment of these indicators must be described in the periodic report.

### *Sustainable investment objectives<sup>54</sup>*

- Annex II–III: As regards sustainable investments, it must be defined how the sustainable investment objective is defined and how the attainment of the objective is ensured:
  - What sustainable investment objective is promoted by the fund and how?
  - If the fund has a Taxonomy-aligned environmental objective, this must be described.
  - What measurable sustainability indicators are used and what are their thresholds?

<sup>54</sup> Annex II: What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives? How do the sustainable investments that the financial product partially intends to make not cause significant harm to any environmental or social sustainable investment objective? / Annex III: What is the sustainable investment objective of this financial product? / What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product? How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?



- How is the “do no significant harm” principle applied, i.e. how does the fund take all mandatory PAI indicators and necessary voluntary indicators into account, and what thresholds have been set for the indicators?

### *Principal adverse impacts on sustainability factors considered by the financial product*

- Annex II–III: If the fund considers principal adverse impacts, it must be described how the PAI indicators are taken into account in the fund and reference must be made to the periodic reports providing data on the indicators.
- Annex II–III: If the indicators monitored are the same that are already described in another section of the Annex, this can be responded with a reference.
- Annex IV–V: The outcomes of the PAI indicators must be stated in the periodic report.

### *What investment strategy does this financial product follow?*

- Annex II–III: In the section on investment strategy, describe the aspects of the investment strategy that concern the environment and society, not just the fund’s investment strategy at a general level.

### *Asset allocation<sup>55</sup>*

- Annex II–III: The fund must describe verbally, on top of the chart, its investments and the *minimum share* of investments promoting environmental and social objectives, or the targets to which the fund is committed. Do not describe a long-term target or average in this section.
- Annex IV–V: Periodic reports shall also contain a verbal description of actual investments and allocations. No percentage shares need to be indicated in the chart.

### *To what extent are/were sustainable investments with an environmental objective aligned with the EU Taxonomy?*

- Annex II–III: A fund promoting environmental characteristics or objectives must state the minimum allocation to Taxonomy-aligned investments. If the fund is not committed to making Taxonomy-aligned investments, it must report 0% in Annexes II and III.<sup>56</sup>
- The allocation to Taxonomy-aligned investments must be stated in Annexes IV and V regardless of whether the fund is committed to making them. Funds promoting a social objective but investing in Taxonomy-aligned assets must also report the actual allocation.
- Reports on the manner and degree to which investments are Taxonomy aligned must be based on reliable data. If no reliable data on this aspect of the fund's investments is available, the allocation must be reported at 0%. Such further clarifications may not provide that blur the view

<sup>55</sup> Annex II: What is the asset allocation planned for this financial product? / Annex III: What is the asset allocation and the minimum share of sustainable investments?

<sup>56</sup> Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288) question VII.9. table.

of the allocation to Taxonomy-aligned investments, and they may not include statements that the lack of information on the allocation to Taxonomy-aligned investment is due to data gaps. In certain cases (for example, an investment is not yet subject to a related reporting requirement), the company may provide the investors with complementary assessments along with a clear reasoning for its conclusions.<sup>57</sup> Note also that the company must report whether the reported Taxonomy-aligned investments have been verified or assured by a third party.

*What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?*

- Annex III: “Not sustainable” investments may only include investments for the purposes of the fund's liquidity management and hedging, where SFDR Article 9 funds are concerned.

*What actions have been taken to attain the sustainable investment objective during the reference period?*

- In Annexes II–V, it is particularly important to describe fund-specific engagement methods about funds whose name includes terms related to engagement.
- See also section 8 “Engagement policies” in the FIN-FSA supervision letter on the consideration of greenwashing risk in investment fund activities.<sup>58</sup>

## 9 Up-to-datedness of sustainability disclosures on the company website

### 9.1 Criterion

Financial market participants shall keep the information under Article 3 (policies), Article 5 (remuneration policies) and Article 10 (product disclosures) and published on their websites up to date. Companies shall clearly mention the date of publication of the information and the date of any update. Where that information is presented as a downloadable file, companies shall indicate the version history in the file name.<sup>59</sup>

<sup>57</sup> Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288) question VII.1.

<sup>58</sup> <https://www.finanssivalvonta.fi/en/publications-and-press-releases/supervision-releases/2024/thematic-review-greenwashing-risk-taken-into-account-in-a-relatively-limited-manner-in-investment-fund-activities/>

<sup>59</sup> SFDR, Article 12, Commission SFDR Delegated Regulation, Article 2(3).

## 9.2 Findings

According to the responses to the thematic review, 22 companies had internal guidelines ensuring the publication of regulatory sustainability disclosures on the company website. Four companies responded they do not have such internal guidelines.

According to the responses, 22 companies indicated the date of publication and the date of the most recent update to the disclosures on their website. Four companies responded they do not publish these dates.

A majority of the eight companies participating in the more extensive survey of the thematic review did not indicate on their website the date of both publication and update of the disclosures. Six of the companies only indicated the date of publication.

Some of the companies did not indicate the version history of sustainability information presented on their website as downloadable files in the file name as required by regulation.

The findings made in the thematic review may partly reflect the fact that the regulation is relatively new and the companies have not updated the information yet; therefore no dates of updates or version history are published on the website, either.

## 9.3 FIN-FSA's view

SFDR and delegated regulation require that sustainability-related disclosures on a financial market participant's website are up to date. The company shall have internal instructions to ensure that the information on the website is up to date. The FIN-FSA finds it a good practice that some companies had instructions in the form of an annual plan or process for the publication and update of sustainability-related disclosures.

The date of publication of information must be indicated on the website. If the company changes these disclosures, a clear description and date of the change must be provided on the same page. This applies to regulatory disclosures provided on the website.

If disclosures are presented on the website as downloadable files or links, the files or links must be named consistently and clearly. Files with information to be published on a regular basis, such as pre-contractual disclosures or periodic reports, must be named so that the file name indicates the version history (e.g. 6/2023) and the file itself indicates the date of publication of the document.