Deloitte Consultanta SRL
The Mark Tower, 84-98 Grivitei Road,
10th Floor
Bucharest, District 1, Romania, 010735
Tel: +40 21 222 16 61
Fax: +40 21 222 16 60
www.deloitte.ro

Deloitte Banking Alert

December 2023

ESAs' release final report on amendments for SFDR disclosure and PAI indicators

Sustainable finance has witnessed significant advancements, and the Europeans Supervisory Authorities (ESAs) have been major players in shaping the European sustainable finance disclosure and reporting landscape. Earlier this month, the **ESAs (ECB, ESMA, and EIOPA) have released a comprehensive report**, in response to European Commission's (EC) mandate[1] **outlining revisions aimed at the SFDR Regulation** by extending the social PAI indicators, introducing new financial products disclosures for GHG emission reduction targets, enhancing disclosures for complying with the "Do No Significant Harm" (DNSH) principle, and specialized provisions for financial products with investment options, to name a few.

Enhancing the social dimension of PAI indicators

With regards to the initial list of PAI indicators, those covered the social area much less comprehensively in comparison with the environmental side. In order to address this, and in response to EC's request, the ESA's have proposed enhancements to both the mandatory and the opt-in social PAI indicators. The list of new indicators takes into account the alignment of scope, definition, materiality and timing between ESRS and PAI indicators. **The new mandatory social indicators focus mainly on remuneration-related aspects and exposure to tobacco-companies** while **several adjustments were made to already existing indicators** including also environmental aspects **such as carbon footprint, exposure to fossil fuel companies, energy efficiency and emissions.**

Adjustments in the PAI framework

Considering received feedback, the ESAs have weighted in a series of changes to be made to the PAI framework. To begin with, a few **targeted amendments will be made to the definition of "current value of all investments" concerning the insurance industry companies**. Other changes include the **disclosures of share of investments**, adaptations of the formulae to reflect the changes in PAI indicators, **treatment of derivatives in PAI disclosure and treatment of investee companies' value chains**, and other technical changes of clarification concerning current indicators.

Do No Significant Harm Disclosure

The ESAs have acknowledged the European Commission's considerations on the **Do No Significant Harm (DNSH)** element of sustainable investments and opted not to propose long-term revisions in anticipation of potential future changes. However, in response to the consultation feedback, the draft RTS will include

[1] mandate_to_esas_on_pai_product.pdf (europa.eu)

specific disclosures concerning **PAI indicators** for sustainable investments in. These disclosures will elucidate the thresholds or criteria used by financial products to ensure compliance with the DNSH principle.

Enhancements Regarding GHG Emissions Reduction Targets

In compliance with the European Commission's directive to improve target-setting, disclosure and monitoring of the financial sector's commitments towards a sustainable economy, the ESAs have developed **new disclosures for financial products information to be included in pre-contractual documents, on websites and in periodic reports with concern to GHG emissions reduction targets**. These draft RTS also makes reference to intermediary targets and milestones, a **maximum interval of five years between targets** and a simplified disclosure framework for products that passively track EU Climate Transition or Paris-Aligned Benchmarks. All in all, the new amendments strike a balance between comprehensive information suitable for investors and simplified data geared towards retail investors.

Simplification of Templates and Disclosures for Financial Products

Responding to stakeholder feedback and supervisory work, the ESAs have **streamlined the financial product templates**. The **addition of a dedicated "dashboard" aims to highlight whether the financial product has a sustainable investment objective or promotes environmental/social characteristics**. Consumer testing across four countries revealed a positive reception towards the dashboard, although challenges were identified in distinguishing between different types of investments.

Further revisions in disclosures have been made concerning taxonomy-aligned investments and **GHG emissions reduction targets**. The ESAs have clarified the taxonomy-alignment measurements, particularly for sovereign exposures and emphasized the existence of GHG emissions reduction targets in financial product "dashboards." The objective is to present this information comprehensibly, ensuring clarity without conflating distinct types of products under SFDR. To make disclosures more user-friendly, the ESAs have facilitated extendable electronic disclosures based on the initial dashboard information. **This innovative feature** allows readers to access further details within the template by simply clicking on specific sections of the dashboard. Moreover, specific provisions have been introduced for financial products with investment options, recognizing the need for tailored disclosures for such complex financial offerings.

Other changes to SFDR disclosures

Specific provisions for financial products with investment options have been introduced, entailing extended pre-contractual disclosures and cross-referencing with relevant **sectoral SFDR disclosures for cases where multiple investment options** are offered. Other changes include **the calculation of the proportion of sustainable investments of financial products which can be performed in two ways**, with the necessity to mention in the pre-contractual, website and periodic disclosures which of the two methods it has been chosen. Finally, disclosures which will be made available through the European Single Access Point (ESAP) **should be made available in a format which is also machine readable (XBRL).**

Deloitte.

Conclusion

The ESAs' revisions of SFDR provisions mark **an important step in improving the sustainable finance reporting and disclosure regime**, prioritizing transparency, investor empowerment and environmental impact. These changes span **PAI disclosures**, **GHG targets and template simplification**, **strategically aligning the financial sector with sustainability goals**. These changes aim at adding value to the reporting and disclosure package by clarifying aspects, enhancing the social dimension of ESG disclosure and creating a more intuitive and straight-forward reporting framework. The enhancements of the current sustainable finance reporting and disclosure regime are expected to intensify as **new legislative measures will become applicable starting with 2024**.

At Deloitte we can assist you with all aspects concerning the sustainable finance reporting and disclosure requirements applicable for banks and other financial industry entities. For this and any further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us.

Dimitrios Goranitis
Deloitte Global leader FSI Risk and Regulatory
Central Europe FSI leader
Tel: +40 751 250 884
Email: **digoranitis@deloittece.com**

Irina Vasile
FSI Risk & Regulatory Advisory
Senior Manager, Deloitte Central Europe
Tel: +40 730 585 755
Email: **irvasile@deloittece.com**

Source: ESAs put forward amendments to sustainability disclosures for the financial sector | European Banking Authority (europa.eu)