

Appendix 1

Examples of good and inadequate practice relating to compliance with the disclosure requirements in the SFDR, TR and KIID regulations

Disclosure requirements	Examples of <u>good</u> practice	Examples of <u>inadequate</u> practice
<p>Integration of sustainability risks Art. 6(1)(a) of SFDR</p>	<ul style="list-style-type: none"> • It is described where and how sustainability risks are integrated in investment decisions, including whether and how: <ul style="list-style-type: none"> ○ screenings are conducted or other measures are taken to identify, minimise or in other ways consider the most relevant sustainability risks for the product in the investment decisions. This may include, but is not limited to, a description of how the financial market participant (FMP) e.g. excludes certain activities, sectors or financial instruments from the investment universe of the financial product (product). • The description is divided into processes and measures implemented <i>before</i> an investment is made (e.g. definition of the investment universe and assessment of sustainability risks for the investee companies) and measures and processes implemented <i>after</i> the investment is made (e.g. continuous monitoring and assessment of sustainability risks in the portfolio and for the individual investments). 	<ul style="list-style-type: none"> • Information is included that is too generic and imprecise for the investors to understand, how the FMP in practice integrates sustainability risks in the investment decisions for the product. • It is not disclosed what specific sustainability risks have been identified as relevant to the product. • Reference is made only to the policy to be published according to Article 3(1) of the disclosure regulation (SFDR)¹, without including a separate description in the prospectus of the process which is relevant to the specific product.

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR").

	<ul style="list-style-type: none"> • It is stated which sustainability risks the FMP has identified as most relevant to the product. • Description is made according to the process which is relevant to the specific product. 	
<p>The actual or potential negative impact of sustainability risks on the return <i>Art. 6(1)(b) of SFDR</i></p>	<ul style="list-style-type: none"> • The expected magnitude of the impact of sustainability risks on the returns of the product is stated – e.g. low, medium or high. • This is supplemented by e.g. a description of: <ul style="list-style-type: none"> ○ what sustainability risks are expected to have special impact on the returns of the product ○ the expected impact of sustainability risks on the volatility of the returns of the product. • The description is clearly based on an assessment of sustainability risks as defined in Article 2(22) of SFDR. This entails a focus on external ESG events or ESG conditions that, if they occur, could cause an actual or potential material negative impact on the value of the investment. 	<ul style="list-style-type: none"> • It is described that sustainability risks may have a positive impact on the returns of the product. • Information is stated about the results of the FMP’s own work with sustainability risks and the impact of this work on the returns, without this description being clearly separated from the assessment of the actual or potential material negative impact of external ESG events or conditions on the returns. • There is no information about <i>the result</i> of the assessment of the likely impact of the sustainability risks identified, but only information about the FMP’s <i>assessment</i>. This means that the expected magnitude (low/medium/high) is not stated, but only the elements included in the assessment. • Various results are stated and not <i>one overall result</i>. • Generic and imprecise information is provided for all products instead of information specific to the actual product.

<p>The individual sustainable investment objectives² <i>Art. 9, cf. Art. 2(17) of SFDR</i></p>	<ul style="list-style-type: none"> The FMP has indicated the individual sustainable investment objectives clearly and consistently, e.g. by describing the UN Sustainable Development Goals (SDG) to which the product has as its objective to contribute, or the individual environmental objectives in the taxonomy regulation (TR)³ to which the product contributes. 	<ul style="list-style-type: none"> The information is inconsistent, unclear or imprecise as to what the sustainable investment objectives are (e.g. information is included stating that the objective has a positive impact on society, but it is not further explained what this objective entails).
<p>How the contribution to the sustainable investment objectives is to be measured⁴ <i>Art. 9(1) to (3), cf. Art. 2(17) of SFDR</i></p>	<ul style="list-style-type: none"> For each of the sustainable investment objectives it is stated how the contribution to the objective is measured, e.g. by means of key indicators. <ul style="list-style-type: none"> Reference is made to e.g. one or several indicators under the individual UN SDGs to which the objective of the product is to contribute. Where an index is designated as a reference benchmark, an explicit reference is made to the fact that this index is used to measure the contribution to the sustainable investment objectives and to which objectives the benchmark is applied. Reference is made to e.g. the technical screening criteria laid down in the level 2 regulation to the TR, which sets out the threshold values for when a contribution is substantial enough for an economic activity to qualify as contributing to the environmental objectives in TR. 	<ul style="list-style-type: none"> No description is included about how the contribution to the individual objectives is measured. It is only stated how the contribution to all objectives is measured by means of a single score with no description of how the contribution to each of the individual objectives is measured. The measurement is made in a non-transparent way.

² Additional disclosure requirements apply for financial products which have a sustainable investment objective of reducing GHG/carbon emissions, cf. Article 9(3) of SFDR. For such products it must be disclosed how the sustainable investment objective of reducing GHG/carbon emissions relates to the long-term global warming objectives of the Paris Agreement. That is, the objective of limiting global temperature rise this century to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees Celsius.

³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment ("TR").

⁴ Where an EU climate benchmark is applied in a passively managed product with a sustainable investment objective of reducing GHG/carbon emissions, cf. Article 9(3) of SFDR, the financial market participant is not required to provide further information about how the contribution to the sustainable investment objective of reducing GHG/carbon emissions is measured. The financial market participant must only state which EU climate benchmark is used for measuring and that this benchmark is used in a passive investment strategy.

<p>How the objectives are attained <i>Art. 9(1) to (3), cf. Art. 2(17) of SFDR</i></p>	<p><u>For objectives where an index is designated as a reference benchmark (Article 9(1) of SFDR):</u></p> <ul style="list-style-type: none"> • It is disclosed how the designated index has been aligned with the product’s sustainable investment objectives: <ul style="list-style-type: none"> ○ e.g. it is described that the investments in the index are made only or especially within specific <i>sectors</i> or <i>activities</i> which the FMP assesses will contribute to ensuring attainment of one or more of the product’s sustainability objectives. • An account is given of why and how the designated index aligned with one or more of the sustainable investment objectives for the product, differs from a broad market index. That entails an account of: <ul style="list-style-type: none"> ○ what the FMP assesses will make the index different from a broad market index. ○ how the methodology for the reference benchmark shows that it deviates from a broad market index. • It is disclosed where the methodology used for calculating the designated index can be found. 	<p><u>For objectives where an index is designated as a reference benchmark (Article 9(1) of SFDR):</u></p> <ul style="list-style-type: none"> • It is not disclosed how the designated index has been aligned with the sustainable investment objectives of the product. • A single index is designated as a reference benchmark to attain <i>all</i> the product’s sustainable investment objectives, without the index being aligned with each <i>individual</i> sustainable investment objective. • It is not disclosed whether and how the designated index, aligned with the sustainable investment objectives, differs from a broad market index.
	<p><u>For objectives where an index is not designated as a reference benchmark (Article 9(2) of SFDR):</u></p> <ul style="list-style-type: none"> • The FMP provides an explanation of how it is ensured that the sustainable investment objectives of the product are attained. In other words, an explanation of: <ul style="list-style-type: none"> ○ what measures the FMP takes to ensure that the sustainable investment objectives are attained 	<p><u>For objectives where an index is not designated as a reference benchmark (Article 9(2) of SFDR):</u></p> <ul style="list-style-type: none"> • It is not disclosed how the FMP ensures that the individual sustainable investment objectives are attained, including no information about how e.g. negative screening/exclusion list, positive screening or active ownership are used to ensure that one or several sustainable investment objectives are attained.

	<ul style="list-style-type: none"> ○ how the individual measures relate to the individual sustainable investment objectives. This includes e.g.: <ul style="list-style-type: none"> ▪ exclusion criteria (e.g. limits for water consumption, wastewater, total waste, impact on biodiversity etc.) ▪ positive screening criteria (e.g. share of financed energy production coming from renewable energy sources, share of women on the board of investee companies etc.) ▪ active ownership, where it is stated that e.g. proposals, which are to contribute to one or several sustainable investment objectives, will be put forward or supported at the investee companies' annual general meetings, where the FMP has a voting right. ○ where the individual measures are increasingly restrictive over time to ensure the attainment of the objectives, this is apparent from the description of the criteria. 	
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	<p><u>For sustainable investment objectives to reduce GHG/carbon emissions (Article 9(3) of SFDR)⁵:</u></p> <ul style="list-style-type: none"> • It is disclosed that the product has a sustainable investment objective to reduce GHG/carbon emissions⁶. • It is disclosed how the sustainable investment objective of reducing GHG/carbon emissions relates to the long-term global warming objectives of the Paris Agreement⁷. • It is disclosed whether an EU Climate Transition Benchmark (CTB) or EU Paris-aligned Benchmark (PAB) is applied to measure the contribution to and ensure the attainment of the sustainable investment objective of reducing GHG/carbon emissions. • It is disclosed whether the product is actively or passively managed. • Where a CTB or PAB or another type of index is used as a reference benchmark in an actively managed product, or if no benchmark is used, a detailed account is given of <i>how the continued effort of attaining the objective</i> of reducing GHG/carbon emissions is ensured in view of achieving the long-term global warming objectives of the Paris Agreement. 	<p><u>For sustainable investment objectives to reduce GHG/carbon emissions (Article 9(3) of SFDR):</u></p> <ul style="list-style-type: none"> • It is not clearly disclosed that the product has a sustainable investment objective to reduce GHG/carbon emissions and how this sustainable investment objective relates to the long-term global warming objectives of the Paris Agreement. • Where a CTB or PAB is used as a reference benchmark in an actively managed product, or if no benchmark is used, no detailed account is given of <i>how the continued effort of attaining the objective</i> of reducing GHG/carbon emissions is ensured in view of achieving the long-term global warming objectives of the Paris Agreement. • It is disclosed that e.g. a CTB/PAB is used, but the designated benchmark does not meet the requirements for a CTB/PAB. • There is no information on where the method applied for calculation of the benchmark (CTB, PAB or another type of index) can be found. This means that the prospectus does not link directly to the methodology for the index used as reference benchmark.
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⁵ If an EU climate benchmark is used in a passively managed product with sustainable investment objective of reducing GHG/carbon emissions, cf. Article 9(3) of SFDR, the financial market participant is not required to provide further information on how it is ensured that the sustainable investment objective of reducing GHG/carbon emissions is achieved. The financial market participant must only disclose which EU climate benchmark has been used to achieve the objective and that this is used in a passive investment strategy.

⁶ SFDR does not prevent a product from promoting reduction of GHG/carbon emissions as part of its investment strategy if the product does not have sustainable investment as its objective. However, pre-contractual information, information on the website and regular information must not mislead investors into believing that this aspect is part of the objective of the product and therefore that the product has sustainable investments as its objective according to Article 9(3) of SFDR. Moreover, pursuant to Article 13 of SFDR, marketing communications must not be contrary to the contents of the information provided under SFDR. This entails that marketing communications must not mislead investors into believing that the product pursues sustainable investment, where the promotion of reduction of GHG/carbon emissions is only a mere characteristic of the product's investment strategy, cf. the reply to question 4 (FISMA/2929) In the Commission's SFDR Q&A published on 6 April 2023.

⁷ The Paris Agreement's long-term objectives of limiting the global temperature increase this century to well below 2 degrees Celsius above pre-industrial levels, while pursuing efforts to limit the increase to 1.5 degrees Celsius.

	<ul style="list-style-type: none"> ○ The account may include a description of e.g.: <ul style="list-style-type: none"> ▪ whether the objective is based on scope 1, scope 2 and scope 3 emissions ▪ whether there, at the time of the product's creation, is applied an initial reduction in e.g. carbon emissions from the product's investment universe, relative to a similar product or reference benchmark ▪ whether there is an annual reduction objective (i.e., an x % reduction in emissions from the portfolio per annum) ▪ whether there are intermediate targets for the objective ▪ what share of the underlying investments in the product, e.g. certain asset classes, which contributes to attaining the objective ▪ whether e.g. carbon credits or carbon offsetting is used for certain periods to achieve the intermediate targets/the objective ▪ whether some of the criteria or elements in the method are increasingly restrictive over time and how this is the case. ● It is disclosed where the methodology used for calculation of the benchmark can be found. The finan- 	
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	<p>cial market participant links directly to the methodology for the index designated as a reference benchmark.</p>	
<p>The principle of “do no significant harm” (DNSH)⁸ <i>Art. 9(1) to (3), cf. Art. 2(17) of SFDR</i></p>	<ul style="list-style-type: none"> • It is disclosed that it is ensured that no environmental or social objectives are harmed, and <i>how</i> it is ensured that none of the underlying investments of the product are made in economic activities which significantly harm any social or environmental objectives. This includes a disclosure of: <ul style="list-style-type: none"> ○ the quantitative or qualitative measures and criteria applied ○ clear and understandable information on <i>which</i> parameters are included in the methodology for possible exclusion of companies from the investment universe and in the assessment of whether significant harm is done ○ how it is determined when an indicator or parameter is exceeded, e.g. which threshold values are applied ○ whether the method for exclusion means that e.g. whole sectors or specific types of activities or companies are not included in the investment universe. 	<ul style="list-style-type: none"> • It is not disclosed how the FMP assesses that the underlying investments in the product do not significantly harm any environmental or social objectives (i.e. no information is included on the method applied to assess that the underlying investments do not significantly harm any environmental or social objectives). • It is stated how it is ensured that no significant harm is done to environmental objectives, but the FMP does not consider social objectives. • It is disclosed that the product considers principal adverse impacts on sustainability factors, but there is no explanation of which principal adverse impacts are considered. • An exclusion list is included, but it is not stated clearly which parameters or threshold values are used in the exclusion list. • The disclosed information on parameters is too general and unclear, e.g. it is stated that no investments are made in companies involved in socially harmful activities and behaviour, or that no investments are made in companies involved in unethical or controversial activities.

⁸ If an EU climate benchmark is used in a passively managed product with a sustainable investment objective of reduction of GHG/carbon emissions, cf. Article 9(3) of SFDR, the information on how it is ensured that no significant harm is done to any environmental or social objectives must appear from the prospectus, but in respect of this disclosure requirement the financial market participant may rely on information from the administrator of the EU climate benchmark in question. If, besides the method of the reference benchmark, the financial market participant uses own criteria to ensure compliance with the requirement, these must also be described.

<p>Good governance practices⁹ <i>Art. 9(1) – (3), cf. Art. 2(17) of SFDR</i></p>	<ul style="list-style-type: none"> • It is disclosed that it is ensured that the investment universe for the product includes only companies that follow good governance practices, and <i>how</i> it is ensured that all underlying investments of the product are made in companies that follow good governance practices. This comprises information about: <ul style="list-style-type: none"> ○ which parameters (e.g. solid governance structures, employee relations, remuneration of staff and tax compliance) are included in the assessment ○ any international standards (e.g. the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights) against which screenings are conducted. 	<ul style="list-style-type: none"> • Only general information is included stating that the FMP is considering whether the investee companies follow good governance practices, but with no further explanation of the methodology used to assess whether a company follows good governance practices. • Examples are provided of issues which the FMP is considering, but which have no direct relation to good governance practices.
<p>Contribution to environmental objectives in TR <i>Art. 9(4)(a) of SFDR, cf. Art. 5(a) of TR</i></p>	<ul style="list-style-type: none"> • It is disclosed whether the product has an objective to contribute to environmental objectives of the TR, and in that case to which environmental objectives of the TR the product contributes. • Where a contribution is made to environmental objectives not comprised by the TR, these objectives are disclosed, including how they deviate from the environmental objectives of the TR. <ul style="list-style-type: none"> ○ This applies in particular, where it is disclosed that one of the product's sustainable investment objectives is the reduction of GHG/carbon emissions. In that case, the assumption is that investments are 	<ul style="list-style-type: none"> • It is not stated whether a contribution is made to the environmental objectives in the TR. • The disclosure is inconsistent, as it is disclosed <i>both</i> that the sustainable investment objectives of the product are suitable for contributing to environmental objectives of the TR <i>and</i> that no commitment is made to contribute to the environmental objectives of the TR.

⁹ If an EU climate benchmark is used in a passively managed product with a sustainable investment objective of reduction of GHG/carbon emissions, cf. Article 9(3) of SFDR, the information on how it is ensured that investments are only made in companies following good governance practices must appear from the prospectus, but in respect of this disclosure requirement the financial market participant may rely on information from the administrator of the EU climate benchmark in question. If, besides the method of the reference benchmark, the financial market participant uses own criteria to ensure compliance with the requirement, these must also be described.

	<p>made in environmentally sustainable economic activities, which contribute substantially to the TR environmental objective of "climate change mitigation".</p>	
<p>The description of how and to what extent the underlying investments are in environmentally sustainable economic activities <i>Art. 9(4)(a) of SFDR, cf. Art. 5(b) of TR</i></p>	<p><u><i>The description of how and to what extent the underlying investments are in environmentally sustainable economic activities</i></u></p> <ul style="list-style-type: none"> • It is disclosed what method or approach the FMP uses to ensure that (part of) the underlying investments in the product are in economic activities complying with the requirements for environmentally sustainable economic activities according to Article 3(a)-(d) of TR. • This means disclosure of: <ul style="list-style-type: none"> ○ examples of the economic activities in which investments are made to contribute to the environmental objectives in TR, to which the product substantially contributes to according to the information provided ○ how it is ensured that the do no significant harm criteria are complied with. This can include a reference to how compliance with the threshold values is ensured ○ how it is ensured that the minimum safeguards for social or governance issues are complied with ○ how it is ensured that the technical screening criteria are complied with. 	<p><u><i>The description of how and to what extent the underlying investments are in environmentally sustainable economic activities</i></u></p> <ul style="list-style-type: none"> • It is not disclosed how the FMP has ensured that the underlying investments or part of these are in environmentally sustainable economic activities. This means in activities complying with the requirements in Article 3 of TR. • It is disclosed how the underlying investments or part of these contribute to environmental objectives in TR <i>without</i> disclosing how it is ensured that the economic activities do not significantly harm any of the environmental objectives in TR; are exercised in accordance with the minimum safeguards laid down in TR; and how it is ensured that the activities meet the technical screening criteria to the environmental objectives in TR.

	<p><u>Description of percentage for the minimum proportion commitment</u></p> <ul style="list-style-type: none"> • Where it is disclosed that the underlying investments of the product contribute substantially to one or more environmental objective comprised by TR, the commitment of a minimum share is stated as a positive percentage. The minimum share of underlying investments in transitional and enabling activities, respectively, is also disclosed. <ul style="list-style-type: none"> ○ Where exceptional circumstances apply, the FMP may state a commitment of a minimum share of environmentally sustainable economic activities as "0 per cent", while stating that the underlying investments of the product contribute significantly to one or more environmental objective comprised by the TR. This may be where, in exceptional cases, it is not possible to obtain reliable data. In this case the FMP must disclose how the FMP continuously attempts to obtain reliable data, and that the percentage is "0 per cent" because it, as an exception, was not possible to obtain reliable data. • Where it is disclosed that the underlying investments of the product do <i>not</i> contribute substantially to one or more environmental objectives comprised by TR, the commitment of a minimum share of underlying investments in environmentally sustainable economic activities must be disclosed as "0 per cent". 	<p><u>Description of percentage for the minimum proportion commitment</u></p> <ul style="list-style-type: none"> • Several percentage rates are disclosed for the share of the underlying investments of the product in environmentally sustainable economic activities. • It is not disclosed how great a share of the underlying investments of the product is made in transitional and enabling activities, respectively. • An <i>objective</i> (rather than a <i>commitment</i>) is disclosed for the minimum proportion of the underlying investments in the product being in environmentally sustainable economic activities.
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<p>Material sustainability information in KIID <i>Art. 7(1)(a) of the KIID regulation</i></p>	<ul style="list-style-type: none"> • Clear and consistent information is provided about <i>which</i> sustainable investment objectives the product commits to contribute to. • It is stated that the product is subject to the disclosure requirements pursuant to Article 9 of SFDR. • Where the magnitude of the likely impact of sustainability risks on the returns is high, this is also apparent from the document with key investor information (KIID). • All sustainability information in KIID is consistent with the information in the prospectus. 	<ul style="list-style-type: none"> • Sustainability information included in KIID is not consistent with the information in the prospectus. • No information is included in KIID about what the product's individual sustainable investment objectives are or whether the product is subject to the disclosure requirement pursuant to Article 9 of SFDR. • No information is included on the expectation that the magnitude of the likely impact of sustainability risks on the returns is high, where this is in fact the case.
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