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# ESAs update consolidated Q&A with new guidance

**Regulatory & Compliance** on **July 26, 2024**

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The European Supervisory Authorities have updated their consolidated questions and answers ("**Q&A**") on the Sustainable Finance Disclosure Regulation ("**SFDR**") on 25 July 2024.

The Q&A has provided useful guidance since the introduction of SFDR, often clarifying expectations and best practice in the subjective or less prescriptive areas of SFDR.

In this tranche of updates, there is guidance on:

- **Website disclosure requirements** – stressing the importance of the website disclosures being easily accessible to investors, kept up to date, and any revisions or changes to such information to be clearly explained, and if there is no website, one should be set up.
- **Principal adverse impact approaches** –
  - Guidance that in the calculation of PAI indicator on the "Exposure to companies active in the fossil fuel sector" this should be on a pass/fail basis, with a company considered to be active in the fossil fuel sector as soon as it derives any revenues from any of the activities mentioned in the definition.
  - There is clarification that where there are fund of funds, there should be a look-through to underlying investees for the purposes of the PAI indicator of GHG emissions.
  - There are also further clarifications on high impact sector reporting and exchange rate conversions for PAI reporting purposes.
- **Good governance requirements** –
  - The updated guidance includes an example of a good governance assessment, showing that if there is not at least "good" in each of areas of governance and management structures, employee relations, employee remuneration and tax compliance then the good governance assessment would fail. It is not enough to aggregate the assessment areas to meet an

overall threshold of good – they must meet this in their own right, per pillar.

- There is also new guidance on whether special purpose vehicles or holding companies, such as those which hold real estate, would still be treated as investee companies and require a good governance check. However, the wording is such that the guidance is unclear and we will support seeking clarity on this area via industry groups.

- **Calculation of sustainable investments** – including detailed guidance on how it can be measured at economic activity level or investment level.
- **Calculation of Taxonomy-aligned investments** – including examples of how to calculate Taxonomy-aligned investments in an investee which itself has partial Taxonomy-alignment.
- **Treatment of investments in other financial products** – such as how an investment in another fund can meet the requirements to be a sustainable investment.
- **Treatment of investments used for hedging and liquidity** – in particular, with regards to efficient portfolio management and money market funds.

Whilst SFDR may be under wholesale consultation, care should continue to be taken in complying with SFDR in its existing form as the guidance and expectations continue to evolve.

For more information, please reach out to the Proskauer UK Regulatory team.

View original.

**Related Professionals**


- **John Verwey**
  Partner
- **Rachel E. Lowe**
  Partner
- **Sulaiman I. Malik**
  Associate
- **Michael Singh**
  Associate