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Sustainable Finance Disclosure Regulation: CSSF Turns the ESMA SFDR "Reality Check" into Concrete Expectations with Illustrative Good? Practice Samples

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On 30 September 2025, the Luxembourg regulator, the Commission de Surveillance du Secteur Financier (the "**CSSF**"), published its feedback report (the "**Report**") on the European Supervisory and Markets Authority's ("**ESMA**") 2023–2024 Common Supervisory Action ("**CSA**") on sustainability risks and disclosures.

The Report notes generally satisfactory compliance for Luxembourg-domiciled investment fund managers ("**IFM**"), which is also in line with the findings of CSA. For further information on our summary of the CSA, please see here.

The Report also provides recommendations and good practice examples, which are recommended to be implemented by all Luxembourg-domiciled IFMs, but which, of course, are also helpful guidance for non-Luxembourg domiciled alternative investment fund managers ("**AIFMs**"), particularly where there may be marketing of funds into Luxembourg.

Key themes reiterated by the CSSF (aligned to ESMA)

- **Sustainable investment methodologies:** CSSF reiterates in the Report that "sustainable investment" determinations rest on firms' own methodologies and must be explained in SFDR pre-contractual and/or website disclosures with sufficient granularity for investors to understand and compare. The Report flags that overly generic references (for example, to UN SDGs) without a demonstrable link to strategy are inadequate and it expects clear, accessible explanations of assumptions and data.

- **Minimum proportions in asset allocation:** Across the sample, reported sustainable-investment levels were consistent with binding commitments, with some funds maintaining buffers and others transparently explaining ramp-up periods. Where European Union Taxonomy Regulation-alignment commitments existed (more common in Article 9 products), disclosed ranges in pre-contractual documents spanned 1–60% and reported outcomes exceeded the minimum commitments.
- **Do no significant harm:** For sustainable investments that must do no significant harm to other environmental and social objectives ("**DNSH**"), the Report reiterates that all mandatory Table 1 PAIs (and any relevant Table 2/3 indicators) must be taken into account, and it urges clearer, more comprehensible explanations at product level.
- **Fund names and marketing:** The Report notes overall alignment between the fund names and the funds' investment strategies but reminds IFMs to comply with ESMA's fund-names Guidelines. For further information on the ESMA fund-name Guidelines on sustainability-related terms please refer to our updates here and here .
- **Entity-level PAIs:** The Report emphasizes that where principal adverse impacts ("**PAIs**") are considered, the PAI statement must sit under the website's *"Sustainability-related disclosures"* section and be easy to locate, rather than buried within generic regulatory pages. Coverage is expected to extend to all investment decisions regardless of the SFDR product classification as Article 6, 8, or 9. The Report also points to weaknesses in the "Summary" and policy sections of PAI statements and expects indicator-specific content, dated approvals, methodologies (including margins of error and data sources), and clear signposting of any references to international standards or climate-scenario work.

Good?practice samples highlighted by the CSSF

- **Sustainable-investment methodology (Article 2(17) SFDR):**
  - Use specific indicators for measuring the contribution to a sustainable investment objective and take into account all mandatory PAI Table 1 indicators (and relevant Table 2/3) for DNSH.
  - Set thresholds for the contribution and DNSH to create measurable reference points (e.g., minimum revenue contribution to certain UN SDGs).
  - Disclose selected indicators and thresholds clearly in pre-contractual documentation.

    - In periodic disclosures, report actual levels achieved vs. thresholds and,where there is a gap, include explanations and corrective actions.

- **Website "Summary" section for Article 8/9 funds:** Use distinct headings that correspond directly to the sections listed in Articles 24 or 37 of the Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022, supplementing Regulation (EU) 2019/2088 ("**SFDR RTS"**) or provide a consolidated summary with clear titles/references so the content can be easily understood by investors.
- **Communication of sustainability credentials (labels/ratings) in fund materials:** A fair, clear, and non-misleading presentation includes: (a) identification of any certifying body, (b) a statement that the credential relies on verifiable sources that are disclosed, and (c) the validity period; adding a direct link to the methodology enhances clarity. Where internal ESG scores are used, provide meaningful information on how they are calculated and what data is used. The Report also points to ESMA's thematic note on sustainability claims in non-regulatory communications. For further on this thematic note, please see our update here.
- **Risk framework – ESG data-quality checks:** Policies that describe the actual data-quality checks performed on ESG inputs used in risk assessments were noted as a good practice, addressing risks around adequacy and completeness of portfolio-level ESG data.
- **Article 6 funds – neutral presentation:** The Report noted positively that where SFDR Article 6 products were reviewed, websites and other media did not include ESG-suggestive text or imagery, and the SFDR Article classification was clearly indicated.
- **Entity-level PAI statement – "Summary" section:** Good practice is to go beyond a generic overview and include: (i) comments on the PAIs that are monitored, (ii) a short description of the PAIs' evolution/objectives, and (iii) a short description of how PAIs are integrated into the investment methodology/approach. The CSSF also reiterates the principle that disclosures must be easily accessible and comprehensible.
- **PAI data-source transparency (ESAs good practice referenced by CSSF):** For each PAI considered, a good practice is to disclose the proportion of investments calculated using (a) data obtained directly from investee companies and (b) additional research/third-party/assumptions — expressed as a percentage of the investments included in the indicator.

Bottom Line

The Report operationalises ESMA's supervisory messages in Luxembourg and couples them with concrete illustrations of good practice — from structured PAI summaries and measurable Article 2(17) thresholds to transparent use of labels and clear, RTS-anchored website summaries. These examples provide a practical benchmark for EEA AIFMs and non-EEA AIFMs calibrating governance, methodologies, and disclosures in the ever-evolving sustainable finance framework.

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