Report

Bridging the Data Divide: An analysis of market practice to strengthen engagement disclosures under the Sustainable Finance Disclosure Regulation (SFDR)

ShareAction»

May 2025

About ShareAction

ShareAction is an independent charity and an expert on responsible investment. We work to build a world where the financial system serves our planet and its people. We set ambitious standards for how financial institutions, through their investment decisions, can protect our planet and its people and we campaign for this approach to become the norm. We convene shareholders to push companies to tackle the climate crisis, protect nature, improve workers' lives and shape healthier societies. In the UK and EU, we advocate for financial regulation that has society's best interests at its core.

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Acknowledgements

We are grateful to those who have taken the time to review and provide input into this report:

Chiara Pass and Sebastien Godinot (WWF European Policy Office), Joost Mulder (Better Europe Public Affairs), Pierre Garrault (Eurosif), Vincent Vandeloise (Finance Watch) and Abhijay Sood, Danielle Vrublevskis, Fergus Moffatt, Lewis Johnston, Maria van der Heide, Marika Carlucci, Martina Baroncelli, Niall Considine and Nicola Matthews (ShareAction)

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This report assesses the engagement and due diligence disclosures of 30 of the largest asset managers based in or operating within the EU and evaluates their alignment with requirements under the EU Sustainable Finance Disclosure Regulation (SFDR).[1]

The SFDR was introduced to enhance transparency and improve sustainability-related disclosures by financial market participants (FMPs) and financial advisors. It requires FMPs to disclose – at entity and product levels – certain information about how they consider the sustainability risks and adverse impacts of their investments. It is intended to enable comparability for end investors, reduce negative sustainability impacts and prevent greenwashing – ultimately helping to channel capital towards sustainable investments.[2]

Since its application in 2021, the SFDR has been instrumental in increasing transparency and raising awareness of the negative impacts of investments on the environment and people. However, despite raising overall awareness of sustainability considerations, the SFDR's product-level disclosure requirements have been widely misused as product labelling and marketing tools – creating confusion around the sustainability credentials of financial products. Despite some positive examples and evidence of good practice, disclosures at the entity and product levels also remain uneven. This has compromised the regulation's effectiveness in meeting its objectives, as confirmed by responses to the public consultation conducted by the European Commission in 2023.[3]

The Commission announced a review of the SFDR in late 2022 to improve the framework and address challenges in its implementation.[4] The review is also exploring the creation of a product categorisation system. Following the February 2025 Omnibus package of proposals, the Commission is expected to present its legislative proposal for the review in Q4 2025 under a simplification policy objective.[5]

To inform this review, ShareAction analysed the quality of 30 asset managers' entity- and product-level disclosures on engagement and sustainability due diligence, and how they meet the SFDR's regulatory requirements. We also examined the firms' engagement disclosures beyond the SFDR framework to provide insight into wider market best practice. Our analysis highlights areas where leading practices already exist, demonstrating that better disclosures are feasible and can be standardised. The report focuses on these disclosures because they are essential to assess how credibly asset managers address sustainability impacts, as well as their importance in a future product categorisation framework that supports the EU's transition to a more sustainable economy.

The findings reveal that while asset managers often hold the relevant data and are capable of disclosing clear and instructive information about their engagement policies and practices, this is not consistently reflected in their SFDR disclosures. This gap highlights the need for clearer regulatory expectations to ensure robust and comparable information is disclosed across the market.

On the basis of this research, we put forward policy recommendations for the SFDR review to improve transparency, clarity and comparability in entity- and product-level engagement disclosures. These proposals are designed to support the achievement of the regulation's objectives and call for meaningful disclosures on how FMPs engage with investee companies to improve their sustainability performance. This will be critical in the context of the upcoming product categorisation system. Our report seeks to build on the growing support for engagement disclosures from a range of stakeholders, including national-level regulators and the EU Platform on Sustainable Finance.[6]

Key findings

Asset managers increasingly provide meaningful information on due diligence and engagement at the entity-level, though good practices are not yet widespread and relevant data is often missing.

With regard to due diligence disclosures—how investors assess and manage adverse sustainability impacts—all 27 asset managers that published entity-level reporting included some form of description of their sustainability due diligence policies in their Principal Adverse Impact (PAI) statements. However, just under half (12) provided substantive detail – such as the parameters they use to prioritise adverse impacts and clearly defined priority areas. Many statements (15) remained too generic to allow for comparability by end investors, particularly regarding how asset managers assess the likelihood and severity of impacts, though there were some examples of leading practice.

The asset managers showed stronger performance on engagement disclosures: over half (17) of the assessed asset managers described their policies in detail, including the tools they use and how engagement contributes to reducing the harms (known as Principal Adverse Impacts or PAIs) that their investments may cause. However, roughly half still did not specify which PAIs they address through engagement, nor how they adapt their strategies when progress is lacking – highlighting the room for improvement in these disclosures.

Our analysis of engagement reports outside of the SFDR shows that many asset managers have substantial information on how they address harms through engagement, but often fail to disclose it within the SFDR framework—showing the feasibility of detailed engagement disclosures.

Product-level disclosures on engagement and due diligence are mixed, demonstrating the need for greater consistency.

Product-level disclosures across pre-contractual, website, and periodic formats vary significantly in quality.

Most asset managers (22 of the 29 which provided pre-contractual disclosures) listed the PAIs considered in their pre-contractual templates, but only nine explained how the list was compiled, leaving end investors with limited insight into the reasoning behind sustainability claims. Website disclosures were weaker overall. While nine asset managers described how they engage with investee companies and seven explained due diligence practices at product level, the majority of product-level disclosures were high-level or generic. In several cases, due diligence was conflated with financial due diligence[i] or delegated to index providers, and engagement was often discussed at a firm-wide level rather than linked to specific products. There is an evident need for greater clarity and consistency of these disclosures.

Periodic disclosures also presented a mixed picture. Five asset managers offered concrete examples of actions taken and four disclosed quantitative reporting on selected PAIs, sometimes linking them to engagement outcomes. However, most periodic disclosures lacked sufficient detail to demonstrate how sustainability objectives are being implemented in practice, underscoring the need for clearer and more standardised reporting expectations to ensure that meaningful disclosures become the norm rather than the exception.

Recommendations for EU policymakers

The SFDR review presents a key opportunity to build on progress and strengthen the current framework by clarifying and improving engagement and due diligence disclosures, making them more usable and comparable for end investors. Based on our findings and observed market practices, we outline the following recommendations. More detailed recommendations can be found on pp. 34–38.

- **Uphold and streamline entity-level engagement disclosures:** Preserving entity-level disclosures is essential to provide a firm-wide view of how FMPs approach and manage sustainability impacts. To enhance standardisation and comparability, clearer and more specific guidance is needed for engagement and due diligence disclosure requirements. This should include more detailed disclosure requirements for FMPs on due diligence processes, including how they identify, prioritise and reduce the adverse impacts of their investments, as well as how their engagement policies and objectives with investee companies contribute to these efforts.

[i] Financial due diligence assesses risks to the institution, while human rights and environmental due diligence— according frameworks like the UNGPs and OECD Guidelines—focuses on identifying, preventing, and mitigating risks to people and the environment caused by the institution's own activities or those it is linked to through its investments.

- **Introduce engagement disclosure requirements across new product categories:** The review has generated momentum for the creation of a product categorisation system underpinned by robust criteria, including the establishment of 'sustainable' and 'transition' categories. FMPs should be required to disclose credible engagement strategies and outcomes for all categories, showing how they use their leverage to help achieve the financial product's objectives. In a 'transition category', engagement should be mandatory - FMPs should be required to engage with investee companies to advance their transition efforts and improve their sustainability performance.
- **Improve accessibility of disclosures:** Ensure that all sustainability-related product disclosures are presented in easily accessible, product-specific documents, published on FMPs' websites and organised by topic and product. Entity-level disclosures should be clearly labelled, user-friendly, and readily available on firms' websites to facilitate access for end investors.

Introduction

Introduction

The Sustainable Finance Disclosure Regulation (SFDR) establishes a transparency framework to improve sustainability disclosures by financial market participants (FMPs) and financial advisors, enabling end investors to make more informed investment decisions.[II] Its overarching goal is to help channel capital towards sustainable investments that support the EU's transition to a decarbonised, resource-efficient, and inclusive economy. In this report, we use FMPs to refer to both FMPs and financial advisors even though the SFDR applies slightly different rules to each of them.

The regulation sets disclosure rules for FMPs at two levels:

- **Entity-level disclosure requirements:** obligations concerning the FMP's integration of sustainability risks and consideration of adverse sustainability impacts.
- **Product-level disclosure requirements:** obligations concerning the provision of sustainability-related information regarding individual financial products.

These disclosures aim to improve transparency and comparability for end investors and reduce negative sustainability impacts and greenwashing.[7] In practice, however, the SFDR framework, and particularly the Article 8 and 9 disclosure scheme, has been widely misused as a product labelling regime and marketing tool, leading to widespread greenwashing and confusion about the sustainability credentials of financial products.[8] This misuse has meant that FMPs have made sustainability claims about their financial products without aligning with credible environmental or social outcomes or minimum criteria. As a result, products marketed as 'sustainable' have in some cases continued to support harmful activities, undermining investor trust and the regulation's core objectives.[9] Additionally, despite improvements, the quality of entity- and product-level disclosures are inconsistent.

In 2022 the European Commission announced a review of the SFDR, intended to address these shortcomings, and in 2023 it conducted a public consultation.[10]

In February 2025, the Commission published the 'Omnibus' package of proposals to simplify reporting obligations across the EU sustainable finance framework. This proposed changes to the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy Regulation.[11]

[II] The SFDR applies to investment firms that provide portfolio management, manufacturers of pension products, insurance undertakings that offer investment products, and alternative investment fund managers, among others.

The planned review of the SFDR will now be undertaken within this context and focus on simplification. The Commission is expected to present its legislative proposal for the SFDR review in Q4 2025.[12]

The review has generered momentum to create a product categorisation system, with a "large majority" of respondents to the Commission's consultation believing that product categories are needed.[13]

Under the current SFDR rules, disclosures on due diligence and engagement are intended to inform end investors about the adverse sustainability impacts of investments, as well as the policies in place and actions taken by FMPs to address them. These disclosures are not only essential for achieving the SFDR's current objectives but will aso be vital in a future product categorisation system where investors should have to demonstrate how they use engagement to improve investee companies' sustainability performance. This should support the shift of capital away from harmful activities and towards a sustainable transition in line with the European Green Deal objective of achieving zero emissions of greenhouse gases by 2050.

In this report, we assess the quality of engagement and due diligence disclosures by 30 of the largest asset managers based in or operating within the EU against their stated objectives and highlight examples of leading practice. This includes approaches beyond the SFDR that can inform engagement disclosures under a proposed new product categorisation system with minimum sustainability criteria.

Our policy recommendations include detailed proposals on engagement requirements for proposed new product categories, anchored in evidence and building on recommendations by the European Supervisory Authorities (ESAs) and the EU Platform on Sustainable Finance.

The European Supervisory Authorities and the EU Platform on Sustainable Finance have issued recommendations to the Commission in support of a product classification/categorisation system underpinned by minimum criteria. Both recommend the creation of the following two categories:[14]

- **Sustainable:** including investments in economic activities or assets that are environmentally and/or socially sustainable, e.g. through taxonomy alignment and meeting 'do no significant harm' (DNSH) requirements.
- **Transition:** including investments in economic activities or assets that support the transition to a net zero and sustainable economy and improve their sustainability over time, e.g. through taxonomy alignment, transition plans and decarbonisation trajectories. The EU Platform on Sustainable Finance says that stewardship (engagement and voting) could be an optional binding element for the transition category.[lll]

The EU Platform on Sustainable Finance also proposes an 'ESG collection' category.

The research was conducted between October and December 2024. The sample was made up of 22 EU-domiciled asset managers, seven based in the United States and one in the United Kingdom. They were selected from ShareAction's benchmark of 77 of the world's largest asset managers against standards for responsible finance (*Point of No Returns 2023*).[15] Further detail can be found in the Methodology section below.

[lll] These two categories are similar to the Sustainability Focus and Sustainability Improvers labels under the UK's Sustainability Disclosure Requirements (SDR) and investment labels. Available online here: https://www.fca.org.uk/publication/policy/ps23-16.pdf

What FMPs are required to disclose under the SFDR

What FMPs are required to disclose under the SFDR

Entity-level disclosure requirements – engagement and due diligence

Article 4 of the SFDR requires FMPs to provide information on the adverse impacts of their investment decisions on sustainability factors. This disclosure takes the form of a statement on ‘principal adverse sustainability impacts’ (PAI statement) and must include ‘due diligence policies with respect to those impacts’. Reporting is on a ‘comply or explain’ basis, meaning that FMPs which do not consider their activities cause adverse impacts must explain why. However, FMPs with over 500 employees cannot use this provision and are always required to provide this disclosure.[16]

The Joint Committee of the European Supervisory Authorities clarifies in their Q&A on the SFDR that the objective of this requirement is as follows:

The underlying objective of Article 4 of Regulation 2019/2088 is to encourage financial market participants to pursue more sustainable investment strategies in terms of reducing negative externalities on sustainability caused by their investments. The compliance with disclosure requirements under Article 4 should incentivise the interest in investing in activities that do not harm environment or social justice, curb greenhouse gas emissions of their investments, stimulate investee companies to transition away from unsustainable activities and improve their environmental impacts or and [sic] even induce portfolio adjustments and divest from investments in activities that are harmful to sustainability.[17]

PAI statements must include the following:[18]

- Information about their policies on the identification and prioritisation of principal adverse sustainability impacts and indicators.
- A description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned.
- Brief summaries of engagement policies in accordance with Article 3g of Directive 2007/36/EC [the Shareholder Rights Directive], where applicable.

• A reference to their adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement.[19]

The SFDR Delegated Regulation,[20] which supplements the SFDR and defines the Regulatory Technical Standards (RTS), contains further details in this regard.

SFDR recital 18 clarifies that FMPs: "should consider the due diligence guidance for responsible business conduct developed by the Organisation for Economic Co-operation and Development (OECD) and the United Nations-supported Principles for Responsible Investment" when integrating procedures into their processes for considering principal adverse impacts.[21]

Within these disclosures, the entity-level summaries of engagement policies should describe:

- "the indicators for adverse impacts considered in the engagement policies"
- "how the policies adapt where there is no reduction of principle adverse impacts over more than one reference period reported on".[22]

Product disclosure requirements – engagement and due diligence

At the product level, FMPs are required to provide information on how a financial product considers principal adverse impacts on sustainability issues, unless the FMP in its entity-level policy has decided not to consider such impacts under the comply-or-explain option. The information provided should include a description of the "procedures put in place to mitigate those impacts".[23]

Three further types of disclosures are required for financial products – pre-contractual, website, and periodic. These vary depending on whether the product has environmental/social characteristics (Article 8) or a sustainable investment objective (Article 9). Key requirements related to engagement and due diligence include:

- Pre-contractual product disclosures (for both Art. 8 and 9 disclosures) ask whether the product "considers principal adverse impacts on sustainability factors".[24]

- Website product disclosures (for both Art. 8 and 9 disclosures) must include sections describing due diligence and engagement policies.[25]
- Periodic reports must explain actions taken to meet the environmental or social characteristics (Art. 8) or sustainable investment objective (Art. 9) of the product. This explanation should include shareholder engagement as referred to in Article 3g of the Shareholder Rights Directive.[26] FMPs must also describe how the product considers PAIs on sustainability factors.[27]

Key findings on entity-level disclosures

Key findings on entity-level disclosures

The SFDR requires FMPs to publish entity-level disclosures on sustainability-related information about their firm as a whole, rather than on specific financial products they offer. These disclosures are crucial for understanding how an FMP integrates sustainability risks and impacts across its entire investment process, including its due diligence and engagement policies. By providing this overarching view, entity-level disclosures help end investors and stakeholders assess whether an FMP's sustainability claims are backed by meaningful internal policies and firm-wide practices, rather than limited or narrowly applied product-level measures.

Overall disclosure practice and data accessibility

Finding 1: 90% of asset managers provided entity-level reporting.

Of the 30 asset managers analysed, all of which are subject to the SFDR as they offer financial products in the EU, 27 (90%) provided entity-level reporting. One EU-based manager and two US-based managers opted out of reporting, using the comply-or-explain option.

Finding 2: Entity-level disclosures varied in format and accessibility, and some were difficult to find.

In some instances, entity-level disclosures were in clearly labelled website sections such as ‘sustainability’ or ‘sustainability documents’. In other cases, disclosures were less easy to find, stored in generic sections such as ‘documents’ or ‘legal documents’.

Some asset managers’ disclosures were quite difficult to find. For example, searches on their websites yielded no results, and broader web searches for terms like ‘PAI statement’ alongside the asset manager’s name often led to unrelated documents.

This inconsistency presents a significant barrier for end investors, especially retail investors, attempting to locate sustainability information. The SFDR requires that entity-level PAI disclosures are published on FMPs’ websites in a separate, clearly labelled section.[28]

Examples of leading market practices by assessed asset managers on accessibility of entity-level disclosures:

- Including figures for assets under management (AuM) within entity-level reporting. This information contextualises principal adverse impacts, helping end investors to assess the financial magnitude of the reported figures in reference to the portfolio size. For example, with an AuM estimate, an end investor can calculate the financial value of the portfolio's exposure to companies violating UN Global Compact principles.[29]
- Disclosing entity-level information for multiple legal entities, by consolidating the disclosures for all entities into a single report, and thus providing an accessible and comprehensive picture of firm-wide policies and practices.

Disclosures on due diligence and engagement

FMPs are required to publish a statement on due diligence policies, including how they consider adverse sustainability impacts of their investments at the entity-level (PAI statement). For this research, we assessed asset managers' disclosures on the following associated requirements detailed in the SFDR Delegated Regulation (RTS):

- Description of the principal adverse impacts of investment decisions on sustainability factors, specifically PAIs 10 and 11, and the related actions taken or planned to avoid or reduce the principal adverse impact (RTS Art 6).
- Policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors (RTS Art 7).
- Engagement policies (RTS Art 8).   .

Description of the principal adverse impacts of investment decisions on sustainability factors – PAI 10 and 11

We examined disclosures on actions planned or taken related to two social PAI indicators: PAI 10 and 11. PAI 10 deals with violations of the United Nations Global Compact Principles (UNGC Principles) and violations of Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (OECD Guidelines). PAI 11 looks at the lack of processes and compliance mechanisms to monitor compliance with UNGC Principles and OECD Guidelines.

Finding 3: Eight asset managers described their actions and related processes with meaningful information in their PAI 10 disclosures, though most provided no or only high-level information about actions to reduce their investments in companies that violate UNGC Principles and OECD Guidelines.

When it comes to disclosures about actions taken or planned to avoid or reduce the impacts identified for PAI 10:[30]

- One asset manager provided quantified, concrete action for the period and commented on the change of the figure over the year.
- Seven provided a description of process with some additional or insightful detail, including one that provided concrete examples.
- Most asset managers (17) provided only high-level descriptions of their investment processes.
- Two asset managers did not insert any information about actions related to PAI 10 in their PAI statement.

Finding 4: More than two thirds (22) of the assessed asset managers did not provide meaningful disclosures on actions for PAI 11, with many (14) simply repeating information reported under PAI 10.

Asset managers reported the following actions taken or planned to avoid and reduce the impacts identified for PAI 11:

- One asset manager shared in-depth details about the actions taken.
- Another listed targets to reduce the adverse impacts.
- Three laid down the expectation that investee companies would comply with the international guidelines and have the requested compliance mechanism in place.
- Six disclosed descriptions related to the process instead of clear actions.
- 14 repeated the same actions described for PAI 10, providing no additional specificity or context.
- One stated that no measures were taken or planned.
- One referred to information listed elsewhere which we could not find.

Disclosures under PAI 10 and 11 point to a recurring challenge: a widespread lack of sufficiently detailed and quantifiable information on the actions taken to address principal adverse impacts.

This shortcoming has been repeatedly flagged as problematic, underscoring the need for improvement in the quality and clarity of disclosures.[31] However, our analysis of asset managers' stewardship and engagement reports outside the SFDR framework, in the context of this research, often revealed substantial information on engagement policies and practices aimed at addressing harms among investee companies. This suggests that asset managers often have the relevant information at their disposal, but are not necessarily disclosing it in the context of the SFDR framework. Providing concrete information on actions taken and planned to address these impacts, including change year on year, is important to enable end investors and others to interpret the impacts reported, and the leading practice below shows that it is possible.

Example of leading market practice by assessed asset managers on disclosures of actions taken to reduce PAI indicators:

- Presenting quantified and specific measures taken during the reporting period, accompanied by an analysis of how adverse impact indicators have evolved over the year.

Identifying and prioritising PAIs

FMPs are mandated to describe their policies to identify and prioritise principal adverse impacts. This should include information on the methodologies they use to identify the indicators stipulated in RTS Annex I, as well as how they consider the likelihood of the impacts occurring and the severity of the impacts, including whether they are potentially irremediable.[32]

Finding 5: Despite all 27 asset managers disclosing some form of description of their due diligence policies, fewer than half (12) provided meaningful descriptions, and there was significant variability in the quality and clarity of disclosures.

Of the 27 asset managers which provided entity-level reporting:

- 10 provided descriptions of their policies to identify and prioritise impacts, including some details about the parameters applied.
- Two described their priority areas.
- Four referred to their internal policies without offering explanations.
- 10 provided generic process descriptions.
- One deferred the topic to the product level.

In relation to how FMPs analysed the impact materiality of the adverse impacts (e.g. how they consider the likelihood of occurrence, severity, and irremediable character of potential impacts):

- Six asset managers stated that they use materiality to identify PAI priorities.
- An additional three referred to severity and irremediability as tools for PAI analysis.
- Two cited portfolio weight as a criterion, alongside severity and probability.
- One mentioned data availability as a criterion.
- The remaining 15 asset managers did not disclose their approach.

These varying results align with the findings of the ESAs in their 2024 PAI report, which identified PAI identification and prioritisation as an area in need of significant improvement.[33]

Examples of leading market practices by assessed asset managers on identification and prioritisation of PAIs:

- Making explicit reference to the severity and irremediability of the principal adverse impacts, as required by the RTS.
- Explaining in detail how they go through the processes of PAI due diligence in detailed steps (separate from ESG integration), including how each mandatory and selected additional PAI is addressed.

Engagement policies

As part of their PAI statement, asset managers have to disclose details about their engagement practices, including which PAIs are addressed through engagement and how engagement policies are adapted when there is no reduction in impacts over more than one reporting period.[34]

Finding 6: More than half (17) of asset managers provided detailed descriptions of their engagement practices, though this is not yet mainstreamed and there is room for improvement.

- 17 asset managers provided detailed descriptions of their engagement practices, providing information such as the different engagement tools they employ (e.g. dialogue with issuers and voting), how engagement aligns with their PAI reduction efforts, the specific topics they focus on, and the high-level outcomes they seek from companies.
- 10 provided generic descriptions of their engagement processes, often lacking substantive detail.

- Of all 27 asset managers disclosing:
  - o 14 provided a list of the PAIs considered in their engagement practices, while the remaining 13 did not.
  - o 14 mentioned the potential for escalation or policy review. One of these stated that they review their engagement policy annually, while the rest did not specify a timeframe for such action.
  - o 13 failed to disclose how they adapt their engagement strategies in response to a lack of reduction in PAIs.
  - o Of these, one manager stated that its engagement efforts are not meant to reduce PAIs.

Overall, disclosures by more than half of the assessed asset managers demonstrated that it is possible to provide meaningful and descriptive explanations of how engagement, including escalation measures such as voting, can be used to address PAIs. Yet many disclosures were too general to be useful to end investors, therefore underscoring the need for good practices to be mainstreamed to ensure a higher degree of consistency, completeness and quality.

Examples of leading market practices by assessed asset managers on engagement disclosures:

- Outlining how communication with an investee is conducted, what resources are used and how they expect the company to respond.
- Explaining that engagement objectives are communicated with the company before the start of the process, that they will apply escalation in cases of insufficient progress, and which PAIs are addressed via engagement and which via exclusion policies.
- Detailing how PAIs reduction is integrated into engagement practices, including that the they will support companies to improve performance on PAI indicators and that negative sustainability impacts will be factored into voting decisions.
- Explaining different types of engagement, including risk-based or investment-led, focused on environmental or social impact, and addressing Responsible Business Conduct (RBC) failures.

Key findings on product-level disclosures

Key findings on product-level disclosures

Robust product-level disclosures are essential to give end investors a clear understanding of how a financial product considers adverse impacts on people and the environment. This transparency is key to assessing whether product sustainability claims are credible and aligned with the stated objectives.

General disclosure practices

At the time of data collection, 13 of the 30 asset managers offered Article 9 products (some also offered Article 8 products), while the remaining 17 offered Article 8 products only. When available, a global equity Article 9 fund was selected; otherwise, an Article 8 fund was used as the next best option.

Overall disclosure practice and data accessibility

Finding 7: Asset managers varied in the extent to which they made product disclosures accessible, with some failing to disclose parts of the required information.

- Of the 29 asset managers providing pre-contractual disclosures, 11 did so in a stand-alone document for each product, while the others put disclosures for all products in one document. One did not provide a pre-contractual disclosure.
- Of the 27 asset managers providing periodic disclosures for each product, seven did so in stand-alone documents, while the others put disclosures for all products in one document.
- Three did not publish the required information on their websites.

Finding the correct information proved particularly burdensome in certain cases. For example, some asset managers embedded pre-contractual disclosures within multi-fund prospectuses and periodic disclosures in annual reports. Multi-fund documents can be thousands of pages long, posing significant accessibility challenges.

Examples of leading market practices by assessed asset managers on accessibility:

- Publishing pre-contractual and periodic disclosures in stand-alone documents for each product.

Pre-contractual disclosures - the consideration of PAIs

Pre-contractual templates (for both Art. 8 and 9 products) ask whether the product "considers principal adverse impacts on sustainability factors". We analysed responses to this question.

Finding 8: Roughly three-quarters (22) of asset managers provided a list of considered PAIs in their pre-contractual disclosures, but only nine explained how the list was compiled.

- 29 products considered adverse impacts on sustainability factors; of these:
    - o Nine provided a list of PAIs and described how the list was drawn up.
    - o 13 provided a list of PAIs without specifying the process.
    - o Three described the process but did not name the PAI.
    - o Four responded "yes" in response to the question without an explanation.
- One product did not take PAIs into account.

Website disclosures – due diligence and engagement policies

The SFDR Delegated Regulation mandates FMPs to describe on their websites the due diligence they carry out on their assets (including internal and external controls) and the engagement policies they implement for Article 8 and 9 products.[IV] [35]

In our analysis, this area of disclosures stood out for its shortcomings and potential for improvement; however, some managers offered interactive ways to retrieve the data, making it more accessible to retail investors.

Finding 9: The majority of asset managers did not provide adequate information on due diligence (20) and engagement (18) on their websites for their financial products.

While seven asset managers (of the 27 which disclosed this information) provided some meaningful insights on due diligence and nine provided detail on engagement processes, most provided high-level, generic information on both.

[IV] The Delegated Regulation states: In the website section 'Due diligence' referred to in Article 37, point (j), financial market participants shall describe the due diligence carried out on the underlying assets of the financial product, including the internal and external controls on that due diligence. In the website section 'Engagement policies' referred to in Article 37, point (k), financial market participants shall describe the engagement policies implemented where engagement is part of the sustainable investment objective, including any management procedures applicable to sustainability-related controversies in investee companies.

Key findings on due diligence

- Seven asset managers provided some meaningful insights on how they conduct due diligence, though these disclosures did not adequately explain the due diligence processes.
- 18 offered generic descriptions of their due diligence processes, from which we could not draw clear insights.
- Evidence was found of some managers conflating financial due diligence with human rights due diligence.
- Two either did not mention due diligence or delegated it to the index provider.
- In some cases, due diligence was conditional on the availability of data, whereas a lack of data should trigger further due diligence efforts.

Key findings on engagement

- Nine asset managers provided some detail on their engagement processes.
- 17 gave no meaningful detail, though seven of these referenced other policy documents.
- One manager of a passive product marked engagement as "not applicable" (though the need for active engagement, including by using voting rights, is arguably stronger in passive funds, as the capital allocation lever is less dynamic than in active funds).[36]
- Regarding the specificity of the engagement:
    - One stated that engagement is a "binding element of the investment strategy", while another linked their engagement policy directly to PAI considerations.
    - Six explicitly stated that their engagement activity was not directly linked to the product or strategy.
    - 15 described their engagement strategy as firm-wide.
    - Four said engagement was "key" or "core" to their investment processes.

Periodic disclosures – actions taken and consideration of PAIs

The RTS templates require asset managers to disclose actions taken during the reporting period to attain the environmental or social characteristics (Art. 8) or sustainable investment objectives (Art. 9), including engagement efforts.

Finding 10: While five asset managers provided specific disclosures on actions taken to meet their sustainability claims in their periodic disclosures, the majority offered only generic descriptions.

- Of 27 asset managers providing periodic disclosures, five disclosed insightful information on actions taken, such as updated policies, fund-specific engagement numbers, or examples of engagement or exclusion actions.

- 22 provided generic process descriptions.

Examples of leading market practices by assessed asset managers on periodic disclosure practices regarding actions taken:

- Disclosing fund-specific engagement data, such as the number of companies under active engagement or subject to targeted engagement programmes.
- .Outlining policy or criteria changes during the year, such as updates to exclusion lists.
- Giving clear examples of exclusions or engagements during the reporting period, such as with oil and gas companies that have not explicitly committed to the goals of the Paris Agreement.

Furthermore, the RTS mandates FMPs to describe how the financial product considers PAIs on sustainability factors – such as GHG emissions, biodiversity, or social violations – over the reporting period.[37]

Finding 11: While four asset managers provided quantitative reporting on selected PAIs in their periodic disclosures, descriptions of how financial products consider adverse impacts on sustainability factors vary significantly and would benefit from greater consistency.

- Four asset managers provided quantitative reporting on selected PAIs, one of which differentiated whether the PAIs are considered pre- or post-investment or through engagement.
- Five described their process, two of which specified stewardship activities.
- 12 provided a list of PAIs considered.
- Two stated that they consider PAIs and another one stated that most impacts have been mitigated or accepted.
- One explained the difficulty of obtaining data, noting that PAIs are not more important to the investment process than any other criteria.
- Two did not provide any response.

Examples of leading market practices by assessed asset managers on periodic disclosure practices regarding consideration of PAIs

- Providing quantitative reporting on selected PAIs, including differentiating whether PAIs are considered pre- or post-investment or through engagement.

Engagement disclosures beyond the SFDR

Engagement disclosures beyond the SFDR

The SFDR Regulation mandates FMPs to provide a brief description of their engagement policies in their PAI statements, in alignment with the ‘engagement policy’ section of the Shareholder Rights Directive II (SRD II). Per the SRD II, this should encompass a description of how they conduct dialogue with investee companies and exercise voting rights.[38]

Given that the information on engagement policies included in PAI statements and product-level disclosures did not fully cover the aspects listed above, we also analysed engagement disclosures by asset managers published beyond their SFDR-related documents to find evidence of existing market practice. In addition to the research described above, this exercise was also informed by data from ShareAction's *Point of No Returns 2025* report.[39]

Most asset managers disclosed four elements related to engagement:

- Engagement policies
- Periodic engagement reports
- Voting policies
- Voting reports (in addition to vote-by-vote records).

Across these engagement-related documents, we assessed the quality of the following disclosures:

- Engagement policies and practices, including issue-specific objectives (expectations) and outcomes
- Escalation policies and practices, including triggers, milestones and outcomes
- Voting policies and practices, including issue-specific guidelines and results.

Key findings on engagement policies and practices

Finding 12: The majority of asset managers published detailed expectations and quantitative data on their engagement activities.

- 24 asset managers established detailed expectations for engagement with investee companies on climate change and 22 on social issues (human and labour rights).
- The majority (24) provided quantitative data on engagement activities, detailing the number of engagements. One of these broke the data down by principal adverse impact.

- Most asset managers provided case studies of their engagement processes; 25 offered positive examples and 23 detailed cases with negative outcomes.
- 12 published a list of all companies engaged with, 10 of which provided a list of all companies engaged with by sustainability topic.
- 15 conducted a quantitative assessment of their engagement progress, categorising various stages of engagement practice.

Examples of leading market practices by assessed asset managers on engagement policies and reports:

- Establishing detailed engagement expectations by sustainability topic.
- Structuring engagement activity reporting by both topic and sector.
- Providing clear engagement statistics broken down by PAI.
- Providing the status of engagements, including number of conversations, progress, and evaluation of whether the engagement was positive or negative.
- Providing a quantitative assessment of engagement progress, categorising various stages of engagement practice.
- Providing measurable outcomes for engagement topics (e.g. company implemented a policy or disclosed their risks and impacts related to a specific sustainability issue).
- Using the due diligence process envisaged by the OECD Guidelines for Multinational Enterprises to identify and engage with companies in potential violation of good governance standards.

Escalation policies and practices

We also assessed the information provided on escalation (the intensification of engagement activities). Escalation is important as it attaches time-bound milestones and consequences to engagement. This helps ensure engagements are substantiated and aimed toward generating progress and delivering real-world change.[40]

Finding 13: Nearly all asset managers (25) published escalation policies and provided insights into the escalation tools they used.

- 25 asset managers published escalation policies. Of these, 23 described at least four steps in their escalation process.

- Most (14) considered divestment and/or exclusion as the final step, with others stating they would vote against the board (5), submit shareholder proposals (3), or pursue legal strategies (2). One mentioned resetting the engagement strategy.
- Five either did not mention escalation or were vague about it.

Finding 14: All asset managers reported engaging with issuers over the past three years, using a variety of engagement tools.

In their disclosures, they described using the following engagement tools:

- 25 asset managers sent private letters and 14 made public statements.
- 11 filed or co-filed shareholder proposals.
- 11 others asked questions at annual general meetings (AGMs).
- In terms of primary investments, nine asset managers refused to buy corporate debt, and seven refused to buy new equity.
- In secondary markets, 15 partially or fully divested from equities, and 11 divested from corporate debt.
- Three asset managers pursued litigation.
- Two communicated sustainability-related conditions for their participation in the primary bond market.
- Two asset managers disclosed the number of times escalation tools were used.

Regarding the time allocated for constructive engagement before final consequences are implemented, seven asset managers indicated time periods ranging from 12 to 36 months and 21 provided no specific timeframe.

Examples of leading market practices by assessed asset managers on escalation policies and practices:

- Outlining a detailed escalation process, specifying a timeline of up to 36 months in nine time-bound steps, with defined time horizons per step.
- Listing investee companies subject to escalation, with details on the rationale and approach.
- Using and discussing resolutions and pre-announcing votes as an element of escalation.
- Specifying the topics, reasons, and methods of escalation, including for fixed income assets.
- Reporting on escalation tools used, such as co-filing shareholder proposals, using resolutions, and pre-announcing votes.

Voting policies and practices

Voting – on both shareholder and management resolutions – is a core component of engagement and a crucial tool that demonstrates how asset managers actively use their shareholder rights to address sustainability risks and principal adverse impacts. Disclosing voting behaviour helps substantiate claims of responsible investment and provides transparency on how asset managers seek to influence investee companies in line with their stated sustainability objectives. We assessed disclosures related to voting policies and practices.

Finding 15: Nearly all (26) asset managers had voting policies on climate and over half (16) had voting policies on human rights and labour-related resolutions.

- 26 asset managers had climate-related voting policies and 16 had human rights and labour-related voting policies (covering shareholder or management resolutions) in place. Some policies focused on transparency, while others aimed to influence company behaviour. For example, one asset manager stated that it will vote against management in companies that do not have a credible decarbonisation plan.
- Six publicly pre-declared their voting intentions on specific issues.

Finding 16: Just under half (14) of the asset managers disclosed aggregate figures on their support for relevant shareholder proposals.

- 14 disclosed aggregate figures on their support for environmental and social related shareholder proposals (for example, a number or percentage of proposals supported).
- Six provided a rationale for all votes against shareholder proposals; 13 provided a rationale for a sub-set.
- Eight provided a rationale for all votes against management proposals, 11 provided a rationale for a sub-set.

Examples of leading market practices by assessed asset managers on voting policies and practices:

- Disclosing voting policy on specific sustainability topics.
- Pre-declaring voting intentions on specific issues.
- Publishing voting outcomes and rationale for sustainability-related votes (including shareholder resolutions and votes against management).

Policy recommendations for the SFDR review

Policy recommendations for the SFDR review

We have identified a set of targeted recommendations to improve disclosures as part of the SFDR review, focused on supporting the Regulation in achieving its objectives: to provide clear and comparable information to end investors, reduce negative sustainability impacts, and channel capital toward the transition. These recommendations are informed by our research findings and rooted in evidence of existing market practice which demonstrates both the feasibility and relevance of our proposals. Our key policy recommendations are as follows:

1. Uphold and streamline entity-level disclosures

Entity-level disclosures provide critical information to end investors and other stakeholders on FMPs' sustainability practices. Specifically, they provide firm-wide, aggregated overviews of the adverse sustainability impacts associated with an FMP's investments, as well as the policies in place and the actions taken to reduce them. To be effective, entity-level disclosure requirements should provide clearer and more specific guidance outlining what information FMPs must provide on their engagement and due diligence policies and practices for reducing the adverse impacts of their investments. This is important to ensure FMPs' disclosures are comparable and meaningfully inform end investors and consumers about how they are addressing the environmental and social harms of their investment decisions at the firm-wide level.

The European Supervisory Authorities have stressed the importance of these entity-level disclosures in the SFDR, stating that "given the current lack of other obligations on due diligence with regard to their investments, PAI disclosure is a very useful source of information and an indirect requirement for financial market participants to ensure some control and due diligence about the negative consequences of their investments".[41] It is now even more critical that the SFDR maintains and clarifies this reporting requirement, given the European Commission's proposals to delete the review clause in the Corporate Sustainability Due Diligence Directive regarding due diligence rules for the provision of financial services and investment activities, and to remove sector-specific reporting standards, including for the financial sector, under the Corporate Sustainability Reporting Directive.[42]

Entity-level disclosures should specify in greater detail the information FMPs must provide on how they consider adverse impacts, including their identification, prioritisation, and reduction, and should include the following:

- A clear description of the various steps of the due diligence process, including summaries of engagement policies (in accordance with SRD II Art. 3g), engagement objectives for each PAI, and escalation steps that will be taken when progress is not achieved.
- Methodologies used to identify and prioritise PAIs, including how the likelihood of occurrence, severity of the impact, and irremediable character were considered.[V]
- Detailed information on how actions have led to a reduction of PAIs, including steps taken when engagement failed to produce results.

2. Introduce engagement disclosure requirements across new product categories

The establishment of a financial product categorisation system underpinned by minumum criteria should be a key outcome of the upcoming review to address greenwashing and ensure investments are channelled toward the transition. As agents of owners of companies (listed equity) and funders of companies (corporate debt), FMPs hold significant influence over investee companies and can leverage engagement to improve their sustainability performance. **Thus, the disclosure of credible engagement strategies and outcomes should be a minimum requirement across all proposed SFDR product categories to demonstrate how FMPs use their leverage in support of achieving the products' objectives.**

Our assessment of product-level engagement disclosures under the current SFDR framework found that many are not sufficiently detailed or comparable to usefully inform end investors about relevant indicators and implementation actions. However, when looking at disclosures made outside the scope of the SFDR, we found that many asset managers are able to provide meaningful information on their engagement activities, including voting and escalation.

In a product categorisation system, FMPs should be required to disclose information about their engagement policies and outcomes to demonstrate how these policies are consistent with achieving the objective(s) of the fund(s). For example, in a sustainable product category, engagement may contribute to maintaining the achievement of underlying criteria (such as Taxonomy alignment) and should be demonstrated in the form of a robust engagement strategy. **In a transition product category, engagement should be mandatory – FMPs should be required to engage with investee companies to advance their transition.** In this category, meaningful engagement will be a key component for achieving the product's objectives, such as supporting investee companies to implement credible transition plans.

[V] Data sources, quality concerns and approximations should be detailed and PAI-specific. In cases where data is not available for a sufficiently large part of portfolios, FMPs should describe what actions are planned to improve the situation.

Engagement should be applicable across product thematic objectives (e.g. climate, environment, social)[VI] and should contribute to the achievement of various fund-level criteria. Engagement should also represent the interests of all asset classes in the fund(s), including fixed income. Corporate debt holdings should be subject to the same requirements, albeit with FMPs using different tools as appropriate to engage and thus adapting disclosures accordingly.[VII] [43] Further, engagement should apply to both active and passive funds (whereby voting remains an important engagement tool).[44]

The following minimum criteria, indicators and reporting requirements related to engagement should inform the creation of product categories and disclosure templates.

For pre-contractual disclosures:

- Minimum criteria: disclosure of engagement, escalation and voting policies
  - Engagement policy with measurable and time-bound sustainability objective(s) aligned with science-based targets and/or international frameworks, including sectoral expectations.[VIII]
  - Escalation framework, including a description of escalation tools of increasing strength and an escalation pathway that sets out expectations with time-bound milestones.[IX][45]
  - Sustainability-focused voting policy with intentions aligned with engagement objectives, underpinned by robust criteria.[X]
  - Mapping of how engagement, escalation and voting stategies contribute to the achievement of the objective(s) and underlying criteria of the fund(s).

- Indicator: to measure how the FMP adheres to the minimum criteria on engagement
  - All products: rate of progress of engagements relevant to the fund.
  - Transition products: additional reporting on how engagement activities influenced product-level investment decisions.

[VI] Social disclosures under the SFDR play a critical role in enhancing corporate accountability and allowing investors to take informed decisions. Yet, the lack of a definition of socially sustainable activities in European legislation limits the impact SFDR social disclosures can have on facilitating and incentivising credible social investment and enabling sounder risk management. ShareAction therefore supports the introduction of a classification system for socially sustainable activities.

[VII] For example, the maximum point of influence for a bondholder is primary debt issuance (or electing not to participate in financing), whereas an FMP may escalate through voting and other forms of engagement at AGMs for equity holdings.

[VIII] Examples of science-based targets and credible frameworks include the Paris Climate Agreement, UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises, among others.

[IX] ShareAction defines escalation as the intensification of engagement activities. Transparency on escalation is a benefit both to end investors as well as companies, as it helps companies predict how their strategic choices will affect their relationship with investors and access to capital.

[X] Voting policy should cover both management items and shareholder resolutions. Corporate debt holdings could use a comply or explain option here.

For periodic disclosures:

- Reporting on:
  - o Implementation of engagement policy relevant to the fund, including:
    - Number of companies engaged, by topic, sector and region.
    - Success rate, or rate of progress, of engagements.
    - Outcomes of engagement, including progress against sustainability objectives and sectoral expectations.
    - Transition products: addititional reporting on how engagement activities influenced product-level investment decisions.
  - o Voting outcomes and rationale, by topic, sector and region.
  - o Use and outcomes of escalation, by topic, sector and region.[XI]

3. Improve accessibility of disclosures

Ensure that all sustainability-related product disclosures are presented in easily accessible, product-specific documents, published on FMPs' websites and organised by topic and product. Entity-level disclosures should be clearly labelled, user-friendly, and readily available on firms' websites to facilitate access for end investors.

[XI] Disclosures on the use and outcomes of escalation should include:
- Number of companies at each escalation step
- Number of companies taken off escalation toolkit due to success
- Number of companies that reached the final step of escalation toolkit
- Number of companies that moved up one step or more in the toolkit.

Methodology and references

Methodology

We examined the disclosure practices of 30 of the largest asset managers based in or operating within the EU. The asset managers were selected from the global list of 77 asset managers included in ShareAction's *Point of No Returns 2023* report.[46]

All 22 EU-domiciled asset managers were included in the sample, and a further eight were chosen based on their assets under management. Seven of these are based in the United States, and one is domiciled in the United Kingdom.

The research focused on sustainability due diligence and engagement disclosures under the SFDR, and some relevant disclosures beyond it.

For SFDR disclosures, research was conducted using information available online. No asset managers were contacted directly.

We first identified an investment product for each asset manager. When a global equity Article 9 fund was available, it was selected for analysis; otherwise, an Article 8 global equity fund was chosen, based on the assumption that an Article 9 fund would provide disclosures that are at least as comprehensive. Two of the managers in the sample offered only bond products.

For entity-level Principal Adverse Impacts (PAI) disclosures not linked to a specific product, we conducted searches on the respective manager's website or general web searches. We used the same approach to locate stand-alone information on stewardship and active ownership practices, including engagement and voting activities.

When specific data points could not be identified, extended searches were performed to ensure the comprehensiveness of the findings.

For research related to engagement disclosures beyond SFDR, we also used data from ShareAction's *Point of No Returns 2025* report. The *Point of No Returns* report and its methodology can be found here.

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