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ESG risk

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European Supervisory Authorities

ESAs: Greater Effort from Financial Market Participants in their Disclosure of Principal Adverse Impacts

- The European Supervisory Authorities (ESAs)' **2025 Annual Report**, the fourth iteration under Article 18 of the Sustainable Finance Disclosure Regulation (SFDR), **assesses Principal Adverse Impact (PAI) disclosures to monitor financial market participants' (FMPs) compliance.**
- Overall, the report notes an **improvement in the completeness and quality of information provided**, with FMPs making efforts to comply with SFDR disclosure requirements. FMPs that are part of larger multinational groups tend to disclose sustainability information more detailedly, while smaller entities often mix general ESG information with SFDR disclosures.
- For **entity-level disclosures**, mandatory for FMPs with over 500 employees, statements are generally easy to find, often in dedicated sustainability sections. However, **issues persist**, such as differing PAI indicators between years without explanation, and low data coverage for specific indicators like emissions to water, hazardous waste, and unadjusted gender pay gap. Good practices include clear explanations for data variations and detailed CO2 emission reporting. Below-average practices involve generic language, merged action columns, and a lack of specific, quantifiable targets.
- **Product-level PAI disclosures are voluntary.** The report shows a significantly higher number of FMPs offering products

- promoting environmental/social characteristics or with sustainable investment objectives that now consider PAI indicators. Most of these funds also disclose PAI indicators, with satisfactory compliance. Good practices include the voluntary use of the PAI template and considering PAIs with both qualitative and quantitative approaches. A below-average practice identified is the lack of a clear distinction by many banks between financial product and entity-level disclosures.
- A key challenge for National Competent Authorities (NCAs) in supervising PAI disclosures is the **resource-intensive manual review process**, compounded by the lack of direct reporting obligations for FMPs and insufficient SupTech tools.
- The ESAs recommend the European Commission consider **shorter, machine-readable PAI statements** available in the European Single Access Point (ESAP). They also suggest implementing best practices for disclosing data coverage and considering alternative proportionality thresholds for FMPs, such as total investments, instead of the 500-employee criterion. Finally, reducing the frequency of Article 18 reports to every two or three years could allow for more meaningful analysis.

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