

REVISION OF SFDR

STRUCTURED PRODUCTS AND DERIVATIVES

AMAFI's proposals

The revision of the Sustainable Finance Disclosure Regulation (SFDR¹), for which the European Commission consulted between September and December 2023², aims to improve the current framework by addressing the challenges identified since its implementation by the European Commission and the Financial Market Participants (FMPs). These challenges include the unintended use of SFDR Articles 8 and 9 as labels, despite not being designed as such, the complexity of the disclosure requirements for retail investors, the lack of a precise definition for sustainable investment and the uneven treatment of derivatives in the sustainable ratios.

AMAFI welcomes this review, which it deems necessary, and would like to contribute to the development of a more effective and coherent framework that enhances transparency and investor confidence in sustainable finance, as outlined in our response to the above-mentioned consultation ([AMAFI / 23-89](#)).

We take a particular focus on derivatives and structured products, which are financial instruments not currently considered by SFDR or not accounted for properly in the sustainability ratios, creating regulatory uncertainty and risk of inconsistent transparency to clients.

In this respect, AMAFI considers that the following enhancements should be made to strengthen SFDR:

- Accounting for derivatives in sustainable ratios (Sustainable investment, Taxonomy alignment, and Principal Adverse Impacts - PAIs) ([I.](#)).
- Extending the scope of SFDR to investment products other than funds, such as structured products, which can also be designed to follow sustainable objectives ([II.](#)).
- Establishing clear guidelines for assessing the sustainability of structured products ([III.](#))

¹ [Regulation \(EU\) 2019/2088](#) and further detailed in Regulatory Technical Standards (RTS) under Commission [Delegated Regulation \(EU\) 2022/1288](#).

² [Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation \(SFDR\)](#).

I. CONSIDERATION OF DERIVATIVES IN SUSTAINABLE RATIOS

A. THE CURRENT STATE OF INCONSISTENCY

SFDR provides for the communication to investors of three types of sustainable ratios for the financial products in its scope:

- **Taxonomy Alignment ratio**³, which indicates the proportion of a financial product's underlying investments that are aligned with the EU Taxonomy Regulation⁴.
- **Sustainable Investment (SI) ratio**⁵, this metric reflects the share of a financial product's underlying investments classified as sustainable, meaning they contribute to an environmental or social objective, do not significantly harm other sustainability objectives, and follow good governance practices.
- **Principal Adverse Impact (PAI) consideration**⁶, while not a strict ratio, financial products that consider Principal Adverse Impacts (PAIs) must disclose quantitative and qualitative indicators on how their investments may negatively impact sustainability factors.

As of today however, it remains unclear whether derivatives are included in the numerator of the SI ratio, and they are penalised under the Taxonomy-alignment ratio since only short positions are allowed in the numerator. The only ratios that capture their contribution are those related to the PAIs, as confirmed by the ESAs' final report on SFDR⁷ and previously addressed in the ESAs' Q&A on the SFDR Delegated Regulation⁸. Derivatives are subject to qualitative transparency to the extent that asset managers are required to justify how derivatives align with and support the sustainable investment strategies of their funds⁹.

This situation creates **inconsistency in the consideration of derivative positions** in the Sustainable Finance ratios and prevents a proper evaluation of an investor's exposure to the different assets linked to a financial product.

In contrast, other jurisdictions have established frameworks that provide clarity on the consideration of derivatives. In the United States, the SEC Fund Names Rule incorporates derivatives¹⁰ in the calculation of a fund's investment policy, requiring that at least 80% of the fund's asset value aligns

³ Article 5 and 6 of SFDR, as complemented by Article 17 of the RTS.

⁴ Regulation (EU) 2020/852.

⁵ Article 2(17) and Article 9 of SFDR, detailed in Annex II of the RTS.

⁶ Article 7 of SFDR and Annex I of the RTS.

⁷ "4. For the purposes of the indicators related to adverse impacts referred to in paragraph 1, financial market participants shall include derivatives by calculating them according to the conversion method set out in Annex II to Commission Delegated Regulation (EU) No 231/2013 and applying paragraphs 4 to 9 and 14 of Annex I of that Regulation and Article 8(4) of that Regulation.", ESAs' [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#), article 1 Draft RTS, 4 December 2023.

⁸ ESAs, [Questions and answers \(Q&A\) on the SFDR Delegated Regulation](#) (Commission Delegated Regulation (EU) 2022/1288), 17 November 2022. Section I. Question 2.

⁹ [Commission Delegated Regulation \(EU\) 2022/1288](#), Article 51.

¹⁰ [SEC Final Rule: Investment Company Names \(Release No. 33-11238; 34-98438; IC-35000; File No. S7-16-22\)](#), page 78, section IV.E.3., 20 September 2023.

with the focus suggested by its name¹¹. In the United Kingdom, with respect to the Sustainability Disclosure Requirements (SDR), the FCA recognises the role of derivatives as a transmission mechanism for channelling capital and does not impose specific rules for these instruments, instead emphasising the importance of transparency in their use and implicitly mandating their disclosure¹².

Finding an appropriate way to incorporate derivatives into the sustainable finance framework, inc. SFDR, is important, as they are a useful and cost-effective tool for asset managers to build sustainable strategies by managing their exposure to sustainable assets, enhancing liquidity and hedging risks.

For example, derivatives with an equity or corporate bond underlying - such as equity and bond futures or swaps linked to ESG-focused indices, green bonds or sustainability-themed ETFs - allow asset managers to gain exposure to sustainable assets without direct ownership. This is particularly useful for index-tracking funds and ESG-focused strategies that seek to replicate the performance of sustainable benchmarks without having to manage the evolution of the benchmark's composition. They also allow investment in assets that may be illiquid or difficult to access, such as equities of ESG firms or green bonds issued in emerging markets.

An ESG Overlay in a Climate Transition Fund

A European asset manager running a climate transition equity fund uses derivatives to align the portfolio with decarbonization targets while optimizing returns. To reduce exposure to carbon-intensive sectors, the fund takes short positions in futures contracts on high-emission industries like coal, oil, and gas. At the same time, it increases allocation to green energy by going long on renewable energy indices through futures or swaps. These positions are dynamically adjusted based on market conditions and regulatory changes if any, ensuring the portfolio remains aligned with sustainability objectives while maintaining flexibility and cost efficiency.

¹¹ If a fund's name suggests a focus in a particular type of investment, or in investments in a particular industry or geographic focus, the fund must adopt a policy to invest at least 80% of the value of its assets in the type of investment, or in investments in the industry, country, or geographic region suggested by its name.

¹² [Sustainability Disclosure Requirements \(SDR\) and investment labels](#), "For derivatives, we are not being prescriptive around how exposures should be calculated for the purposes of meeting any thresholds.", page 110, November 2023.

B. HOW TO ACCOUNT FOR DERIVATIVES?

In SFDR, derivative positions¹³ should be considered in the assessment of the quantitative criteria linked to the proposed categories, accounting for both long and short positions, in order to reflect the holder's commitment or disengagement vis-à-vis the underlying companies¹⁴. Importantly, the net position of short and long derivative positions should also be allowed to go below zero, as negative exposures can indicate disengagement from ESG assets, which may reduce their attractiveness to investors ([AMAFI / 23-54](#)). Flooring to zero, as proposed by the ESAs in their Final Report on SFDR Delegated Regulation on PAIs and financial product disclosures¹⁵, would indeed provide an incomplete picture of exposure. The importance of considering both long and short positions has become increasingly apparent amid recent market shifts. For example, a Bloomberg article from October 2024¹⁶ noted that more hedge funds are taking net short positions in green energy sectors such as solar and electric vehicles, highlighting the need for a thorough understanding of the market's perspective on green assets.

Derivative exposures should be **converted into equivalent underlying positions, using the delta approach**¹⁷. This is the most appropriate methodology to calculate the exposure to underlying shares or corporate bonds and to quantify the true impact of derivatives, without overstating or understating it. This approach has been described by the ESAs as *"the appropriate methodology for calculating exposure"* [...] by *"converting derivatives into equivalent positions in the underlying assets of those derivatives"*¹⁸ and recommended by the EU PSF¹⁹. The delta measure is already in use under the Delegated Regulation supplementing the AIFM Directive²⁰ and the Short Selling Regulation²¹ where

¹³ The underlying assets of these derivatives must be "eligible" for ESG consideration in order to contribute meaningfully to ESG objectives by channelling capital toward entities committed to sustainable practices. Equities and credits are the only significant underlying in this regard because they represent corporates—the actors in the economy driving the transition to sustainability.

¹⁴ As stated in the ESAs' [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#) published in December 2024 and in the EU PSF report on [Taxonomy Usability and Data](#) published in February 2025.

¹⁵ "Financial market participants shall net positions in accordance with Article 8(3), point (a) of that Regulation. Where the result of the netting is below zero, financial market participants shall not include this result in the "impact" column but may disclose the short positions and indicate that these short positions originate from derivatives in the column "explanation", ESAs' [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#)', article 1 Draft RTS, 4 December 2023.

¹⁶ Bloomberg, [The Climate Short: Hedge Funds Pile Up Huge Bets Against Green Future](#), 21 October 2024.

¹⁷ Other metrics, such as notional or market value, are inappropriate for calculating the contribution of derivatives. Please see AMAFI's answer to ESMA consultation on guidelines on funds' names using ESG or sustainability related terms ([AMAFI / 23-13, Q.7 a\) and b\)](#)) and AMAFI's answer to IOSCO survey on ESG derivatives ([AMAFI / 25-07, section I.1.ii](#)).

¹⁸ ESAs' [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#), recital (3) Draft RTS, 4 December 2023.

¹⁹ [Idem 3](#).

²⁰ [Commission Delegated Regulation \(EU\) No 231/2013](#) of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

²¹ "Any derivative and cash position shall be accounted for on a delta-adjusted basis, with cash position having delta 1. To calculate the delta of a derivative, investors shall take into account the current implied volatility of the derivative and the closing price or last price of the underlying instrument. In order to calculate a net short position including equity

Annex II, Part I, outlines the delta-adjusted calculation method. It is also the approach taken for the SEC Fund Naming Rules²².

II. INCLUSION OF STRUCTURED PRODUCTS IN THE SCOPE OF SFDR

As stated by the SMSG in its [advice](#) to ESMA on the review of the technical standards of the Prospectus Regulation, structured products “are now part of the ecosystem of ESG solutions” and should therefore provide clients with the necessary ESG disclosures.

ESG structured products are currently designed and distributed to retail customers and as such are subject to MIFID and IDD. By their very nature, they fall outside the scope of SFDR but should still be assessed from a sustainability perspective in order for a distributor to be able to sell them to investors with sustainable preferences. This means that they need to be assessed against MiFID and IDD clients’ ESG preferences, **expressed in terms of the SFDR concepts** of PAI (Principal Adverse Impacts), Sustainable Investment and Taxonomy alignment. **This obliges manufacturers of these products to apply SFDR rules, while SFDR has been designed based on the functioning of funds, making it often impossible in practice to apply to structured products.**

An example of an unsuited regulatory requirement: Maintaining a minimum quantitative proportion of sustainable investments over time

The concept of a “minimum proportion” of sustainable investments is included in both SFDR and MiFID 2, particularly in the context of sustainability disclosure and preferences.

In SFDR, it is required that financial products falling under Articles 8 or 9 of SFDR disclose the minimum proportion of sustainable investments in their pre-contractual documentation²³.

or cash investments and derivatives, natural or legal persons shall calculate the individual delta-adjusted position of every derivative that is held in the portfolio, adding or subtracting all cash positions as appropriate.”, [Commission Delegated Regulation \(EU\) No 918/2012](#), Annex II, Part I.

²² [SEC Final Rule: Investment Company Names \(Release No. 33-11238; 34-98438; IC-35000; File No. S7-16-22\)](#), page 275, Appendix E. “Instruction to Item B.11: Consistent with rule 35d-1(g)(2), if the Fund uses a derivatives instrument’s notional amount (which must be converted to 10-year bond equivalents for interest rate derivatives and delta adjusted for options contracts)[...]”, 20 September 2023.

²³ [Commission Delegated Regulation \(EU\) 2022/1288](#)

- Annex II – Pre-contractual disclosure template for Article 8 products, Section titled “What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?” This section explicitly requires financial market participants to disclose the minimum proportion of sustainable investments.
- Annex III – Pre-contractual disclosure template for Article 9 products. Similar to Article 8 products, it includes a section asking for the minimum proportion of sustainable investments.
- Article 16(1) of the RTS “Financial market participants shall include in the pre-contractual disclosures the minimum proportion of investments used to meet the environmental or social characteristics promoted by the financial product or the sustainable investment objective.”
- Article 17(1) of the RTS, Requires firms to present the minimum proportion of sustainable investments in graphical form (e.g., pie charts), ensuring clear disclosure.

In MiFID, the concept is used to define clients' sustainable preferences that are to be expressed quantitatively²⁴, assuming that all types of financial instruments could maintain a minimum proportion of sustainable rate over time managing their "investments" in ESG related assets.

This however is not suited to non-managed products like structured products²⁵, as these instruments are designed at inception with fixed characteristics—such as their payout, underlying assets, and embedded derivative—tailored to meet a specific investment objective and risk-return profile over a defined time horizon. Unlike managed funds, these instruments are not intended to be rebalanced or restructured during their lifetime. Changing their characteristics mid-cycle to adapt to a change of the sustainability level of their underlying assets would disrupt the ability of their issuers to meet the contractual commitments made to investors²⁶.

Such issue exists also for stocks and bonds, which are obviously not "designed" to meet a minimum proportion.

Hence, as structured products do not qualify as financial products under SFDR, there is currently no regulatory guidance on how to apply the SFDR framework to them. This dealignment of regulatory requirements is an important hurdle in the distribution of these products, creating legal and regulatory risk for firms and resulting in non-optimal transparency to customers. As regards transparency, manufacturers get around these difficulties by providing distributors with the information required under the three criteria for both suitability assessment and target market through the EET²⁷. In some cases, distributors may also require an "SFDR-like pre-contractual" document to present the features of a), b) and c) to end-investors.

Including structured products within the scope of SFDR and considering their specific characteristics when designing future categories is necessary given their common usage. This implies that the SFDR product categories envisaged in the ESMA consultation²⁸ and the recent report by the European

²⁴ "“sustainability preferences” means a client’s or potential client’s choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:

(a) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council;

(b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council (*); (b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of Regulation (EU) 2019/2088 of the European Parliament and of the Council”, [Commission Delegated Regulation \(EU\) 2021/1253](#), Art. 1 (1).

²⁵ See SMSG’s opinion on this aspect as referred to in the ESMA’s [Final report Guidelines on MiFID II product governance requirements](#), 27 March 2023, Q3, point 41.

²⁶ There are other ways to ensure the product delivers over time on the customer’s expectations. AMAFI has been working extensively with the AMF on this subject and would be glad to provide more details upon request.

²⁷ The European ESG Template is a standardized data exchange format developed by FinDatEx to facilitate the transmission of ESG data between financial market participants, including asset managers, distributors, and insurers.

²⁸ Idem 1.

Platform on Sustainable Finance (EU PSF)²⁹ should be designed in such a way that they can be applied to structured products. This is particularly important, as these categories are expected to serve as the foundation for capturing clients' sustainability preferences under MiFID 2/IDD and, consequently, will shape the distribution of all MiFID ESG financial instruments. Properly integrating structured products into SFDR will ensure a better alignment between clients' sustainability preferences and the actual sustainable characteristics of these products.

More generally, given the expected widespread use of future SFDR categories, the eligibility criteria should not be limited to SFDR products but should be sufficiently flexible to accommodate different types of financial instruments. This is highlighted by the EU PSF in its report on the proposal for SFDR categories²⁹, which suggests that a degree of flexibility could be applied when defining criteria and metrics. Specifically, it states that "*the specific characteristics of certain asset classes may necessitate the use of tailored indicators [...]*" and that "*Indicators may be useful for certain products or asset classes in standard circumstances. They might not always work for more specific situations [...]*". Under these conditions, **AMAFI supports the introduction of clear and consistent investment categories**, as they would enhance clarity and improve accessibility, particularly for retail investors.

Example of an adaptation needed for structured products: the "Sustainable" Category

In the "Sustainable" category proposed in the EU PSF report, the following criteria should be applied:

- *"X% of the investment weighted assets contribute positively through Taxonomy-aligned or environmental and/or social Sustainable Investments (amended definition). Any other assets must not undermine the sustainability objective. The FMP has to determine committed Taxonomy alignment / SI for the product.*
- *All non-Taxonomy investments pass the Sustainable Investment (SI) Do No Significant Harm (DNSH) test defined through PAI thresholds, except for hedging and liquidity instruments. The FMP has to prioritise PAIs for the DNSH test according to relevance for sustainability features.*
- *Minimum Exclusions building on EU Paris Aligned Benchmarks ("PABs") though adjusted.*
- *FMP may determine additional binding elements, e.g. Engagement."*

For structured products, the primary question to address is whether the criteria should apply to both the funding and exposure components or if, for certain criteria, the assessment should be limited to one component. For example, the criterion requiring the application of PAB exclusions can only be applied at the exposure level, specifically to the underlying assets.

²⁹ EU Platform on Sustainable Finance, [Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance](#), December 2024.

III. CLARIFYING HOW TO ASSESS THE SUSTAINABILITY OF STRUCTURED PRODUCTS

Since structured products are not tackled by any sustainable finance regulation, there is **no uniform and established methodology** to assess their sustainability. This situation results in the coexistence of various, sometimes inconsistent, approaches for evaluating the sustainability of structured products.

Having conducted extensive work on this, both with members and the French AMF, AMAFI considers that the most accurate approach from a transparency viewpoint is to measure the sustainability dimensions of both the funding and the exposure provided by the product. This is consistent with the recommendation made by the SMSG in its advice to ESMA on Prospectus Regulation: *“When applicable, this approach will allow investors and market participants to retrieve information on the ‘Use of Proceeds’ (UoP) of structured products (section 2 of Annex 21). It will also help promote methodologies that permit the assessment of the underlying part, notably through a delta measurement”*³⁰.

The combination of both components provides investors with full transparency regarding the sustainable characteristics of the product and ensures that issuers are incentivised to assess all aspects of the product, including its underlying assets. While the funding component is the primary contributor to sustainability, when ESG factors are considered in the selection of the underlying assets, it helps increase the product’s contribution to sustainability and altogether comes as a more coherent approach for investors with ESG preferences.

The assessment of the exposure component, which requires to look through the underlying, should be based on the measure of this exposure, i.e. the delta. Such approach has been recommended by the SMSG in their advice to ESMA as stated above, the ESAs³¹ and the EU PSF³² for the evaluation of the contribution of the stand-alone derivatives in Sustainable Finance ratios ([see section II](#)).



³⁰ Also mentioned in [SMSG advice to ESMA on its consultation paper on draft technical advice concerning the Prospectus Regulation and on updating the CDR on metadata](#), 16 January 2025, question 16.

³¹ ESAs’ [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#), “With the same aim of enhancing the comprehensiveness of the disclosures at entity level and to avoid circumvention by financial market participants, it is also appropriate to include the adverse impacts of the derivatives of financial market participants as they also constitute investment decisions on sustainability factors. For this purpose, the calculation and conversion methodology set out in Article 8 and Annex II of Commission Delegated Regulation (EU) No 231/2013 is an appropriate methodology for calculating the exposure, and therefore the aggregate adverse impact, by converting the derivatives into equivalent positions in the underlying assets of those derivatives.” recital (3) Draft RTS, 4 December 2023.

³² EU Platform on Sustainable Finance, [Simplifying the EU Taxonomy to Foster Sustainable Finance Report on Usability and Data](#), section “Treatment of derivatives”, page 31, February 2025.