

# INTEGRATION OF STRUCTURED PRODUCTS IN THE SFDR

## AMAFI's proposal

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Last November, the European Commission published a proposal to revise the SFDR ([EU Regulation 2019/2088](#)). In particular, it aims to clarify the classification, naming and transparency framework applicable to all financial products claiming a sustainable dimension.

In this context, as structured products may also claim such a dimension, it appears necessary to include them within the scope of the Regulation. Currently excluded from the SFDR, their integration would in fact meet the objective of consistency in terms of investor information, as well as the need to ensure the proper application of the distribution rules specific to sustainable financial instruments, which are likely to revolve around this Regulation (for more details on these issues, [see AMAFI / 26-08](#)).

Therefore, this document examines how to integrate structured products into SFDR, by making proposals to define them (I.), determine the transparency procedures that would apply to them (II.) and apply the new categories of sustainable products provided for by the Regulation (III.), taking into account their specific legal and financial characteristics. Lastly, quantified illustrations of the application of SFDR categories to different types of structured products are provided in the appendix.

### *Summary of proposals*

- **Definition of a structured investment product**
  - Base this definition on that of a “PRIIP” as stipulated in the PRIIPs framework, to ensure its legal robustness, by excluding irrelevant products. Otherwise, introduce a dedicated definition aimed at the characteristics of the products to be included in the scope.
- **Pre-contractual and periodic transparency**
  - Establish a framework for pre-contractual and periodic transparency that is aligned with the Prospectus regime and adapted to the specific characteristics of structured products, in particular the ESG characteristics defined at the time of issue, the absence of ongoing management, and the dual nature of the product (financing and exposure).
- **Application of SFDR category contribution and exclusion criteria**
  - Assess criteria at the level of both components: financing and exposure to the underlying asset (indices, baskets of securities, equities or bonds).
  - Assess the 70% threshold at the level of the product as a whole

## I. DEFINITION OF STRUCTURED PRODUCTS FOR SFDR PURPOSES

To date, there is no legal definition of structured products in European financial services regulations. Therefore, they are assessed differently depending on the applicable regulatory frameworks, such as, for example, complex debt securities for marketing to retail customers ([AMF Position No. 2010-05](#)), or PRIIPs within the meaning of the PRIIPs Regulation ([Delegated EU Regulation 2017/653](#)) for transparency due to these same customers.

Ahead of the proposed revision of the SFDR, AMAFI, alongside AFPDB and FBF, has therefore proposed ([AMAFI / 26-08](#)) a definition based on PRIIPs, in the interests of consistency and legal certainty<sup>1</sup>:

*“packaged retail investment product” means: (a) a PRIIP as defined in point (1) of Article 4 of EU Regulation 1286/2014 of the European Parliament and of the Council, other than a UCIT, an AIF, or a derivative as defined in Article 2(1) (29) of Regulation 600/2014”.*

As there appears to be no consensus on this matter, this section examines how structured products are currently defined in “soft law” and proposes, for the purposes of the SFDR, an alternative legal definition that takes into account the characteristics of these products.

### A. OVERVIEW OF EXISTING DESCRIPTIONS

In a 2013 IOSCO final report on the regulation of retail structured products<sup>2</sup>, these are defined as<sup>3</sup>:

*“compound financial instruments that have the characteristic of combining a base instrument (such as a note, fund or deposit) with an embedded derivative that provides economic exposure to reference assets, indices or portfolios. In this form, they provide investors, at predetermined times, with payoffs that are linked to the performance of reference assets, indices or other economic values”.*

This definition expressly excludes pure derivative instruments, as well as ABS/CDOs, securitised securities and ETFs<sup>4</sup>.

IOSCO cites as examples of retail structured products instruments of a different legal nature which have in common a yield linked to the change in one or more underlying assets, according to terms

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<sup>1</sup> Including structured products within the scope of SFDR by reference to the PRIIPs definition will not affect the qualification, interpretation or application of PRIIPs across Member States. Accordingly, a product not qualifying as a PRIIP, not subject to a PRIIPs KID requirement, shall not be deemed in scope of SFDR on the mere basis of this definition.

<sup>2</sup> IOSCO, Final Report on the Regulation of Retail Structured Products, December 2013.

<sup>3</sup> This definition is reused by ESMA in its [Opinion](#) of 27 March 2014 on best practices in the governance of retail structured products.

<sup>4</sup> “This definition excludes instruments such as stand-alone options, contracts for difference or futures because in those cases the derivative is not embedded in another financial instrument. The definition also does not capture asset-backed securities, including collateralized debt obligations or securitisation products, nor exchange-traded funds.” IOSCO, Ibid. page 7.

specific to each type of product. They include in particular: debt securities, structured funds and structured bank deposits.

For SFDR purposes, however, it is only a matter of targeting structured debt securities, as structured funds are already, by their legal nature, included in the scope of the Regulation<sup>5</sup> and structured deposits are banking products and not financial instruments.

The European Commission, in its 2009 work<sup>6</sup> on retail investment products, does not define structured securities, but describes them in a similar way to IOSCO:

*“Structured securities: structured securities are based on or derived from a particular security, a basket of securities, an index, a commodity, a bond or a currency. In general, a structured security gives rise, at maturity, to the payment by the bank of an amount determined by a predefined formula. Most structured securities offer full protection, over time, of the principal invested, although some offer higher yields in return for limited or no protection of the principal. In particular, they may be offered to investors in the form of certificates, structured notes or warrants.”*

In its annual report on the costs and performance of retail investment products, ESMA describes structured products as “investments for which the return is linked to the performance of one or more reference indices, prices or rates (reference values)”<sup>7</sup>.

In France, the AMF, in its position on the marketing of structured products<sup>8</sup>, describes them as “complex debt securities” (specifying that the term “complex” is not to be understood within the meaning of MiFID II) and “equivalent financial securities issued under foreign law, excluding simple warrants”. This position is also applicable only to non-professional customers.

In the UK, the FCA defines structured products, taking into account their degree of capital at risk, distinguishing those offering 100% capital protection (excluding issuer solvency risk) from those not offering such a guarantee<sup>9</sup>. However, this approach is not appropriate for defining structured

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<sup>5</sup> It should be noted that a definition of structured UCITS is given for the purposes of the key information document (KID) required under the UCITS Directive. It includes the concepts of remuneration on predetermined dates and performance based on an underlying asset as defined by IOSCO, without mentioning the use of derivatives: “For the purposes of this section, “structured UCITS” means UCITS which provide investors, on certain predetermined dates, with returns calculated on the basis of an algorithm and linked to the performance or price movements of financial assets, indices or benchmark portfolios, or to the fulfilment of other conditions relating to those financial assets, indices or benchmark portfolios, or UCITS with similar characteristics” ([EU Regulation 583/2010, Art. 36.1](#)). [Guidelines, Selection and presentation of performance scenarios in the Key Investor Information Document \(KIID\) for structured UCITS, 20 December 2010, p. 5](#)).

<sup>6</sup> European Commission, Communication from the Commission to the European Parliament and the Council, Retail Investment Products, 30 April 2009.

<sup>7</sup> ESMA, Market Report on Costs and Performance of EU Retail Investment Products 2025, 3 March 2026, p. 32.

<sup>8</sup> [AMF Position No. 2010-05](#) on “The marketing of complex financial instruments”.

<sup>9</sup> “Structured capital-at-risk products: product, other than a derivative, which provides an agreed level of income or growth over a specified investment period and displays the following characteristics:

- (a) The customer is exposed to a range of outcomes in respect of the return of initial capital invested;
- (b) The return of initial capital invested at the end of the investment period is linked by a pre-set formula to the performance of an index, a combination of indices, a “basket” of selected stocks (typically from an index or indices), or other factor or combination of factors; and
- (c) If the performance in (b) is within specified limits, repayment of initial capital invested occurs but if not, the customer could lose some or all of the initial capital invested.” [FCA Handbook](#).

investment products offered to retail customers in Europe, as it introduces a binary distinction between products considered safe and products considered risky. Such a distinction under the SFDR would lead to the assimilation of products offering partial capital protection to risky products, even when this protection is high (between 60% and 90%). This approach would be detrimental to the perception of structured products.

In addition, this definition is more like a product description, which could be found in a customer information document, for example, rather than a concise but rigorous legal description.

## B. PROPOSED DEFINITION FOR THE SFDR

For the purposes of the SFDR, AMAFI considers that the PRIIPS-based definition it has proposed (see above I.) would have the advantage of simplicity and consistency with the current regulatory framework. It does not appear necessary to set out all the characteristics of structured products in their legal definition in order, on the one hand, to identify them clearly and precisely and, on the other hand, to avoid including instruments of a different nature, such as structured funds, structured deposits and pure derivatives.

If it were considered that a less principled and more detailed definition was necessary, it should then, on the basis of the existing descriptions stated above, rely on the product's economy, in particular relating to the existence of a formula linked to the performance of one or more underlying assets, as well as on its legal form as a debt security.

In any event, this definition must allow for a uniform interpretation and provide legal certainty. It should be strictly limited to the SFDR framework and not have consequences beyond this scope.

### *Proposed definition*

**Structured investment product:** a debt security the performance and repayment of which are determined on predefined dates by a formula linked to the performance of one or more underlying assets (such as an index, a basket of shares, an interest or foreign exchange rate, a commodity, a bond). The product may or may not offer capital protection (total or partial).

## II. TRANSPARENCY OF ESG STRUCTURED PRODUCTS

The SFDR imposes pre-contractual and periodic transparency obligations for financial products within its scope<sup>10</sup>. The question arises as to how these requirements can be applied to structured products, given their specific characteristics.

### A. DEBT SECURITIES SUBJECT TO THE PROSPECTUS REGULATION

Structured products, as debt securities offered to the public, are subject to the Prospectus Regulation<sup>11</sup>. The Prospectus is therefore the primary source of legally binding information.

It is subject to specific requirements when the product has ESG characteristics<sup>12</sup>, including the description of the objectives, the consideration of the characteristics of the underlying asset (ESG index or basket) and the inclusion of a warning when the product is not a direct investment in sustainable or transition activities. Furthermore, the regulations do not rule out the possibility that a structured product may claim an ESG qualification solely on the basis of the characteristics of its underlying asset. ESG information is therefore already provided for in a structured manner at the pre-contractual stage.

The provisions of the Prospectus Regulation also provide for the possibility of indicating whether the issuer intends to provide post-issue information and, where applicable, specifying its content<sup>13</sup>.

In this context, the main challenge is to ensure a link between the transparency obligations of the Prospectus Regulation and those of the SFDR.

### B. A TRANSPARENCY ADAPTED TO PRODUCTS DEFINED AT THE TIME OF ISSUE, WITHOUT DISCRETIONARY MANAGEMENT AND WHOSE SUSTAINABILITY IS BASED ON THEIR TWO COMPONENTS

Structured products are distinguished by the absence of discretionary management during their life, as their economy is defined and fixed at the time of issue, including the underlying asset(s) to which they are exposed.

They also combine, as indicated in section [I.](#), a debt security and an exposure to an underlying asset, each component being able to contribute to the ESG nature of the product ([see below III.B.](#)).

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<sup>10</sup> Art. 6, 8, 9, 10, 11 [EU Regulation 2019/2088](#).

<sup>11</sup> [EU Regulation 2017/1129](#).

<sup>12</sup> Draft of [revised Delegated EU Regulation 2019/980](#), Appendix 22a, Section 4, Structured non-equity securities advertised as having an ESG component or pursuing an ESG objective.

<sup>13</sup> Draft of [revised Delegated EU Regulation 2019/980](#), Section 5, *Additional information*, Item 5.3.

In this context, the transparency requirements of the SFDR, initially designed for actively managed products and not having the same structure, are generally not appropriate. A proportionate approach therefore appears necessary.

Therefore, the transparency requirements, both pre-contractual and periodic, should be assessed with regard to these two components, in order to give the investor a complete picture of the product's sustainability:

- In terms of pre-contractual transparency, the information should cover the methodology used to construct or select the underlying asset, the exclusions applied, where applicable the allocation of funds raised, as well as the limits linked to the structure of the product, in particular the absence of management during its life.
- With regard to periodic transparency, as long as the product's characteristics cannot be modified during its life, the information to be provided could concern the annual verification of the maintenance of the ESG characteristics of the underlying asset and the monitoring of the use of funds when they are allocated to specific projects.

As these elements are already, for the most part, included in the Prospectus, the transparency that will be required under the SFDR should not pose any difficulties, since it takes into account the specificities of the products and is in line with the Prospectus regime as suggested by ESMA in its consultation on the revision of the Prospectus Regulation<sup>14</sup>.

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<sup>14</sup> "The Opinion states similar disclosure should be provided when two types of financial products have similar features. Therefore, ESMA recommends that the Commission consider aligning the requirements for such products under the PR and the SFDR in the future." (ESMA, [Consultation Paper on draft technical advice concerning the Prospectus Regulation and on updating the CDR on metadata](#), 28 October 2024, Section 5.5 Interaction with the SFDR).

### III. APPLICATION OF THE SFDR CATEGORY CRITERIA TO STRUCTURED PRODUCTS

#### A. REMINDER OF THE SFDR CATEGORIES ENVISAGED

Structured products must be able to be categorised under the SFDR, in accordance with the conditions set out in the proposed revision of the Regulation (*Articles 7, 8 and 9*), and in particular meet the contribution criteria and apply exclusions.

##### *Contribution criteria*

These are based on the achievement of a minimum threshold of 70% of investments made overall by the product contributing to the objective of the category concerned, i.e.:

- For the “transition” category (Article 7), investments must pursue a clear and measurable transition objective, assessed through sustainability indicators. The contribution must be substantial, including the replication of Union climate benchmarks (CTB or PAB), taxonomy-aligned investments, companies with credible transition plans or science-based targets, milestone engagement strategies, or transition targets defined at portfolio level.
- For the “basic” ESG category (Article 8), the contribution test is based on a relative improvement logic. It includes investments with an above average ESG rating, an outperformance on a sustainability indicator, or the selection of companies or activities demonstrating robust ESG practices.
- For the “sustainable” category (Article 9), the contribution is based on the pursuit of a clear and measurable environmental or social objective. Eligible investments include, in particular, portfolios replicating a Paris-aligned Benchmark (PAB), Taxonomy-aligned activities, instruments compliant with the European Green Bond Standard, investments benefiting from Union guarantees or programmes with an environmental or social purpose, as well as any other investments that demonstrably contribute to a sustainability objective.

##### *Exclusions*

With regard to exclusions, they concern the investments made by the product and are more or less ambitious depending on the category. They all include at least the exclusions defined for the “Climate Transition” and “Paris Agreement” indices ([Delegated EU Regulation 2020/1818](#))<sup>15</sup>.

In addition, the SFDR provides for enhanced exclusions for the “sustainable” and “transition” categories<sup>16</sup>.

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<sup>15</sup> This includes controversial weapons, tobacco, UNGC/OECD violations, coal and lignite (≥1% of revenue), oil (≥10%), gas (≥50%), and electricity generation > 100g CO<sub>2</sub>e/kWh (≥50% of revenue).

<sup>16</sup> These target companies developing new fossil fuel projects, as well as coal and lignite projects in the absence of a credible exit plan.

As an investment fund, these exclusions are designed to be applied at the level of the issuer of the financial instrument in which the fund invests.

For structured products, the application of exclusions does not raise any difficulty (*see below III.C.*), the challenge is to determine how to translate a “debt security + exposure” structure in proportion to investments of 70%.

## B. ASSESSMENT OF THE CONTRIBUTION OF A STRUCTURED PRODUCT

As mentioned above in [II.B.](#), the economic terms of structured products are set at issue, with no possibility of management during their life that could make it possible to correct a sustainability trajectory. The 70% threshold must therefore be assessed at issue, considering the two components of the product, each of which can contribute to sustainability:

- On the one hand, the “financing” component, inherent in the nature of the debt instrument, as the funds raised by the issuer can be allocated to projects identified as sustainable (e.g. in the context of green issues or internal allocation arrangements) or contribute more broadly to the financing of its balance sheet.
- On the other hand, the “exposure” component of the underlying asset(s), which can be selected for their sustainable dimension.

The SFDR sets the assessment of the 70% contribution threshold at the level of the product itself, not at the level of its various investments. For example, this threshold appears difficult to apply to a single issuer and has not, in any case, been designed to apply separately to each component of the product. For structured products, in the same logic, this level would therefore be assessed by considering both components, financing and exposure together.

### 1. Contribution of the financing component

The contribution of the financing component is assessed differently depending on whether the funds raised are allocated to sustainable projects or not.

In the presence of a **specific allocation of funds** (structured product known as Use of Proceeds), the analysis may rely on the elements formalised in the prospectus which describes the categories of eligible projects, the criteria for selecting the assets financed, the management and traceability of the funds raised, as well as the commitments to publish information and, where applicable, external verification. These elements can be established according to ICMA principles or in compliance with specific regulations, such as the European Green Bond Standard.

In this situation, the financing contribution rate is often equal to 100% as the issuer generally commits to allocate all funds raised to eligible project categories<sup>17</sup>.

In **the absence of a specific allocation** (structured product known as non-Use of Proceeds), the amounts raised are added to the issuer's balance sheet. The Commission's proposal makes it possible, for certain categories, to take into account investments in companies with a credible transition plan or objectives based on scientific data. By analogy, these criteria could be applied to the issuer of the structured product, considering the quality of its transition plan, its decarbonization objectives, the alignment of certain assets with the Taxonomy, or the other qualitative criteria referred to in sections 7(2), 8(2) and 9(2) of the Regulation<sup>18</sup>. In this situation, it seems appropriate to use a binary approach, based on qualitative criteria, to assess the contribution. Therefore, when the issuer meets the qualitative criteria required for the SFDR category in question, the contribution of the financing component can be considered as equal to 100%. Conversely, where these criteria are not met, the contribution must be considered as zero.

This binary approach is justified by the very significant constraint of the cumulative application of contribution and exclusion criteria at the issuer level of the structured product. It is also required by the nature of the criteria considered, which are not suitable for quantification at the level of a legal entity, and therefore makes it possible to guarantee uniform application between stakeholders. It is part of the logic of the SFDR framework, which is based in part on criteria applied at the entity level. However, this interpretation should be expressly mentioned in the SFDR to ensure legal certainty.

In any event, these products could not be classified in the "sustainable" category, given the applicable exclusion criteria, which the issuer cannot meet. As such, they may only fall under "transition" or "basic ESG" categories, provided that the component exposed to the underlying assets itself has characteristics compatible with these categories.

## 2. Contribution of the underlying asset

As regards the contribution of the underlying asset, a distinction should be made according to its nature.

When the product is indexed to **an ESG index or fund**, the assessment of its contribution is based on an analysis of the methodology applied at the index or fund level, in order to assess whether it meets the criteria of the relevant SFDR category.

The draft text specifies in this regard that *Paris-aligned Benchmarks* and *Climate Transition Benchmarks* may be considered relevant for the "transition" and "sustainable" categories, as well as investments whose ESG rating exceeds the average for their investment universe or their benchmark

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<sup>17</sup> In the revised version of the Prospectus Regulation ([Delegated EU Regulation 2019/980](#)) in Appendix 22a, point 2.1.1 of section 2, it is proposed to provide the share of funds raised in the context of the issue that will be used to finance sustainable projects and activities.

<sup>18</sup> The issuer's sustainability may be assessed on the basis of information published pursuant to the CSRD ([EU Directive 2022/2464](#)).

index, or those with an above-average performance on a relevant sustainability indicator for the basic ESG category.

This approach is all the more justified as the project provides for a specific treatment of products incorporating categorised products (*Art. 9a*), to enable their contribution to be assessed by reference to the information published by these underlying products.

When the **underlying asset consists of a single share or bond**, the same difficulty arises as for the financing component: the contribution criteria are assessed at the level of the company issuing the share or bond, and not of the financial instrument as such. In this case too, it seems appropriate to use a binary approach based on the same logic as described in the previous section for structured product issuers.

Similarly, when the underlying asset **is a basket of equities or bonds**, the contribution criteria are assessed at the level of the issuer of each asset in the basket.

This approach ensures consistency with the treatment of direct investments in equities or bonds in the funds, for which the analysis is already largely based on the characteristics of the issuers. It also ensures clarity for investors, avoiding complex weighting methods that are difficult to verify.

In any event, as mentioned in the previous section, it seems essential to expressly introduce into the SFDR an assessment of the contribution criterion at the level of the legal entity.

Lastly, when the underlying asset is an interest rate or an exchange rate, no intrinsic contribution can be identified, and the contribution is therefore neutral.

### C. ASSESSMENT OF EXCLUSIONS

With regard to exclusions, the draft text provides for an assessment at the level of the legal entity in which the product invests, a principle that appears appropriate in the case of structured products. This criterion can be applied consistently both to the issuer of the debt instrument and to the entities issuing the underlying assets.

For structured products, this logic leads to the verification of exclusions at the level of:

- Assets financed in the event of a Use of Proceeds product;
- The issuer of the structured product in the event of a non-Use of Proceeds product;
- The methodology of the underlying index or fund;
- Issuers of shares or bonds, depending on whether the underlying asset is a single share or bond or a basket.

## D. APPLICATION OF THE SFDR CONTRIBUTION AND EXCLUSION CRITERIA TO A STRUCTURED PRODUCT - SUMMARY

In summary, the assessment of the contribution and exclusions would be carried out as follows:

	Type	Assessment of the contribution	Assessment of exclusions
Financing	Allocation of funds raised to sustainable projects or assets (Use of Proceeds)	100% (or less if the allocation is not entire)	Exclusions applied to financed assets or projects
	The funds raised finance the issuer's balance sheet (non-Use of Proceeds)	Assessment of the issuer (binary approach: 0% or 100%)	Exclusions assessed with regard to the issuer's sector exclusion policies
Underlying asset(s)	Index or fund	Assessment of the index or fund strategy	Exclusions applied to all index or fund components
	Single share or bond	Assessment of the issuer of the share or bond	Exclusions assessed at the level of the issuer of the share or bond
	Baskets of shares or bonds	Assessment of the issuers of each asset in the basket	Exclusions assessed at issuer level for each asset in the basket
	Currency / Interest rate	Not applicable	Not applicable

Quantified examples of the application of this method to several types of structured products are provided in the appendix.

## APPENDIX

### A. AGGREGATION METHOD TO ESTIMATE THE OVERALL CONTRIBUTION OF THE PRODUCT WITH REGARD TO THE 70% THRESHOLD

An approach based on the economic weighting of the two components of the product may be adopted. This approach consists in combining the contribution of the financing component, which reflects the allocation of funds raised, and that of the exposure component, adjusted by the delta<sup>19</sup> in order to reflect the effective sensitivity of the product to the underlying asset. Therefore, it makes it possible to avoid any overestimation of the contribution linked to the derivative component and to ensure a faithful reading of the actual economic exposure of the product. Therefore, the total assets are retained, which ensures consistency between the numerator and denominator by neutralising the leverage. This approach is also used for funds. It can be formalised by the following formula:

$$\text{Overall contribution} = \frac{(100\% \times \text{financing contribution}) + (\text{delta} \times \text{underlying contribution})}{(100\% + \text{delta})} \geq 70\%$$

### B. QUANTITATIVE ILLUSTRATIONS

The examples below are based on two key assumptions:

- On the one hand, it is assumed that the exclusion criteria are met by both components of the product,
- On the other hand, as the structured products in question offer capital protection, their delta is generally between 30% and 60%, reflecting partial exposure to the underlying asset. This results in a contribution that is necessarily less than 70%. A delta of 40% is used in all cases to ensure comparability<sup>20</sup>.

<sup>19</sup> The delta approach has been described by the ESAs as “the appropriate methodology for calculating exposure” [...]“converting derivatives into equivalent positions in the underlying assets of those derivatives” (ESA, [Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation](#)). Furthermore, delta is already used as part of the Delegated Regulation supplementing the AIFM Directive ([Delegated EU Regulation 231/2013](#)) as well as the Regulation on short sales ([Delegated Regulation 918/2012](#)).

<sup>20</sup> This delta level is on average that observed for structured investment products usually marketed.

### Case 1: Use of Proceeds product with non-ESG underlying asset

A structured product issued in the form of a green bond, the funds of which are fully earmarked for sustainable projects. The contribution of the financing component is therefore equal to 100%. The underlying asset consists of a share whose issuer does not meet any of the contribution criteria of Articles 7(2), 8(2) or 9(2) of the SFDR draft. The contribution of the underlying asset is therefore zero.

The overall contribution of the product is as follows:

$$\frac{(100\% \times 100\%) + (40\% \times 0\%)}{100\% + 40\%} = \frac{100\%}{140\%} = 71.4\%$$

The product meets the 70% threshold. This case illustrates that, when the financing component is fully contributive, a non-ESG underlying asset can be absorbed in the non-contributive residual portion allowed by the SFDR framework

### Case 2: Use of Proceeds product with low contribution of ESG underlying asset and partially eligible financing

We consider a structured product whose financing component is based on a Use of Proceeds obligation, but only a portion of the funds is actually allocated to assets meeting sustainability criteria<sup>21</sup> (e.g. 60%<sup>22</sup>). The contribution of the financing component is therefore estimated at 60%. The underlying asset consists of an ESG basket whose contribution is limited (no significant ESG outperformance or unselective methodology). The contribution of the underlying asset is estimated at 40%.

The overall contribution of the product is as follows:

$$\frac{(100\% \times 60\%) + (40\% \times 40\%)}{100\% + 40\%} = \frac{60\% + 16\%}{140\%} = 54.3\%$$

The product does not meet the 70% threshold, despite the presence of a Use of Proceeds component.

<sup>21</sup> The Prospectus Content Regulation ([Delegated EU Regulation 2019/980](#)) does not require a full allocation of funds to sustainable projects or activities, including as part of issues of ESG debt securities. The [draft revision of this Regulation](#) confirms this approach by providing only for the share of the funds raised to be allocated to sustainable projects or activities (“the intended share of the proceeds of the non-equity securities to be allocated to the sustainable project(s) and activity(ies)”), without imposing a minimum threshold or a fixed percentage of allocation.

<sup>22</sup> It was assumed that the remaining 40% of the funds raised did not meet any of the contribution criteria of Articles 7(2), 8(2) or 9(2) of the SFDR draft.

### Case 3: non-Use of Proceeds product with underlying PAB

Consider a structured product whose funds are included in the issuer's balance sheet. The contribution of the financing component is then assessed at the issuer level using a binary approach. The underlying asset is a Paris-aligned Benchmark (PAB).

**A)** If the issuer meets one or more of the contribution criteria of Articles 7(2), 8(2) or 9(2) of the SFDR draft ([supra III.B.1.](#)), it is considered to be 100% "contributory". For the underlying asset, which is a PAB, its contribution is also considered to be equal to 100%.

The overall contribution of the product is as follows:

$$\frac{(100\% \times 100\%) + (40\% \times 100\%)}{100\% + 40\%} = \frac{100\% + 40\%}{140\%} = 100\%$$

The product meets the 70% threshold despite being non-Use of Proceeds, provided that the contribution is 100% established at the issuer level, and the underlying asset is sustainable, in accordance with the qualitative criteria set out in the SFDR.

**B)** If the issuer does not meet any of the qualitative criteria for category contribution, for example, it does not have a credible transition plan and its transition commitments are considered low, the 0% contribution rate will be used. For the PAB, its contribution remains equal to 100%.

The overall contribution of the product is as follows:

$$\frac{(100\% \times 0\%) + (40\% \times 100\%)}{100\% + 40\%} = \frac{40\%}{140\%} = 28.6\%$$

The product does not meet the 70% threshold, despite the quality of the underlying asset. This result shows that exposure to an underlying asset that is highly contributory does not make it possible to reach the required level, in the absence of a contribution from the financing component and with capital protection.

