

TO : **Cyprus Investment Fund Managers ('CyIFMS' or 'all Managers'):**

- i. Cyprus UCITS Management Companies and Self-Managed Cyprus UCITS ('CyUCITS MCs')**
- ii. Cyprus Alternative Investment Fund Managers and Self-Managed Cyprus AIFs ('CyAIFMs')**
- iii. Sub-Threshold Cyprus Alternative Investment Fund Managers and Self-Managed Cyprus AIFs ('sub- threshold CyAIFMs')¹**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **2 May 2025**

CIRCULAR No. : C704

SUBJECT : **Analytical Guidance on Sustainable Finance Regulatory Framework-Investment Fund Managers Perspective**

I. SUSTAINABLE FINANCE AS STRATEGIC PRIORITY

- 1.** The transition to a greener and more sustainable economy has in recent years become an important priority for the European Union. Recent Global Financial Stability reports by the International Monetary Fund (IMF) stipulate the important role that the global Collective Investment Funds industry can play in financing this transition and helping to avoid some of the most dangerous effects of climate change through investments in sustainable or economic activities.
- 2.** At the ESMA level, Environmental, Social and Governance (ESG) Disclosures have been decided as a Union Strategic Supervisory Priority (USSP) for the years 2023, 2024 and 2025. With regards to the Investment Management ('IM') sector, in the context of the joint identification and prioritization of risks by ESMA and the Member States ('MS'), the integration of ESG factors as well as greenwashing, is placed at the highest level of supervisory priorities. MS have undertaken or committed to several actions towards this goal including relevant supervisory actions, i.e. the Common Supervisory Action launched by ESMA and MS for the years 2023 and 2024 on the sustainability-related disclosures and the integration of sustainability risks in the Investment Fund Sector, informed to the Cypriot Investment Fund Industry through CySEC Circular **C594 ('the CSA')**.
- 3.** Within this sphere and following the European Commission's (EC) request to the European Supervisory Authorities (ESAs) for input on "greenwashing risks and the supervision of SF policies", ESMA published in June 2023 a **Progress Report on Greenwashing**. The report presents the common high-level understanding of greenwashing and maps areas more exposed to

¹ Sub-threshold AIFMs includes AIFMs and Internally Managed AIFs of the Republic, whose assets under management fall below the thresholds of section 4(2)(a) or 4(2)(b) of Law 56(I)/2013, as amended and have not chosen to opt in as per the provisions of section 4(6) of Law 56(I)/2013.

greenwashing risks across the Sustainable Investment Value Chain (SIVC). As per the EC's request, in June 2024, ESMA published the **Final Report on Greenwashing**, which reiterates the common high-level understanding of greenwashing in the Progress Report and provides a **forward-looking view** of how sustainability-related supervision can be gradually enhanced in the future.

4. This circular aims to provide Cypriot Investment Fund Managers (CyIFMs) with information and guidance on the relevant regulatory framework and developments, as well as pinpoint essential supervisory expectations, bearing in mind the findings of the relevant CySEC supervisory exercise undertaken during 2023 and 2024 on a sample of CyIFMs in the sphere of the CSA (the '**CySEC supervisory exercise**').

II. **CURRENT RELEVANT REGULATORY FRAMEWORK**

5. **SFDR and Taxonomy Regulation Disclosure Obligation, (hereinafter 'SFDR Disclosure Obligations')**: To provide greater transparency about the ESG features of financial products and set requirements for such products when marketed as bearing ESG features. In addition, to direct capital flows towards sustainable businesses, while preventing "**greenwashing**".² To this end, the Level 1 Sustainable Finance Disclosures Regulation ('SFDR-1') and later the issuance of the supplementing Level 2 Sustainable Finance Disclosures Regulation ('SFDR-2') have been issued.

Before the issuance of SFDR-2, Taxonomy Regulation (EU) 2020/852 was issued in June 2020 (**'the Taxonomy Regulation or TR'**)³. The TR focuses on the **Environmental aspect of ESG** and establishes the criteria for an **environmentally sustainable activity** and the degree to which an investment is environmentally sustainable. In addition it amends the SFDR-1 with the introduction of some additional disclosure obligations for financial products disclosing under articles 6, 8 and 9 of SFDR-1 (find [here](#), the **Consolidated Text of the SFDR-1** in which relevant amendments are clearly indicated).

The **SFDR-2**⁴ was introduced for the purposes of further elaborating on the obligations for financial products disclosing under articles 6, 8 and 9 of SFDR-1 as to the content and presentation method of the disclosure requirements on the Financial Market Participants' (FMPs') websites and in pre-contractual documentation and periodic reports. It also connects SFDR disclosure obligations to the provisions of the Taxonomy Regulation on whether an economic activity is regarded as environmentally sustainable.

6. **AIFMR and UCITS Directive amendments** relevant to the integration of sustainability risks in the AIFMs and UCITS Managers Policies and Procedures (**hereinafter 'Investment Fund Managers Operational Obligations')**: To ensure that AIFMs and UCITS Managers take into account sustainability risks when establishing, implementing and maintaining their internal procedures

² '**Greenwashing**' is the practice of gaining an unfair competitive advantage by recommending a financial product as environmentally friendly or sustainable, when in fact that financial product does not meet basic environmental or other sustainability-related standards (Recital 16 of SFDR-2),

³ In June 2021, Commission Delegated Regulation (EU) 2021/2139 was issued supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

⁴ In October 22, the Commission Delegated Regulation (EU) 2023/363 was issued to amend and correct the SFDR-2 as regards the content and presentation of information in relation to disclosures in pre-contractual documents and periodic reports for financial products investing in environmentally sustainable activities.

and organization. To this end, Commission Delegated Regulation 2021/1255 EU⁵ amending the AIFM Delegated Regulation (EU) No 231/2013 and Commission Delegated Directive 2021/1270/EU⁶ amending the UCITS Directive 2010/43/EU, have been issued.

III. APPLICABILITY OF THE PRESENT CIRCULAR

7. The present guidance is applicable as follows:

- 7.1 To **CyIFMs/all Managers** including, **CyUCITS MCs, CyAIFMs and sub-threshold CyAIFMs**, as regards with regulatory provisions and guidance stemming from, the **SFDR Disclosure Obligations** specified under paragraph 5, Section II and elaborated under Section IV of the of the present Circular.
- 7.2 To **CyUCITS MCs and CyAIFMs** as regards with regulatory provisions and guidance stemming from the **Investment Fund Managers Operational Obligations**, as specified under paragraph 6, Section II, and under Section V of the of the present Circular. **However**, bearing in mind the fact that the sub-threshold CyAIFMs 'Level 1' legal obligations with regards to risk management (i.e. Law 81(I)/2020 and/or Law124(I)/2018) are similar to the 'Level 1' relevant legal obligations of the CyAIFMs (i.e. Law 56(I)/2013), CySEC also invites sub-threshold CyAIFMs to consider the present circular as guidance to best practices they could adopt in order to comply with their relevant legal obligations.
- 7.3 According to the ESMA Supervisory Briefing on Sustainability risks and disclosures in the area of investment management (ESMA 34-45-1427) published on 31 May 2022 (**'the ESMA Briefing'**), the fund's appointed **Depositary** should include all ESG-related investment restrictions in the monitoring of the compliance of the instructions coming from the Managers. To this end, Managers must provide their appointed Depositary/s with ESG information and data to enable it to perform relevant depositary functions effectively.

IV. SFDR DISCLOSURE OBLIGATIONS

8. The SFDR came into force on 10 March 2021 as a key component of the European Green Deal, which aimed to ensure the EU is carbon neutral by 2050. Below is an overview of important provisions and concepts introduced with SFDR-1, complemented by TR and further guided under SFDR-2:
 - Disclosures obligations by **all Managers** in accordance with **Article 6** of the SFDR-1, on the **Integration of Sustainability Risks**⁷ (**'Article 6 funds'**)
 - Disclosures by **Managers which manage funds disclosing under Article 8** of the SFDR-1, hence funds that promote, among other characteristics, environmental or social characteristics and have good governance practices with regards to ESG factors (**'Article 8 funds'**)
 - Disclosures by **Managers which manage funds disclosing in accordance with Article 9 of the SFDR-1**, hence funds that have sustainable investment as their objective (**'Article 9 funds'**).

⁵ The Regulation applies directly to all EU AIFMs

⁶ The Directive has been transposed into the Cypriot UCITS legal framework with the issue of CySEC Directive OΔ78-2012-03(I) amending OΔ78-2012-03

⁷ 'Sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment (Article 2, point (22), of the SFDR-1)

- Disclosures by **all Managers at manager level** on consideration or non-consideration of **Principal Adverse Impacts ('PAIs')**, that are defined to have material or potentially material negative effects on sustainability factors that are caused, aggravated by or directly linked to, investment decisions. Disclosure by Managers **at fund level**, for Article 8 funds making sustainable investments and for all Article 9 funds, in the sphere of the **DNSH Principle** elaborated in the following point.
- Disclosures by **Managers making sustainable investments** on the **principle of 'Do No Significant Harm' ('DNSH')** in accordance with the **Sustainable Investment** definition under the **SFDR-1** (par. (17) of Article 2)⁸, and under article 51(d) of SFDR-2. In the case of **environmentally** sustainable investment additional disclosures according to the **'Criteria for environmentally sustainable economic activities'** under Article 3 of the **TR**. The DNSH principle aims to ensure that an economic activity should not qualify as sustainable if it **causes more harm to ESG factors** (or just environmental factors in the case of environmentally sustainable investment) **than the benefits it brings**. The 22 November 2023 **ESMA30-379-2281** publication, titled **'Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework'**, explains the DNSH principle. The principle is **closely related to adverse impacts** since the DNSH disclosures should explain how PAIs have been taken into account (refer to the ESMA30-379-2281 publication for elaboration on the relevant SFDR and TR regulatory framework)

A. WEBSITE DISCLOSURES⁹

A.1 Transparency on Integration of sustainability risks and remuneration policies (entity level requirements, Articles 3 and 5 of the SFDR-1)

9. All Managers must publish information on their websites about their policies on the **integration of sustainability risks in their investment decision making process** (refer to Article 3 of the SFDR-1). Such disclosures are expected to be in line with the Manager's revised internal policies and procedures, as indicated under Section V below and guided under Section 4 of the ESMA Supervisory Briefing on Sustainability risks and disclosures in the area of investment management (ESMA 34-45-1427) published on 31 May 2022.
10. In addition, all Managers must include information in their remuneration policies (as indicated under section V below) on how such remuneration policies are consistent with the integration of sustainability risks. Such information must be published in their websites. During the CySEC supervisory exercise, Managers provided various approaches to these policies. Below are some examples of good practice. These should be viewed as examples rather than a list of relevant policies to be introduced, with regards to remuneration policies:
 - Complete disassociation of variable remuneration from the risk level assessed within a fund thus ensuring no incentives arise to under- or over-estimate said risk.

⁸ **'sustainable investment'** means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, **provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;**

⁹ Both entity and product level website disclosures must be availed in the Manager's website. In the case of product level disclosures Managers may also include such disclosures in the fund's website. **It is noted** that, if the Regulated Entity has no website, CySEC expects that the entity should establish one, in order to comply with its SFDR website disclosure obligations. For further information as to the obligation to maintain a web-site please refer to [CySEC Circular C703](#).

- Negative association between risk levels and variable remuneration. i.e. when sustainability risks have a negative impact on the performance of a financial product, this is likely to be reflected on the level of variable remuneration.

A.2 Website disclosures on the consideration of Principal Adverse Impacts ('PAIs') (entity and product level requirements, Article 4 of the SFDR-1 and Articles 4 to 13 of the SFDR-2)

- 11.** Managers must either consider the **PAIs** of investment decisions on sustainability factors.. Regardless, they are obliged to make certain disclosures on their website (article 4 of the SFDR-1 and Chapter II of the SFDR-2). Such disclosures must be adequately elaborative and explanatory, as requested by relevant articles.
- 12.** Where Managers **consider the PAIs** of investment decisions on sustainability factors either voluntarily, according to Article 4(1)(a) or because they are mandated by Article 4(3) or 4(4), of SFDR-1, they must maintain a statement on their consumer-facing website on due diligence policies with respect to those impacts, taking account of their size, the nature and scale of their activities and the types of financial products that are available. To this end and according to Article 4 of the SFDR-2, **by 30 June of each year** (covering period 1st January to December 31st of the previous year), they must publish a separate section of their website titled 'Statement on principal adverse impacts of investment decisions on sustainability factors', setting out information as outlined under Articles 4 to 10 in the format of the Template in **Table 1 of ANNEX I** of the SFDR-2, including a **Summary** section of no more than two sides of A4-sized paper when printed. Table 1 of Annex I shall be completed in accordance with the relevant definitions of 'Adverse Sustainability Indicators' as well as the applicable formulas and definitions, all included under the 'Template principal adverse sustainability impact statement' of the Annex.
- 13.** Within the sphere of the 'Description of the principal adverse impacts on sustainability factors' in Table 1 of Annex I (article 6, SFDR-2), in addition to the completion of all the fields that relate to the indicators on principal adverse impacts of their investment decisions on sustainability factors, Managers must also provide the following:
 - 13.1** information on one or more additional climate and other environment-related indicators, as set out in Table 2 of Annex I;
 - 13.2** information on one or more additional indicators for social and employee matters, respect for human rights, anticorruption and anti-bribery matters, as set out in Table 3 of Annex I;
 - 13.3** information on any other indicators used to identify and assess additional principal adverse impacts on a sustainability factor
- 14.** As regards with Managers **who do not consider the PAIs** of investment decisions on sustainability factors, clear reasons for non consideration must be provided, including, where relevant, information as to whether and when they intend to consider such adverse impacts. Article 12 of the SFDR-2 provides that such disclosures shall be made public in a separate section of their website in the form of a **Statement** under the title 'No consideration of adverse impacts of investment decisions on sustainability factors'. The statement shall contain the following:
 - 14.1** a prominent statement that the financial market participant does not consider any adverse impacts of its investment decisions on sustainability factors;

- 14.2 the reasons why the financial market participant does not consider any adverse impacts of its investment decisions on sustainability factors and, where relevant, information on whether the financial market participant intends to consider such adverse impacts by reference to the indicators listed in Table 1 of Annex I, and if so, when.
15. Irrespective of whether Managers consider PAIs or not at entity level and as regards with **Article 8 funds which commit to making one or more sustainable investments and all Article 9 funds**, managers have additional fund level PAI website disclosure obligations when explaining the ‘Do no Significant Harm’ (‘DNSH’) of their sustainable investments. More specifically, under the extensive information to be maintained by Managers on their websites (Article 10(1) of the SFDR-1), Managers must explain ‘how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex I, are taken into account’ (refer to article 26(2)(a) and 39(a) of SFDR-2, for Article 8 and Article 9 funds respectively).
16. Most, if not all, CyIFMs due to their small size are not obliged to consider PAIs (refer to relevant obligation under Articles 4(3) and 4(4) of SFDR-1). According to data available to CySEC, CyIFMs, do not ‘opt in’ for PAI disclosure and rather they disclose under the ‘No PAI consideration’ regime mandated under article 4(1)(b) of the SFDR. During the CySEC supervisory exercise, it was found that Managers do not adequately explain the reasons they do not consider the adverse impacts of its investment decisions on sustainability factors and do not usually provide any information on whether the Manager intends to consider such adverse impacts (using reference to the indicators listed in Table 1 of Annex I), and if so, when. More specifically:
- On justifying why they do not consider PAIs, a frequent explanation mentioned by Managers is that they believe that their investment decisions do not have any material effect on sustainability factors. Whereas this comments on the materiality of PAIs, such responses should be further developed to include the reasons why they regard their investment strategies/decisions to have an immaterial effect on sustainability indicators listed in Table 1 of Annex I.
 - Another common reason provided by the Managers is the lack of reasonably priced and readily available data to aid its compliance with the technical reporting requirements of the PAI regime. The unavailability of data **does not** constitute a solid reason for not considering PAIs since numerous data providers have included ESG in their analytics.
 - Whereas all of the Managers stated that should circumstances change, they will revisit their considerations and re-evaluate their position, such statement was not accompanied by using references to indicators listed in Table 1 of Annex I.
17. The 2023 Joint ESAs Report On the extent of voluntary disclosure of principal adverse impacts under SFDR, which includes input from NCAs, takes stock of voluntary disclosures in accordance with point (a) Article 4(1) and point (a) of Article 7(1) (including disclosures by Managers which do not consider PAIs) and reports on relevant best practice and makes recommendations on voluntary reporting standards. The Report also considers the implications of due diligence practices on disclosures and provides guidance on this matter. CyIFMs should use this Report as guidance to support compliance on the issue of PAI consideration/non-consideration and relevant transparency.
- A.3. Website disclosure obligations for UCITS and AIFs promoting environmental or social characteristics and making sustainable investments, Article 8 and Article 9 funds respectively (article 10 of the SFDR)

18. Managers must publish a separate **section titled, ‘Sustainability-related disclosures’** on their websites in the same section as the other information relating to the fund, marketing communications and information for **each** Article 8 and 9 fund under management:

18.1 For Article 8 funds, the information requested under Articles 8, 10 and 11 of the SFDR-1, in accordance with the further specified presentation and content of such information under Articles 23 and 24 to 36 of the SFDR-2:

- 18.1.1 ‘Summary’ section which includes a summary of all the information contained in the different sections provided under paragraphs (b) to (l) of article 24 of the SFDR-2. The summary section shall have a maximum length of two sides of A4-sized paper when printed (Article 25, of the SFDR-2).
- 18.1.2 a description of the environmental or social characteristics promoted by the fund
- 18.1.3 information on the methodologies used to assess, measure and monitor the environmental or social characteristics selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;
- 18.1.4 the information referred to in Article 8 of the SFDR-1
- 18.1.5 the information referred to in Article 11(1)(a) and (d) of the SFDR-1 consolidated text.

18.2 For Article 9 funds, the information requested under Articles 9, 10 and 11 of the SFDR-1, in accordance with the further specified presentation and content of such information under Articles 23 and 37 to 49 of the SFDR-2:

- 18.2.1 a ‘Summary’ section which includes a summary of all the information contained in the different sections provided under paragraphs (b) to (l) of article 37 of the SFDR-2. The summary section shall have a maximum length of two sides of A4-sized paper when printed (Article 38, of the SFDR-2).
- 18.2.2 a description of the sustainable investment objective;
- 18.2.3 information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;
- 18.2.4 the information referred to in Article 9 of the SFDR-1;
- 18.2.5 the information referred to in Article 11(1)(b) and (c) of the SFDR-1 consolidated text.

A.4 Review of website disclosures (Article 12 of the SFDR-1 and Article 2(3) of the SFDR-2)

19. Website disclosures with regards to the integration of sustainability risks in the investment decision making process, remuneration policies and extensive information for each of the Article 8 and 9 funds, as elaborated in the previous Section, must be kept up to date and any amendments thereof must be accompanied by a clear explanation.

B. PRE-CONTRACTUAL DISCLOSURES¹⁰

B.1 Basic minimum pre-contractual disclosures by all Managers (Article 6 of the SFDR-1)

- 20.** Article **6(1)** of the SFDR-1 provides for the basic minimum information to be disclosed by all Managers on the integration of sustainability risks. More specifically Article 6(1) requires Managers to include descriptions in their pre-contractual disclosures as follows:
- 20.1** On the manner in which **sustainability risks are integrated into their investment decisions**; Such descriptions must be in line with the relevant disclosure guidance set out under point A.1 above, and
- 20.2** of the **results of the assessment of the likely impacts** of sustainability risks on the returns of the funds they make available. The description must include an explanation of the assessment undertaken of the likely impacts of sustainability risks on the returns of each fund under their management.
- 21.** The above descriptions shall include a clear and concise explanation of the reasons the manager may deem sustainability risks **not to be relevant** per the sub-paragraph of article 6(1) of the SFDR-1. It is noted that where the assessment elaborated under point 19.2 indicates that the likely impacts of sustainability risks on the returns of a fund are minor or zero, this does not imply that sustainability risks can automatically be deemed as not relevant. The statement by the Manager that sustainability risks are irrelevant must be accompanied by the relevant **analysis/assessment** undertaken and a clear and concise explanation of the conclusions of such analysis/assessment which indicate the irrelevance of sustainability risks.
- 22.** It is CySEC's view that since Managers are obliged by Articles 3 and 5 of the SFDR-1 and by the revised AIFMR and UCITS directives to integrate sustainability risks in their decision making processes, risk management etc, it is almost impossible for sustainability risks to be considered irrelevant in regards to the management of only Article 6 funds and impossible in regards to managing Article 8 and/or 9 funds.

B.2 Pre-contractual disclosures by Managers managing Article 8 - ANNEX II SFDR-2 Template

- 23. Article 8(1) of the SFDR-1**, specifies information disclosure requirements pursuant to Article 6(1) of the SFDR-1, for **funds which promote (among others) environmental and/or social characteristics, and provided that the companies in which the investments are made follow good governance practices relevant to these characteristics**. Funds that promote an **environmental characteristic** must additionally disclose **alignment with the TR and whether they invest a proportion in environmentally sustainable investments**.
- 24.** More specifically, articles within the Regulatory Framework provide details on the presentation and content of the information to be disclosed in the pre-contractual documents/information for Article 8 funds. Article 14 of the SFDR-2 contains a presentation of the information to be disclosed

¹⁰ In accordance with article 6(3) of the SFDR-1, such disclosures should be made available in the disclosures to investors referred to, in Article 23(1) of Directive 2011/61/EU (hence article 30(1) of the AIFM Law 56(I)/2013) and in the prospectus referred to in Article 69 of Directive 2009/65/EC EU (hence article 56 of the UCITS Law 78 (I)/2012) and Article 79 of Law 124(I)/2018;

by Managers for their Article 8 funds (i.e in the format of **Annex II of SFDR-2**) and specifically the information included in **Article 8, paragraphs 1, 2 and 2a, of the SFDR-1, Articles 15-17 of the SFDR-2 and Article 6 1st paragraph of the TR:**

- 24.1 Articles 8(1)(a), 8(1)(b) and 8(2) of SFDR-1:** 1. Information on how those environmental or social characteristics are met, 2. where an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics and an indication of where the methodology used for the calculation of the index is to be found, 3. where the fund promotes **environmental characteristics**, the information/statements required under Articles 15 and 17, of SFDR-2, on the extent of alignment of environmentally sustainable investments with the EU Taxonomy and the calculation of the degree to which investments are in environmentally sustainable economic activities, respectively and **Article 6, 1st paragraph of the TR (referencing Article 5 of the TR)**, and 4. where the fund which promotes environmental or social characteristics, includes a commitment in sustainable **investments with a social objective**, should make disclosures in the asset allocation section of Annex II in accordance with Article 16 of the SFDR-2.
- 24.2** Within the sphere of Article 5(b) of the TR, the description of how and to what extent the investments underlying the fund fall within economic activities that qualify as environmentally sustainable under Article 3 of the TR¹¹ shall specify the proportion of investments in environmentally sustainable economic activities selected for the financial product. This shall include details on the proportions of enabling and transitional activities as set out under Article 16 and Article 10(2) respectively of the TR- as a percentage of all investments selected for the financial product.
- 25.** In addition to the information to be provided as an annex, Article 14 of the SFDR-2, also provides that Managers must include, in the **main body** of the pre-contractual documents/information, a **prominent statement** that information about the environmental or social characteristics is available in the annex to those documents/information. Also, Article 6, 2nd paragraph of the TR, provides for Funds which promote an **environmental characteristic**, that the Manager must include in the pre-contractual documents/information a **statement** as follows: *'The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.'*

B.3 Pre-contractual disclosures by Managers managing Article 9 funds - ANNEX III SFDR-2 Template

- 26.** Article 9 of the SFDR-1, **specifies** information disclosure requirements pursuant to Article 6(1) of the SFDR-1, for funds which have **sustainable investment as their objective and an index has been designated as a reference benchmark. Specific information** are required where a fund has a **reduction in carbon emissions** as its objective.

¹¹ Article 3 of the TR, defines the *'Criteria for environmentally sustainable economic activities'* as follows: *'For the purposes of establishing the degree to which an investment is environmentally sustainable, an economic activity shall qualify as environmentally sustainable where that economic activity: (a) contributes substantially to one or more of the environmental objectives set out in Article 9 in accordance with Articles 10 to 16; (b) does not significantly harm any of the environmental objectives set out in Article 9 in accordance with Article 17; (c) is carried out in compliance with the minimum safeguards laid down in Article 18; and (d) complies with technical screening criteria that have been established by the Commission in accordance with Article 10 (3), 11(3), 12(2), 13(2), 14(2) or 15(2).'*

27. More specifically, articles within the Regulatory Framework provide on the presentation and content of the information to be disclosed in the pre-contractual documents/information for Article 9 funds. Article 18 of the SFDR-2 provides for the presentation of the information to be disclosed by Managers for their Article 9 funds (i.e in the format of **Annex III of SFDR-2**) and specifically with regards to the information included in **Article 9, paragraphs 1 to 4a, of the SFDR-1, Article 19 of the SFDR-2 and Article 5 of the TR:**

27.1 Articles 9(1) to (4)(a) of SFDR-1: **1.** information on how the designated index is aligned with that objective and explanation as to why and how the designated index aligned with that objective differs from a broad market index, **2.** Where a fund has sustainable investment as its objective and **no index has been designated** as a reference benchmark, the information disclosed must include an explanation on how that objective is to be attained, **3.** Where a fund has a **reduction in carbon emissions as its objective**, the information disclosed must include the objective of low carbon emission exposure in view of achieving the long-term global warming objectives of the Paris Agreement. **4.** Where a fund has reduction in **carbon emissions as its objective and where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark in accordance with Regulation (EU) 2016/1011 of the European Parliament and of the Council is available**, the information to be disclosed must include a detailed explanation of how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the long-term global warming objectives of the Paris Agreement. **5.** When an index/benchmark has been designated, Managers must include in the information to be disclosed, an indication of where the **methodology used for the calculation of the indices**, can be found. **6** the information to be disclosed pursuant to information required under **Article 5 of TR.**

27.2 Article 19 of the SFDR-2 provides details on the **sustainable investment information** to be provided for Article 9 funds: **1.** Where the fund invests in environmentally sustainable investments, information in accordance with the transparency obligations on environmentally sustainable investments, under Article 5 of the TR (i.e. Article 19(1) to (3)). **2.** Where the fund invests in an economic activity that contributes to a social objective should make disclosures in the asset allocation section of Annex III in accordance with Article 19(4) of the SFDR-2.

28. Within the sphere of Article 5(b) of the TR, the description of how and to what extent the investments underlying the fund are in economic activities that qualify as environmentally sustainable under Article 3 of the TR shall specify the proportion of investments in environmentally sustainable economic activities selected for the financial product, including details on the proportions of enabling and transitional activities referred to in Article 16 and Article 10(2), respectively of the TR, as a percentage of all investments selected for the financial product.

29. In addition to the information to be provided as an annex, Article 18 of the SFDR-2, also provides that Managers must include, in the **main body of the pre-contractual** documents/information, a **prominent statement** that information about sustainable investment is available in the annex to those documents/information. Also, **at the beginning of the annex** to the pre-contractual document/information, the Manager must include a statement that the financial product has sustainable investment as its objective.

C. PERIODIC REPORTS DISCLOSURE OBLIGATIONS- ARTICLE 8 AND 9 FUNDS¹²

C.1. Annual Reports disclosures by Managers managing Article 8 funds (Article 11 of the SFDR-1)- ANNEX IV SFDR-2 Template

30. Where Managers make available Article 8 funds, they must include a description in the fund's Periodic Reports, the extent to which environmental or social characteristics are met. Articles **50 to 57 of the SFDR-2** provide details on the presentation and content of such information/reports, including an annex to the Periodic Report, in the form of the template set out in **Annex IV of SFDR-2**. In addition, in the **main body** of the Periodic Report, a prominent statement that information on environmental or social characteristics is available in that annex.

C.2 Annual Reports disclosures by Managers managing Article 9 funds (Article 11 of the SFDR-1)- ANNEX V SFDR-2 Template

31. Where Managers make available Article 9 funds, they must include a description in the fund's Periodic Reports of: the overall sustainability-related impact of the fund by means of relevant sustainability indicators; or where an index has been designated as a reference benchmark, a comparison between the overall sustainability- related impact of the fund with the impacts of the designated index and of a broad market index through sustainability indicators.

32. Articles **58 to 67 of the SFDR-2** provide on the presentation and content of such information/reports, including an annex to the Periodic Report, in the form of the **template** set out in **Annex V of SFDR-2**. In addition, in the main body of the Periodic Report, a prominent statement that information on sustainable investment is available in that annex.

D. MARKETING COMMUNICATIONS –CONTENT/PRESENTATION AND CONSISTENCY OF INFORMATION

D.1. Content/Presentation

33. In accordance with Article 13 of SFDR-1, Managers must ensure that their marketing communications **do not contradict** the information disclosed pursuant to the SFDR Regulatory Framework. In addition, **Article 2 of the SFDR-2** clarifies that managers must provide the information on websites on the precontractual disclosures and periodic reports, pursuant to the SFDR regulatory framework, free of charge and in a manner that is **easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading**.

34. According to the ESMA Briefing, "marketing material" is considered to be all marketing communications addressed to investors or potential investors for UCITS and AIFs, as defined in the **'ESMA Guidelines on marketing communications under the Regulation on cross-border**

¹² In accordance with article 11(2) of the SFDR-1, such disclosures should be made available in the annual report referred to in, Article 22 of Directive 2011/61/EU (hence article 29 of the AIFM Law 56(I)/2013) and in the annual report referred to in Article 69 of Directive 2009/65/EC EU (hence article 56 of the UCITS Law 78 (I)/2012) and Article 79 of Law 124(I)/2018;

distribution of funds' (ESMA34-45-1272). **Fund Documentation, Website Disclosures, Periodic reports as defined under paragraph 19, Section 3 of the ESMA Briefing, constitute marketing material/communication** hence the information included there in must fulfil the presentation and most importantly the content characteristics as specifically guided in the above-mentioned regulatory framework.

- 35.** It is important to note that the **content of the investment objective, investment policy and investment strategy as well as the portfolio mix of a fund are key** as to whether a fund promotes sustainability characteristics or whether it has a sustainable investment objective. The Joint ESAs Q&A [JC 2023 18](#) (last updated 25 July 2024) on SFDR-1 and SFDR-2, under Question 2 of Section 'V. Financial product disclosures', explains that "...promotion" of environmental, social, or sustainability characteristics under Article 8 of Regulation (EU) 2019/2088 encompasses more than just active advertising. It includes any direct or indirect claims, information, reporting, disclosures, or impressions suggesting that a financial product integrates ESG factors in its investment policy. This promotion can appear in various formats, including pre-contractual documents, periodic reports, marketing communications, advertisements, product categorization, investment strategies, and adherence to sustainability-related standards or statutory exclusions. Pre-contractual disclosures must clearly outline the binding environmental or social characteristics of the product and how they are met throughout the holding period, as specified in Article 11(1) of Regulation (EU) 2019/2088."
- 36.** In general, Section 'V. Financial product disclosures' of the Joint ESAs Q&A [JC 2023 18](#) provide good guidance on the scope of financial products under the SFDR regulatory framework.

D.2 Consistency of information

- 37.** Consistency of information in marketing communications and disclosed information is what will ensure the **minimization of greenwashing risk**. Paragraphs 60 to 62 of Section 6.5 of the ESMA Guidelines on marketing communications (ESMA34-45-1272) provide guidance on the requirements which should be met when a marketing communication refers to the sustainability-related aspects of the investment in the promoted fund. It is stated specifically that *'...The information should be consistent with the information included in the legal and regulatory documents of the promoted fund. A link to the website where information on sustainability-related aspects is provided pursuant to Regulation (EU) 2019/2088 in relation to the promoted fund should be included in the marketing communication, where relevant given the nature of the marketing communication. 61. Information on the sustainability-related aspects of the promoted fund should not outweigh the extent to which the investment strategy of the product integrates sustainability-related characteristics or objectives. 62. When they refer to the sustainability-related aspects of the promoted fund, marketing communications should indicate that the decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus, or in the information which is to be disclosed to investors in accordance with Article 23 of Directive 2011/61/EU, Article 13 of Regulation (EU) No 345/2013, Article 14 of Regulation (EU) No 346/2013 where applicable.'*
- 38.** In addition, the **name of the fund** is an instrument to communicate information about the fund to investors and is also an important marketing tool for the fund. As per **ESMA'S Final Report**

Guidelines on funds' names using ESG or sustainability-related term, published May 2024 and adopted by CySEC, *'the name of a fund is usually the first attribute investors see and can have a significant impact on their investment decisions'*. The Guideline is an important guide as to the Managers' obligation to act honestly and fairly when deciding to include an ESG term in a fund's name. CySEC Circular 678 refers to the adoption of these Guidelines as well as the relevant issued ESMA Q&As.

V. INVESTMENT FUND MANAGERS OPERATIONAL OBLIGATIONS

- 39.** In accordance with the relevant legal framework (see paragraph 6 Section II above), CyUCITS MCs and CyAIFMs, **regardless** of whether they offer ESG related funds (i.e funds disclosing under Articles 8 and/or 9 of the SFDR) or not (i.e funds disclosing under Article 6), are obliged to adapt their practices and consequently their **policies and procedures** in order to integrate sustainability risks in their organization and operations. More specifically, within the sphere of organizational requirements and operating conditions, it should be ensured that:
- 40.** Sustainability risks and -if applicable- principal adverse impacts are taken into account in the analysis undertaken during their **investment decision making and associated due diligence and monitoring processes** and that such analysis is properly documented. To this end, the persons involved in the above processes must retain adequate knowledge and understanding of such risks and impacts for the proper discharge of their duties.
- 41. Internal control mechanisms** are adequate to secure compliance with the relevant legal framework:
- 41.1 Risk Management** procedures must be updated to be enabled to assess the funds' exposure to sustainability risks. Sustainability factors should be incorporated into the assessment and monitoring of exposure to sustainability risks and prepare comprehensive reports, at least once a year, on the type and level of materiality of the sustainability risks, to which the collective portfolios under management are exposed. In addition, it should oversee that sustainability risks are identified and considered in a timely and effective way by the risks' owners.
- 41.2** The **Compliance function** should ensure that risks arising from sustainability risks are duly considered in all material processes.
- 41.3** The **Internal Audit function** should verify the adequacy of the measures to mitigate sustainability risks.
- 42. IT systems** should be adequate to meet the need to systematically collect and aggregate the data necessary to assess the exposure to sustainability risks.
- 43. Internal reporting and communication mechanisms** at all relevant levels of the manager and with third parties are effective. Senior management and relevant functions (e.g. risk management, compliance and internal audit), should have adequate information. To this end, a reporting framework on sustainability risks with a focus on the medium- to long-term outlook should be set up, specifying the minimum content and frequency of information. Also, measurable and quantifiable Key Performance Indicators (KPI) to measure the sustainability strategy and Key Risk Indicators (KRI) which take into account the investment portfolio's sustainability risks could be set where available.

44. The necessary amount of **resources** with the necessary skills and expertise are retained for the effective integration of sustainability risks and related issues by, for example, investing in relevant, regular training and development programmes and encouraging professional certifications. Another example is acquiring the services of external consultants who specialise in the management of sustainability risks or even going a step further as to hire a full-time sustainability officer responsible for the entity's compliance with the relevant regulatory framework as a whole. For the purposes of such integration it is expected that relevant senior management responsibility and accountability exists.
45. When identifying the types of **conflicts of interest**, the existence of which may damage the interests of a fund, CyIFMs shall include those types of conflicts of interest that may arise as a result of the integration of sustainability risks in their processes, systems and internal controls. They should implement monitoring processes and controls to ensure timely identification and mitigation/prevention of ESG related conflicts of interest. Such conflicts could include conflicts arising from **remuneration or personal transactions** and conflicts that could give rise to greenwashing.
46. Integrate sustainability risks into their **risk management systems and controls**, to assess the level of exposure for **each** AIF/UCITS they manage. This should include potential risks from all three sustainability pillars depending on the nature of each AIF/UCITS portfolio. In the case of the Environmental pillar, both **physical risks** (i.e. economic costs and financial losses resulting from the increasing severity and frequency of extreme weather events, as well as longer term climate changes) and **transition risks** (i.e. risks stemming from changes in public policy, technological advances or shifting sentiment) should be considered.
47. Adapt governance structure to mitigate **Greenwashing** risks, especially in high-risk areas such as marketing communications and websites. Additionally, the name of each financial product offered, should not be misleading and must follow the ESMA guidelines on **fund names** adopted through [CySEC Circular 678](#).
48. Within the sphere of exercising their oversight duties, **Depositaries** also have a role in some aspects of Managers' compliance with their ESG obligations. To this end and according to the ESMA Briefing, UCITS management companies and AIFMs are expected to provide all relevant information and data to the appointed depositary to enable it to perform effectively the relevant depositary functions. *'In particular, depositaries should include all ESG-related investment restrictions in the monitoring of the compliance of the instructions coming from the management company or the investment manager...'* In addition, within the sphere of the Managers' obligation *'to ensure that portfolio holdings reflect the name, the investment objective, the strategy and the characteristic displayed in the documentation to investors'*. Depositaries could serve as a line of control in this respect.
49. As a general remark, compliance with the above requirements should be assessed within each CyAIFM's and CyUCITS Manager's existing risk management and governance policies and procedures framework and should be aligned with the analysis for compliance with disclosures under the Sustainable Finance Disclosures Regulation (SFDR).

VI. FINAL REMARKS AND UPCOMING EU REGULATORY UPDATES

- 50.** Overall, it must be emphasized that the European Union is pushing for robust implementation of ESG factors within the financial sector. The continuously evolving ESG regulatory framework is used as a mechanism to support the Green Deal and is likely to play an increasingly important role in how companies are assessed by investors as well as consumers. It is therefore of utmost importance for financial market participants to devote the necessary human and financial resources to integrate and manage the ESG aspect of their organisations in order to remain successful.
- 51.** Close attention by all market participants including Investment Fund Managers, to the content and implications of the EU Taxonomy Regulation, is required. The European Commission's '[FAQ: What is the EU Taxonomy and how will it work in practice?](#)' and the 'Draft Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Environmental Delegated Act, the EU Taxonomy Climate Delegated Act and the EU Taxonomy Disclosures Delegated Act' could constitute a good guide to the understanding of the EU Taxonomy Regulation and the relevant disclosure obligations stemming from the SFDR.
- 52.** As regards with the SFDR, the Joint ESAs Q&A [JC 2023 18](#) (last updated 25 July 2024) on SFDR-1 and SFDR-2, and as amended from time to time, is an important guide to compliance with the various aspects of the SFDR legal framework.
- 53.** It should be noted that the EC is currently considering a review of the SFDR and is likely to publish a proposal during 2025. This is likely to reflect the [proposal](#) outlined in the briefing note that was published in December 2024 by the EU Platform on Sustainable Finance, (an advisory body to the European Commission), for a product categorisation scheme. The proposal is consistent with the [ESMA opinion on the functioning of the Sustainable Finance Framework](#) and the [Joint ESAs opinion on the assessment of the SFDR](#), issued July and June 2024, respectively.
- 54.** Bearing in mind the above, the importance the European Union attributes to the need for transition and the contribution anticipated to this end by investment fund managers, CySEC expects Cyprus Investment Fund Managers, to adhere to the content of this Circular and ensure the enhancement of their company's and investment funds' ESG culture through the adoption of policies, procedures and practices that ensure compliance with the applicable legal obligations regarding the integration of sustainability risks and disclosures.

Sincerely,

Panikkos Vakkou
Vice Chairman
Cyprus Securities and Exchange Commission