Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

ESMA Common Supervisory Action on Sustainability Risks and Disclosures in the Investment Funds Sector

Central Bank of Ireland Feedback Report

October 2025

Contents

Back to “Contents”

Executive Summary

The purpose of this report is to provide an overview of the review carried out by the Central Bank of Ireland (Central Bank) as part of the 2024 European Securities and Markets Authority (ESMA) Common Supervisory Action (CSA), and outline what a CSA is and where it fits into the Central Bank's new supervisory framework. Given the significant focus of the sustainability risks and disclosure's theme, the Central Bank is producing a detailed report, which replaces the previous CSA "*Dear CEO letters*" style communication. This report aims to communicate across the industry the Central Bank's findings and observations, including to what extent UCITS Managers and AIFMs (collectively referred to as 'Firms') have established mechanisms to ensure they adhere to the relevant rules and standards under this key topic of regulatory focus. The report contains specific expectations with respect to our findings for Firms to action. As would have been the case in previous years, and in line with the new supervisory framework, findings from the CSA will inform future supervisory priorities.

The Central Bank contributed to the selection of an assessment of sustainability risks and disclosures as the theme for the 2024 CSA and is supportive of its objectives. The Central Bank recognises the significant role SFDR has in supporting the transition within the EU to move to a more sustainable economy, and that the investment funds sector has an integral role to play in that regard. Effective implementation and embedding of SFDR enables this ambition, and efforts of all stakeholders should contribute to ensuring this ambition is achieved. With that in mind, the topic of ESG continues to be a key focus of the Central Bank. The timing of this CSA partnered with the Central Banks supervisory priorities and plans to analyse to what extent Firms have established processes to integrate sustainability risk. The CSA reinforced the Central Banks existing plans to review how Firms support investor decision-making that aligns with their sustainability preferences, such as establishing appropriate disclosures and ensuring robust assessments are applied to products' sustainability claims. This CSA is part of a broader body of regulatory and supervisory initiatives designed to support investors' sustainability preferences. This includes the ESMA

Back to "Contents"

Guidelines on funds' names using ESG or sustainability-related terms published in May 2024 and the European Commission's commitment to revise SFDR.

Given our role in the wider European System of Financial Supervision, CSAs are key components in our approach to sectoral supervision, which the Central Bank uses to prevent or mitigate specific thematic risks posed to our safeguarding outcomes. The requirements of SFDR and the sustainability related requirements of AIFMD and UCITS Directives provide a framework for how Firms should integrate Environmental, Social and Governance (ESG) factors into their investment decisions and how this information should be disclosed in relation to their financial products. The regulatory framework requires a significant number of mandatory disclosures at both product and entity level. It requires the classification of financial products into different categories depending on either their promotion of environmental characteristics or having a sustainable investment objective. Market participants are also required to consider the adverse impacts of their investments on sustainability factors and report on these principal adverse impacts.

In general, our findings from the CSA are broadly in line with regulatory expectations though with ongoing maturing of approach still a work-in-progress. Firms demonstrated an appetite to comply with the requirements. Firms positively engaged with the Central Bank throughout the review period and were open in sharing their difficulties in complying with what they deemed to be a complex set of requirements. The issue of data availability was a common theme during the engagements, and it is apparent that Firms have dedicated significant resources to this area. All Firms have introduced processes and controls to support sustainability risk monitoring; however, some Firms need to develop the maturity of these processes and controls, so they are more robust and effective. Notably, the Central Bank found that the evolution of the frameworks, briefings and guidance that has accompanied the subject of sustainable finance led to Firms often applying conservative methods to avoid the risk of non-compliance.

Back to "Contents"

At the same time, while it is evident Firms have made progress in establishing processes to ensure compliance, there are still several areas that require improvement. Issues include:

- inconsistent sustainability risk integration and monitoring,
- the quality of underlying data used by individual Firms to support effective sustainability risk integration and monitoring,
- the reactive / proactive nature in which Firms review controls to meet SFDR regulation and guidance, and
- Firms' appetite to continue to challenge the information contained in product and entity level disclosures to ensure these are clear and transparent for investors.

The Central Bank expects Firms to develop and maintain clear policies and procedures that are subject to ongoing review and approval. Firms should continuously review their monitoring and due diligence controls to ensure they are satisfied that they have integrated robust tools to effectively manage and monitor sustainability risk on an ongoing basis. These areas are covered in more detail later in this report.

The outcome of the Central Bank's review was aggregated with findings from other National Competent Authorities (NCAs) and included in the ESMA 'Final Report on Greenwashing'[1] published in June 2024 and ESMA's Final Report on Sustainability[2] published in June 2025.

[1] ESMA Final Report on Greenwashing
[2] ESMA Final Report on Sustainability

Back to "Contents"

Firms should review and consider the contents of this report in conjunction with the contents and observations identified within ESMA's Final Reports on Greenwashing and Sustainability noted above. The Central Bank expects that this report will be discussed by the Board & relevant personnel and that the observations and expectations outlined are given due consideration to ensure appropriate measures and controls are in place.

What is a Common Supervisory Action?

ESMA forms part of the European System of Financial Supervision and contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

ESMA is mandated to take an active role in building a common supervisory culture among NCAs to promote sound, efficient and consistent supervision throughout the EU. To achieve this objective, ESMA has been facilitating an increased exchange of information by NCAs on practical supervisory issues and cross-border supervisory cases.

As a result, ESMA introduced CSAs to support this increased exchange of information and to enhance supervisory convergence. A number of CSAs have been conducted in the investment fund sector since 2019, covering the following topics:

- UCITS Liquidity Risk Management[3];
- Costs and Fees in UCITS[4];
- Asset Valuation[5]; and
- Sustainability Risk and Disclosures.

When a CSA is conducted, all participating NCAs follow a common agreed methodology. This includes:

[3] Common Supervisory Action on UCITS Liquidity Risk Management
[4] Common Supervisory Action on Costs and Fees in UCITS
[5] Common Supervisory Action on Asset Valuation

Back to "Contents"

- A questionnaire with a minimum list of questions to be issued to Firms. NCAs have the discretion to include further questions if deemed necessary,
- An assessment framework, against which NCAs should assess a Firm's compliance,
- Sample selection criteria, outlining the size and Firm type to be included, and
- A reporting template in which all NCAs must submit their findings and observations.

Throughout the duration of the CSA, NCAs meet periodically to provide updates on progress and share findings. The CSA concludes when ESMA has reviewed each of the reporting templates submitted by NCAs. ESMA then produces a draft final report which all participating NCAs are welcome to review and contribute to, before a final report is approved and published. This cross NCA engagement provides a valuable opportunity to exchange knowledge and experience amongst NCAs on their supervisory approaches to the relevant CSA.

Objective of this CSA

As outlined in the ESMA Final Report on Sustainability, the aim of the CSA was to investigate how Firms:

a) Comply with the Regulation (EU) 2019/2088 (SFDR) and Articles 5-6 of Regulation (EU) 2020/852 (TR);

b) Comply with Commission Delegated Regulation (EU) 2022/1288 supplementing the Sustainable Finance Disclosure Regulation (SFDR); and

c) Comply with the AIFMD and UCITS Directive Level 2 provisions of the Commission Delegated Regulation (EU) 2021/1255 and Commission Delegated Directive (EU) 2021/1270 on the integration of sustainability risks.

In addition, the CSA examined the level of adherence to the principles of the ESMA Supervisory Briefing on Sustainability Risks

Back to "Contents"

and Disclosures around investment management published in May 2022.

Firm Selection

The sample selected by the Central Bank uses the sample criteria agreed with ESMA following contribution from NCAs, as referenced in the ESMA Final Report on Sustainability, which includes Firm size, investor profile, geographical location of investors, diversity of types of SFDR disclosures and supervisory knowledge or experience indicating higher greenwashing risks.

The Central Bank's sample of Firms covered approximately 60% of the Assets under Management (AuM) in Ireland. The sample represented a mix of small, medium and large size Firms, some of which also incorporate different Firm structures. The Firms selected also manage a variety of SFDR Article 6, Article 8 and Article 9 funds.

Methodology

The questionnaire developed by ESMA and NCAs consisted of 54 questions (including sub-questions), which were both qualitative and quantitative in nature and divided into different sections including:

a) Integration of sustainability risks and factors,
b) Entity level disclosures,
c) Product level disclosures, and
d) Fund specific information.

The questions focused on requirements at both entity level and product level in areas relating to; greenwashing definitions, policies and procedures, conflicts of interest, remuneration disclosures, entity (Firm) and fund level disclosures, taxonomy and sustainability percentages, do no significant harm principles, engagement policies, and Principal Adverse Impact (PAI) disclosures.

The assessment of each of the sections and questions outlined above was conducted by the Central Bank using both desk-based reviews and on-site inspections. Our desk-based analysis was supported by the output of a proprietary ESG dashboard tool. This dashboard enables the Central Bank to assess pre-contractual disclosures and measure the alignment of these disclosures to the underlying

Back to "Contents"

portfolio of the relevant funds. This tool enables assessments of the appropriateness of fund disclosures on a fund specific, Firm specific or environmental specific basis and will be used as a supervisory tool by the Central Bank on an ongoing basis.

Following the desk-based reviews, onsite engagements and utilisation of the ESG dashboard, the Central Bank reported its observations and findings as identified throughout the course of the assessment review to ESMA. Prior to submitting the report to ESMA, it was subject to an internal Central Bank governance process. The final report was submitted to ESMA on 30 September 2024.

CSA Observations

The overall compliance of Firms included in the Central Bank's sample with the requirements under review was varied. Some Firms demonstrated that they have taken steps to integrate SFDR requirements while some Firms are still adjusting their SFDR integration frameworks to ensure compliance. It was evident from our assessment of SFDR disclosures in the sample of funds that enhancements in transparency and improvements to ESG-related language need to be addressed by many Firms.

In some cases, Firms displayed robust monitoring and oversight controls relating to ESG risk; however, in several Firms the Central Bank identified a need for controls to be enhanced. Many of the Firms in the sample demonstrated they have processes in place to integrate sustainability and greenwashing risk. However, there were instances where these processes were not documented and approved in a formalised manner.

Through analysing the responses provided by Firms and conducting rigorous follow up on-site engagements with most of the Firms included in the sample, the Central Bank identified a number of concerns relating to the integration of sustainability risk and disclosures.

These are set out in more detail below under the following themes:

Back to "Contents"

1) Sustainability Risk Integration and Monitoring

As part of the CSA, the Central Bank engaged extensively with Firms to evaluate how they have integrated sustainability risk and assessed how sustainability risk is monitored on an ongoing basis. All Firms who formed part of the sample for this CSA confirmed that they have integrated sustainability and greenwashing risks into their existing decision-making procedures and organisational requirements. Varying approaches to sustainability integration and monitoring include quarterly and ad-hoc data on sustainability risk reporting to the Board and relevant subcommittees; the production of sustainability risk dashboards, including sustainability risk as an item in management frameworks; and integrating sustainability risk into the three lines of defence.

The Central Bank assessed whether Firms could clearly demonstrate how they were satisfied that the funds they manage comply with SFDR. This included assessing the governance and due diligence that is conducted during fund and delegate on boarding, the metrics and data assessed when substantiating investment strategies, and how controls are documented in relevant policies and risk frameworks.

It was evident from the Central Banks analysis that many Firms had robust and clearly defined controls in place to support initial and ongoing SFDR compliance monitoring. In the context of index-tracking funds, Firms adopt different approaches to the integration of sustainability risks. Firms carry out initial due diligence and complete sustainability risk assessments as part of the index selection process. The CSA team noted that many Firms rely heavily on index providers to ensure that the Article 8 or Article 9 funds are meeting the E/S characteristics being promoted by the investment strategy on an ongoing basis or their sustainable objective (as relevant). It was notable that Firms rely on the application of the methodology by the index providers following the initial due diligence performed by the fund on the index and the index provider. Some Firms independently monitor the underlying fund portfolio on an ongoing basis to ensure that the methodology on ESG-related exclusions or binding criteria is applied appropriately.

The Central Bank observed that for actively managed funds, some Firms set specific sustainability risk thresholds or criteria, and this is

Back to “Contents”

integrated into the fund during the initial fund selection and due diligence process. Relevant thresholds can be set in relation to exclusions and binding criteria, and this enables Firms or their delegate investment manager(s) to monitor these specific risk thresholds on an ongoing basis. The Central Bank also noted that some Firms have built these restrictions into pre and post execution systems to ensure that relevant thresholds are monitored/maintained automatically.

In some instances, the Central Bank identified, in the context of the Firm's completion of ongoing monitoring activities, an overreliance on delegate attestations (i.e. receipt of a confirmation from the Firm's delegates that criteria relating to the underlying fund portfolio and Article 8 / Article 9 requirements are complying). In many cases, the information provided to justify the attestation was limited, meaning Firms could not consistently demonstrate how they were comfortable with the appropriateness of the attestation and compliance of each fund with the requirements of the SFDR.

It was evident during our assessment that many Firms have dedicated significant resources to the fund and delegate on-boarding and subsequent oversight and monitoring of the funds to ensure compliance with SFDR requirements. However, for some Firms, the Central Bank is concerned about the limited levels of oversight coverage across their fund ranges. Risk Mitigation Programmes (RMPs) were issued to Firms to review their controls to ensure they have designed robust and effective delegate oversight and control frameworks to support proactive and consistent sustainability risk monitoring across all the funds under management.

Back to "Contents"

Expectation:

The Central Bank's expectation is that all Firms have a documented, robust and effective control framework in place that ensures their funds under management complies with the requirements of SFDR. This should include effective ongoing due diligence of funds, data and delegates combined with consistent independent monitoring carried out across all funds.

Firms should ensure the information provided as part of delegate attestations contain necessary details to actively assess fund compliance.

Firms should continue to monitor their level of resourcing, skills, knowledge and expertise on an ongoing basis relevant to the nature, scale and complexity of their funds in scope of Article 6, Article 8 and Article 9.

2) Data Limitations

Data limitations and the improvement of data quality and reliability was a regular area of discussion during the onsite inspections. The desk-based review and on-site inspections highlighted that Firms are seeing a gradual improvement in the quality and availability of data. The CSA found a correlation between the levels and robustness of monitoring with the quality and accuracy of data used to substantiate SFDR compliance.

Firms consistently referred to the challenges they face regarding the availability and different interpretations of relevant data. Firms also outlined that improvements to data availability will enhance how they integrate sustainability risk and perform appropriate monitoring and oversight of funds. Firms highlighted concerns accessing large volumes of data and engaging with multiple data providers. A number of Firms also highlighted issues with the cost associated with accessing this data from multiple providers. The scale of available data was also a common theme amongst Firms engaged throughout the CSA. When challenging Firms on the potential misalignments of certain investments to the fund's investment strategy, Firms were able to provide justifiable and credible rationales that were substantiated by other data sources. It

Back to "Contents"

was evident from the review that Firms interpreted the same data sources differently, leading to inconsistent monitoring outcomes.

Firms of a larger scale are required to monitor significant volumes of funds covering a variety of different asset types, strategies and ESG focuses. However, it was evident from our engagements that some Firms do not always have the relevant data to perform detailed monitoring of every fund and in some instances, rely on information provided by delegates. This raises a concern that Firms do not have sufficient information to proactively and independently assess funds' compliance.

The Central Bank observed that supervised entities employ various methods to ensure consistency between the description of their funds' ESG strategies and the ESG metrics and data used. Such methods include delegate attestations, due diligence on data sources, ongoing fund compliance monitoring, cooperation between first- and second-line teams, onboarding and ongoing reviews of ESG data providers, and continuous review of ESG disclosures.

The Central Bank also noted that a significant majority of funds disclosing under Article 8 or Article 9 have adopted a 0% minimum commitment to taxonomy-aligned investments. The rationale provided for such commitments was the lack of reliable and consistent data required to confidently report an appropriate level of minimum investment. However, Firms did indicate that this position is reviewed periodically and may change depending on the availability and enhancement of the required data. Firms have communicated that they have taken the approach of allowing for a significant buffer between the actual and minimum percentage of both taxonomy-aligned and sustainable investments to avoid any potential threshold breaches. Furthermore, a large portion of Firms indicated that they do not consider Principal Adverse Impact (PAI) in their investment decisions on sustainability factors at entity level. Firms communicated that data constraints limited their ability to adequately assess PAIs.

Back to "Contents"

Expectation:

The CSA highlighted that as data becomes more readily available and consistent Firms are more capable of enhancing their controls. Data constraints should be identified and considered in depth at the earliest stage of strategic planning and fund onboarding to ensure Firms have the ability to fulfil their fund compliance monitoring obligations. Firms are also expected to perform appropriate due diligence on the data and data providers on an on-going basis to ensure the data used to substantiate the requirements of SFDR, is accurate, reliable and up to date.

The Central Bank also expects that Firms are in a position to document and verify the underlying data used to substantiate SFDR compliance in instances where Firms are using attestations to conduct fund monitoring and oversight.

3) SFDR Disclosures

The Central Bank assessed disclosures contained in a number of funds as part of the CSA. To support our assessment of the consistency between SFDR language disclosures and individual fund portfolios, the Central Bank utilised a proprietary ESG dashboard

Certain SFDR-related fund disclosures prompted further queries by the Central Bank, highlighting the need for enhanced transparency at product level. The Central Bank identified funds with vague language when describing the sustainable investment objective or the promotion of environmental or social characteristics. In some instances, there was a lack of specific metrics, thresholds, or key terms that could be quantifiably assessed. Vague disclosures increase the risk that investors may not have sufficient information to make informed decisions in respect of the sustainable investment component for funds disclosing under Article 9 or the Environmental and/or social component for funds disclosing under Article 8. Improvements are required to ensure investors fully understand how the investment strategy outlined in the fund documents aligns with the portfolio.

The Central Bank also identified inconsistent approaches applied to website disclosures. For example, some Firms include links to index

Back to “Contents”

methodologies, and these may not always be accessible, while others include all relevant information on the webpage.

Expectation:

Firms should have robust frameworks in place to ensure that the disclosures made to investors in accordance with SFDR are clear and do not mislead.

There should be clear and detailed disclosure regarding the binding elements used to attain each of the environmental or social characteristics promoted by the fund, or the sustainable investment objective (as relevant). Where a fund applies exclusions as a binding element of the strategy, there should be clarity regarding the thresholds applied, what constitutes "involvement" or the ESG score that would result in a fund excluding certain companies from investment. There should be no option within the disclosure to dis-apply the binding element of the strategy.

Where a fund tracks an index, the ESG criteria applied by the index should be detailed in the binding elements. It is not sufficient for a Firm to provide that tracking the performance of the index is the fund's binding element. Finally, Firms should keep such disclosures under regular review to ensure the accuracy of the content continues to align with these expectations.

The Central Bank expects that Firms have processes in place to regularly review and approve the language contained in pre-contractual, website and periodic disclosures to ensure that these are aligned and meet the requirements of SFDR. These reviews should be documented and conducted periodically.

4) SFDR Regulations and Guidance

Throughout our engagement, Firms highlighted enhancements to specific guidance and criteria that would support a consistent application of certain elements of SFDR. For example, Firms noted the absence of specific guidance or definitions of "sustainable investments" and concluded that this increases scope to apply different interpretations. Firms considered that more guidance would reduce the need to apply conservative approaches and reduce

Back to "Contents"

the risk of non-compliance. Firms communicated the need to adapt to changing guidance (e.g. Q&A's) as SFDR matures and that has led to compliance challenges due to the need to revisit existing processes to reflect the changes. It should be noted that Firms acknowledged the importance of guidance, such as the ESMA Guidelines on funds' names using ESG or sustainability-related terms[6], which has supported industry's compliance with expectations of funds when using ESG or sustainability-related terms in their name.

Expectation:

The Central Bank acknowledges that there are varied interpretations of some of the key components of the SFDR framework. These interpretations have led to inconsistent sustainability processes being applied by Firms and contributes to an increased risk of non-compliance and potential greenwashing.

This inconsistency is also evident in the varied interpretations and applications of data and data methodologies that Firms are using when substantiating the ESG components of their funds.

The Central Bank acknowledges the European Commission's plan to publish a proposed revision to SFDR. However, changes from legislative reviews to sustainability-related frameworks will take time to develop, finalise and implement. Therefore, Firms should strive to be as clear and transparent as possible in applying SFDR, including considering how their disclosures will be understood by the end investor.

Finally, the Central Bank expect Firms to remain vigilant to the SFDR, and where updates to SFDR are implemented or additional supporting guidelines are published, to ensure that these are considered appropriately and without delay to avoid instances of non-compliance.

[6] ESMA Guidelines on funds' names using ESG or sustainability-related terms

Back to "Contents"

Conclusion

Overall, our findings following the conclusion of this CSA are broadly in line with regulatory expectations. Firms demonstrated an appetite to comply with the requirements SFDR. However, as noted above, there are areas that require a marked improvement, particularly relating to on-going monitoring processes and the quality of certain SFDR disclosures. As part of this CSA, the Central Bank issued several RMPs to the relevant Firms to address Firm-specific findings and the contents of these RMPs have reflected some of the expectations outlined above.

The Central Bank expects that Firms review and consider the contents of this report in conjunction with the contents and observations, including the good, below average and non-compliant practices identified within the ESMA Final Report on Sustainability. This report should be discussed with the Board and relevant personnel within each Firm to ensure that the observations and expectations outlined by the Central Bank are considered.

As demonstrated throughout the CSA engagements, the Central Bank is continuing to build on its own data capabilities in this space to support the development of existing tools already used to assess SFDR compliance and will continue to embed such tools further into our supervisory engagements with Firms in this area.

The Central Bank will incorporate the key findings and observations identified throughout the course of this CSA into our ongoing supervision of this topic and use them to further build out our knowledge of ESG and SFDR related matters.

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