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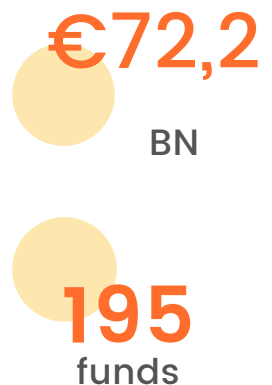
# Article 9 funds are still far from the requirements of the SFDR regulation

## Sustainable Finance

Novethic, with the support of ADEME, analyzed nearly 200 Article 9 funds available in France and totaling 72 billion euros in assets under management at the beginning of 2022. The study, entitled "SFDR Article 9 funds market off to a rough start", published on 14 December 2022, highlights the significant gap between the communication of funds and the technical requirements adopted by the European regulator. This discrepancy no doubt explains the reclassification movement already underway for more than 10% of the Article 9 funds in the study's panel.

### SFDR regulation is gradually being deployed

Since March 2021, asset management companies must classify their sustainable funds as Article 8 or 9. Throughout 2022, European regulators and supervisors have been clarifying the technical standards that will apply from January 1st, 2023, while leaving the SFDR definition of sustainable investment unchanged. This remains a challenge for asset managers, as multiple interpretations coexist to define the environmental and social objectives of funds. This confusion explains the momentum for downgrades of funds from Article 9 to Article 8, which accelerated at the end of the year.



«Only twenty or so funds announce a minimum proportion of sustainable investments, which shows that asset managers are struggling with the corresponding definition under SFDR. As for the minimum proportion of taxonomy alignment, fund managers opted for a cautious approach during this 2022 observation round.»

**Nicolas Redon, Novethic's green finance expert.**

## The complex choice of indicators

The new regulations promise to standardize transparency for sustainable funds, but Novethic's benchmark study questions the relevance of the sustainability indicators chosen to measure and demonstrate the attainment of ESG objectives.

To date, when already announced, two main approaches coexist in the choice of indicators. On the one hand, Novethic has identified 19 instances of "proprietary" indicators, developed by management companies, which make it possible to aggregate different contributions and ways to address ESG issues. On the other hand, fund documentation contains numerous indicators inspired by those provided in the PAI list (principal adverse impacts). This list essentially refers to a risk-based approach rather than providing indicators to measure a positive contribution to the objective. The regulator includes in this category data related to CO2 emissions and emissions to water, damage to biodiversity, and social data such as compliance with the OECD Principles and the Global Compact, or board gender diversity. The way these PAI indicators should be used is still being clarified.

## High expectations for promises that are difficult to keep

Since the beginning of their partnership, Novethic and Ademe have been dissecting the strictest sustainable funds in their annual study, in order to evaluate the adequacy of these financial products with the environmental objectives set by the European Union.



« The various components of the European Union's sustainable finance strategy were meant to help investors find their way through the jungle of product with sustainable, green, ESG, SDG, climate, or transition claims. Our study shows the persistent gap between the offer and the expectations of savers who want products that are simple to understand and clear and credible measures of the environmental and social performance of the funds they are available to them. »

**Anne-Catherine Husson-Traore, Managing Director of Novethic.**

«We find that Article 9 of the SFDR regulation is a source of confusion for all and fails to play a role that is not even really its own : to provide a labeling framework for green funds. Thus, we must hope for a political breakthrough so that the ecolabel for financial products can finally see the light of day and allow for the integration of engagement and transition mechanisms into an ambitious label. »



**Mathieu Garnero, Project Director at ADEME.**

## About Novethic, the sustainable transformation gas pedal.

Our mission is to inform, train and encourage action by financial actors, companies, and citizens. At the crossroads of sustainable finance strategies and corporate social responsibility practices, Novethic deploys its expertise - media, research, audit, and training - to enable professionals and decision-makers to meet the challenges of sustainable transformation. Find all our news, studies, market analyses, regulatory briefs and analysis on [novethic.com](https://novethic.com)

Visit our website [novethic.fr](https://novethic.fr)

## About ADEME

At ADEME - the French Agency for Ecological Transition - we are resolutely committed to the fight against global warming and the degradation of resources.

On the ground, we mobilise citizens, economic stakeholders and territories to give them the means to progress.

Whatever the field - energy, circular economy, food, mobility, air quality, adaptation to climate change, soils, etc. - we advise, facilitate and help finance many projects, from research to solutions sharing.

At every level, our expertise and forecasting capacities serve to guide and inform public policies.

ADEME is a public agency under the joint supervision of the Ministry for an Ecological Transition and Territorial Cohesion, Ministry for the Energy Transition and the Ministry for Higher Education and Research.

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