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France's views on PAI Indicators for the SFDR 2.0

Principal Adverse Impact (PAI) indicators are a cornerstone of the SFDR framework, enabling investors to assess and monitor the sustainability impacts of their investments in a standardized manner. As PAIs are now embedded into FMPs reporting and decision-making processes, the primary challenge lies not in the principle of disclosure itself, but in the breadth and heterogeneity of the current set of mandatory indicators.

To address these issues, we propose a targeted reform with two complementary key pillars.

1. Establish a core set of mandatory indicators for all product categories

To ensure comparability and standardized information across all categorized products, regardless of their sustainability objectives, we suggest maintaining a limited core set of mandatory PAI indicators. Moreover, the PAI should be, as much as possible, common to both Sustainable and Transition financial products, in order to facilitate comparability between products and investors choice.

These indicators should be selected based on the following principles:

- Data Coverage and Practicality

This core set should rely on indicators with sufficient data availability to be actionable. As highlighted in the European Supervisory Authorities' report on PAIs[1], some indicators suffer from limited or medium coverage (e.g. <75%), making them unsuitable for mandatory disclosure. On the contrary, other indicators benefit from widespread availability (e.g. >75%) and should form the basis of the core set.

Indicators with limited coverage (<75%)	**Indicators with widespread coverage (>75%)**
Share of non-renewable energy consumption (5a)	Total GHG emissions (1)
Share of non-renewable energy production (5b)	Carbon footprint (2)
Emissions to water (8)	GHG intensity of investee companies (3)
Hazardous waste and radioactive waste ratio (9)	Exposure to companies active in the fossil fuel sector (4)
Unadjusted gender gap (12)	Activities negatively affecting biodiversity-sensitive areas (7)
	Violation of UNGC principles and OECD MNE guidelines (10)
	Lack process and compliance mechanisms with UNGC principles and OECD MNE guidelines (11)
	Board gender diversity (13)
	Exposure to controversial weapons (14)

Additionally, the relevance of certain PAI indicators, such as "Violation of UNGC principles and OECD MNE guidelines" and "Exposure to controversial weapons" may be of limited additional relevance due to the extensive scope of exclusions applicable to Sustainable and Transition categories.

- Alignment with ESRS and VS framework

PAI indicators should be aligned with ESRS and the VS framework (*former VSME*), in order to simplify compliance, ensure consistency across the EU sustainability framework and improve the quality and the availability of data.

[1] https://www.esma.europa.eu/sites/default/files/2025-09/JC_2025_26_Report_on_PAI_disclosures_under_Article_18_SFDR.pdf

Based on these principles and on industry feedback, the core set should be limited to a small number of indicators (i.e. around 5 indicators), including for example:

- GHG footprint of investee companies (#2, Table 1 of SFDR)
- Exposure to companies active in the fossil fuel sector (#4, Table 1 of SFDR)
- Total water withdrawal footprint in areas at water risk, including areas of high-water stress (new from E3-1)
- Biodiversity indicator (e.g., activities negatively affecting biodiversity-sensitive areas, #7, Table 1 of SFDR, or land artificialization, # 22)
- Board gender diversity (#14, Table 1 of SFDR)
- [For Transition products] Investments in companies without carbon emission reduction initiatives (#4, Table 2 of SFDR)
- [For Sustainable products] Exposure to companies active in deforestation (#15, Table 2 of SFDR)[2]

The precise number and list of indicators should be specified at Level 2, following consultation with the ESAs and the Member State Expert Group , and allowing for an easier revision. A three-year review clause could be included to this end in this delegated act.

- Requirements on ESG Basics

To strengthen the ambition of the ESG Basics category, we propose mandating disclosure of the core set of PAI indicators for products falling under this category. This requirement would align with the category's core objective of integrating sustainability risks, ensuring greater transparency and consistency across the market.

2. Ensuring comparability through a structured PAI indicator framework

Under the proposed framework, FMPs are required to identify and disclose the principal adverse impacts of their investments on sustainability factors and to explain any actions taken to address those impacts. However, the provision that FMPs "*may choose to comply in full or in part with these requirements*" introduces a high degree of discretion[3].

This flexibility raises significant concerns regarding:

- the comparability of financial products;
- the consistency of market practices;
- the risk that disclosures rely predominantly on qualitative information, limiting their usefulness for investors.

In practice, despite limitations, the standardised list of PAI indicators under SFDR 1.0 has played a key role in structuring market practices, particularly in relation to due diligence processes within the financial industry.

To address these concerns while maintaining flexibility where needed, we propose:

- Replacing the current voluntary approach with a materiality-based use of a standardised list of PAI indicators. FMPs would be expected to use indicators from this list, to be defined by the

[2] This additional PAI aims to replace the lack of exclusion policy, providing transparency to investors.

[3] "*They identify and disclose the principal adverse impacts of their investments on sustainability factors, and explain any actions taken to address those impacts. Financial market participants may choose to comply in full or in part with the disclosure requirement described under the first subparagraph point (d) by using appropriate sustainability-related indicators"* (art. 7(1)(d) and 9(1)(d)).

Commission, where they are material in light of the sustainability objective of the financial product ;
- Allowing FMPs, in cases where a PAI indicator from the standard list is not relevant, to use alternative, tailored indicators under a "*comply or explain*" approach, provided they offer a clear justification.

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3. Proposed wording

Article 7/9

Base on a key core of indicators (option 1.)

« *"They identify and disclose the principal adverse impacts of their investments on sustainability factors, and explain any actions taken to address those impacts.*

Financial market participants shall ~~may choose to~~ comply ~~in full or in part~~ with the disclosure requirements described under the first subparagraph point (d) by using sustainability-related indicators, consisting of a set of sustainability-related indicators and any appropriate additional sustainability-related indicators.

Base on a key core of indicators and mandatory use of the list of PAI indicators (option 1 and 2)

« *"They identify and disclose the principal adverse impacts of their investments on sustainability factors, and explain any actions taken to address those impacts.*

Financial market participants ~~may choose to~~ shall comply ~~in full or in part~~ with the disclosure requirement described under the first subparagraph point (d) by using ~~appropriate sustainability-related indicators.~~ a set of sustainability-related indicators and, where relevant, any additional indicators aligned with the sustainability objective of the financial product. Where financial market participants consider that one or more of the baseline indicators are not relevant to their product, they may use alternative sustainability-related indicators, provided proper justification.

Article 19b

The Commission shall be empowered to adopt a delegated act in accordance with Article 19c to supplement:
(a) paragraphs 1, 2, 3 and 4 of Article 7 to specify:
(a) the conditions for investments to contribute to the transition-related objective, and more in particular to specify:
*(i) indicator(s) building on the indicators referred to in Annex I to Commission Delegated Regulation (EU) 2022/1288*11 and Commission Delegated Regulation (EU) 2023/2772 [to be adapted to the new CSRD delegated act]*12 for voluntary use by financial market participants when complying with paragraph 1, first subparagraph, point (a)* ***and to be used by financial market participants when complying with paragraph 1, first subparagraph*** *point (d).*