

# SUSTAINABILITY-RELATED MATERIALITY IN THE SFDR

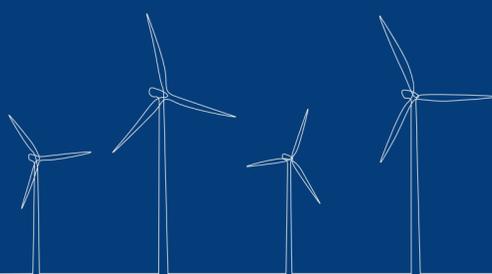
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Categorizing financial products in SFDR does not guarantee material sustainability-related information; earmarking a portfolio as "sustainable investment" does.

Product categories are and should be tools to incentivize the earmarking of portfolios as "sustainable investment" and not be used to divert attention to other minimum criteria.



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## What is the problem?

Product categorization in Article 8 or 9 is meant to signal to investors that a product provides more disclosures than 'single materiality'.

Categorization does not guarantee that the disclosures contain material sustainability-related information.

Setting minimum criteria ensures some material form of sustainability upon categorization.

The EU opposes minimum criteria, and its rulebook does not assign the same relevance to categorization as the industry does.

## What is our approach?

From the EU's opposition a principle on which the law rests can be derived which is relevant to guide supervisory practices and inform policymaking.

## A theory of sustainability related-materiality

The legal framework rests on the principle that sustainability impact can be achieved with disclosures that limit possible explanations of what sustainability is by means of a "sustainable investment" analysis:

- indicators must be used to explain why there is no significant harm to a sustainability objective
- it must be explained why the taxonomy was not used if environmental objectives are pursued

## Policy implications

A "sustainable investment" analysis already implies certain minimum criteria but making the criteria explicit may limit analyses to meeting such criteria.

If the goal is transparency, the EU should focus on further limiting the justification of why there is sustainability impact instead of setting criteria.