

Sustainability in Investments

With Act [No. 25/2023](#) on disclosure in financial services and a classification system for sustainable investments, [the SFDR \(Sustainable Finance Disclosure Regulation\) 2019/2088](#) and [Taxonomy 2020/852](#) came into force in Iceland, simultaneously introducing amendments to the legislation governing the financial market. The purpose of the SFDR is to increase transparency in the financial market for sustainable investments and affects financial market participants. When providing investment advice or asset management services, financial market participants are required to gather information about clients' sustainability preferences. If the supply of investment options does not meet the sustainability requirements of customers, they can still choose to trade in financial investments. The legislation defines various types of sustainability-related investments and factors that have a negative impact on sustainability.

Environmentally sustainable investments (Taxonomy)

"Environmentally sustainable investment" refers to investments in activities that are environmentally sustainable according to Regulation (EU) 2020/852 establishing a framework to facilitate sustainable investment.

One of the objectives of the regulation is to define the activities that meet the criteria to be considered environmentally sustainable for the purpose of establishing the degree to which an investment is environmentally sustainable.

An activity is considered environmentally sustainable under the regulation if it (a) significantly contributes to one or more of the environmental objectives set out in Article 9 of the regulation, (b) does not significantly harm the environmental objectives, (c) complies with minimum safeguards as recommended in Article 18 of the regulation, and (d) meets technical screening criteria.

Sustainable investment (SFDR - Article 9)

"Sustainable investment" refers to financial products that fall under Article 9 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. For a financial product to fall under Article 9, it must have sustainable investment as its objective. In essence, the term "sustainable investment" is defined in the regulation as an investment in activities that contribute to environmental or social objectives, provided that such investments do not significantly harm any of those objectives, and that the investee companies follow good governance practices.

Investments that promote environmental or social factors (SFDR - Article 8)

"Investments that promote environmental or social factors" refers to financial products that fall under Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. Article 8 covers financial products that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies invested in follow good governance practices. Financial products under Article 8 thus contribute to sustainability, although it is not their primary goal. For example, a product might exclude fossil fuels due to carbon emissions, but all underlying investments of the product are not directly geared towards sustainability, as is the case with financial products falling under Article 9.

Principal adverse impacts

Principal adverse impacts are those impacts of investment decisions and advice that result in negative effects on sustainability factors.

Sustainability factors refer to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

Mixed emphasis on sustainability factors in investments

This refers to emphasizing various sustainable characteristics in investments, rather than just one of the characteristics listed above. It involves considering the investment options available in the market and, for instance, focusing on financial instruments that take into account the principal adverse impacts and promote environmental or social factors.