

EU Sustainable Finance Disclosure Regulation (SFDR)

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What is the EU Sustainable Finance Disclosure Regulation?

- The EU Sustainable Finance Disclosure Regulation (SFDR) is EU regulation designed to improve transparency around sustainability in the market for investment products.
- The directive sits alongside the EU taxonomy and the EU Corporate Sustainability Reporting Directives (interacting and using definitions in each) as the key acts that will drive a greener economy.
- The SFDR directives are designed to better serve investors and regulate financial institutions and financial product owners to create better transparency in what is deemed green and how well it is serving “green” goals.
- The regulation makes it obligatory for financial market participants to publish in reporting and on websites the adverse sustainability impacts, alignment of remuneration to management of the risks and potential adverse impacts, and the risks that climate change poses to investors.

Who is impacted by the CRSD?

- **Financial market participants (e.g. investment firms, pension funds, asset managers, insurance companies, banks, VC's) with 500+ employees.**
- **Applies to anyone marketing products based in the EU (even if based elsewhere)**
- **Impacts all major listed firms, banks, investment firms, with significant subsidiaries in Europe.**
- **Implies 4,800 asset management firms, and c. 15K European listed companies. Investment firms will need to source information from their portfolio firms implying a significant impact on wide range of firms operating in the EU block.**

Sources: <https://www.efama.org/about-our-industry/our-industry-numbers>; <https://focus.world-exchanges.org/articles/number-listed-companies>

What are the requirements of the SFDR: Entity and Product level disclosures

1

Corporate entity level disclosures: investment firms

Information on policies to ensure investment advice and decision-making process includes sustainability risks and adverse impacts.

Transparency on how remuneration and governance of sustainability risks are factored in entity policies.

2

Product level disclosures to the investors (will impact the companies being invested in most)

Explain how sustainability risks are integrated in investment decisions.

Description of the Principle Adverse Impacts (PAIs) that investments can have on key sustainability factors.

Classification of financial products into three category of products: Article 6, Article 8, Article 9 Funds.

Describe the methodologies for the assessment, measurement and monitoring of policies and disclosures.

Sources: <https://www.efrag.org>

Definition of Sustainable investment and Sustainable risk

Sustainable investment

Contributes either to an environmental objective or a social objective does not significantly harm any environmental or social objectives and the investee company follows good governance practices.



Sustainable Risk

This is an environmental, social or governance event or condition which, if it occurs, could cause a material negative impact on the value of an investment.

Sources: <https://www.simmons-simmons.com/en/features/sustainable-financing-and-esg-investment>

Definition of key sustainability factors laid out by the regulation

- Description of the Principle Adverse Impacts (PAIS) that investments can have on key sustainability factors .
- Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- In addition, the Regulation introduces six specific sub-categories of environmental objectives which are part of a broader set of objectives noted in SFDR:



**Climate
change
mitigation**



**Climate
change
adaptation**



**Protection of
water and
marine
resources**



**Transition
to a
circular
economy**



**Pollution
control**



**Protection of
ecosystems**

Sources: <https://www.simmons-simmons.com/en/features/sustainable-financing-and-esg-investment>

Introduction of new product classification article 6, 8 and 9 funds

Article 6 funds

Funds which do not integrate any kind of sustainability into the investment process and could include stocks currently excluded by ESG funds such as tobacco companies or thermal coal producers.

69.5% of funds for sale in the EU*

Article 8 funds

Funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

27.9% of funds for sale in the EU*

Article 9 funds

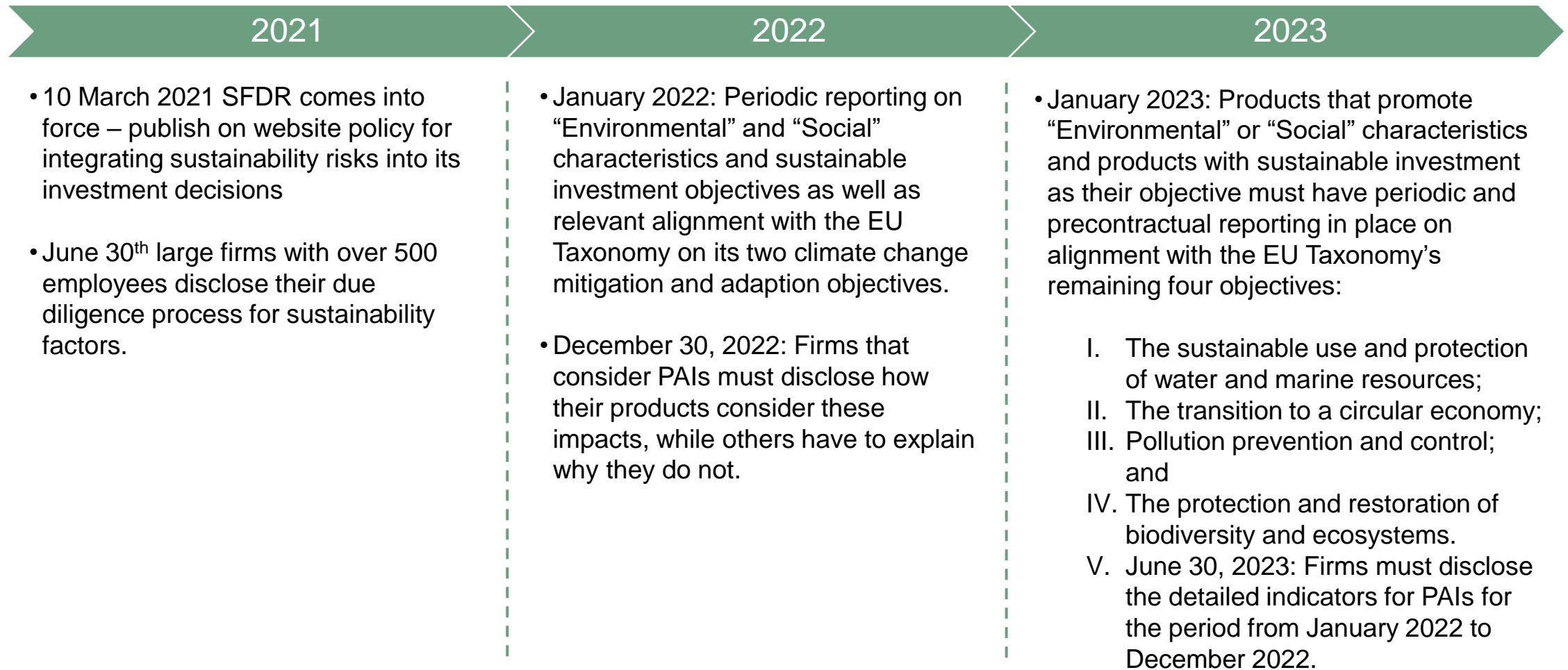
Funds where a financial product has sustainable investment as its core objective and an index has been designated as a reference benchmark.

3.6% of funds for sale in the EU*

Sources: <https://www.morningstar.com/en-uk/lp/sfdr-article8-article9>

*As of March 2022

What is the time table for implementation of the CRSD?



Sources: <https://www.spglobal.com/marketintelligence/en/news-insights/blog/what-is-the-impact-of-the-eu-sustainable-finance-disclosure-regulation-sfdr>

How does the SFDR fit with other EU Reporting frameworks?

Regulation:	Corporate Sustainability Reporting Directive (CSRD, discussed here)	<i>Sustainable Finance Disclosure Regulation (SFDR)</i>	Taxonomy Regulation
Scope	All EU large companies and all listed companies (except listed micro enterprises)	<i>Financial market participants offering investment products, and financial advisers</i>	Financial market participants; all companies subject to CSRD
Reporting required	Report on the basis of formal reporting standards and subject to external audit	<i>Entity and product level disclosure on sustainability risks and principal adverse impacts</i>	Turnover, capital and operating expenditures in the reporting year from products or activities associated with Taxonomy
Status	Expected to apply from 2023	<i>Applies from 10 March 2021</i>	Applies from January 2022

Sources: <https://www.efrag.org>

Further reading

- <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>
- https://assets.contentstack.io/v3/assets/blt3de4d56151f717f2/blt76669b75d92911de/5efca0f18304ac0dbc4a5e3e/EU_ESG_-_SFDR_Key_Requirements_June_2020.pdf
- https://finance.ec.europa.eu/system/files/2017-07/170713-sustainable-finance-report_en.pdf
- <https://www.efrag.org>