

THE EU SUSTAINABLE FINANCE DISCLOSURE REGULATION - WHERE DO WE STAND?

9TH December 2020



PROMOTING SUSTAINABILITY THROUGH
EUROPEAN FINANCIAL MARKETS

1. HOW DOES IT FIT IN THE BROADER EU POLITICAL CONTEXT?



- **EU Green Deal** – accelerate the transition of economic sector to more sustainable business models, to meet climate objectives
- **EU Sustainable Finance Strategy** – mainstream sustainability factors in financial markets, including in decision making by investors and asset managers
- **SFDR** – specifically addressing integration of sustainability factors in investment chain and strengthening investor protection from ‘greenwashing’



CORE OF EU
SUSTAINABLE
FINANCE

2. WHAT ARE THE KEY CONCEPTS OF THE SFDR?

What are the key definitions?

- **Sustainability Risks (Art 2(22))** - means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment
- **Sustainability Factors (Art 2(24))** - mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
- **Sustainable Investment (Art 2(17))** - investment in an *economic activity* that contributes to an *environmental objective* or a *social objective*, provided that such investments *do not significantly harm (DNSH) any of those objectives* and that the *investee companies follow good governance practices*
- **Double materiality** – it is about sustainability risks impacting the portfolio, as well as the impact of the portfolio on sustainability indicators

A large, semi-circular graphic element is centered on the right side of the slide. It features a dark blue circle on the left containing the text "KEY DEFINITIONS" in white, uppercase letters. To the right of the circle is a semi-circular window with a grid pattern, showing a view of a modern glass skyscraper and lush green trees under a bright sky.

KEY DEFINITIONS

3. WHAT WILL ASSET MANAGERS NEED TO DISCLOSE?

Entity/firm level (regardless of products offered)

- Policy on Integration of sustainability risks (March 2021)
- Alignment of remuneration policy with sustainability risks (March 2021)
- Adverse sustainability impacts (Mandatory and Voluntary Indicators) (March 2021, first report in June 2022)

Product level

- Website disclosures (March 2021)
- Pre-contractual disclosures (March 2021)
- Periodic reporting (January 2022)

A large, dark blue circular graphic with the text "ENTITY & PRODUCT LEVEL" in white, bold, sans-serif capital letters. The graphic is positioned in the center of the slide, overlapping a background image of a canal scene. The background image shows a narrow canal with several houseboats, trees with autumn foliage, and buildings in the distance under a cloudy sky. The foreground is slightly blurred, showing some red flowers.

ENTITY &
PRODUCT LEVEL

4. HOW SHOULD ASSET MANAGERS NAVIGATE COMPLIANCE IN 2021?



Delay of Level 2 rules until Q1 2022

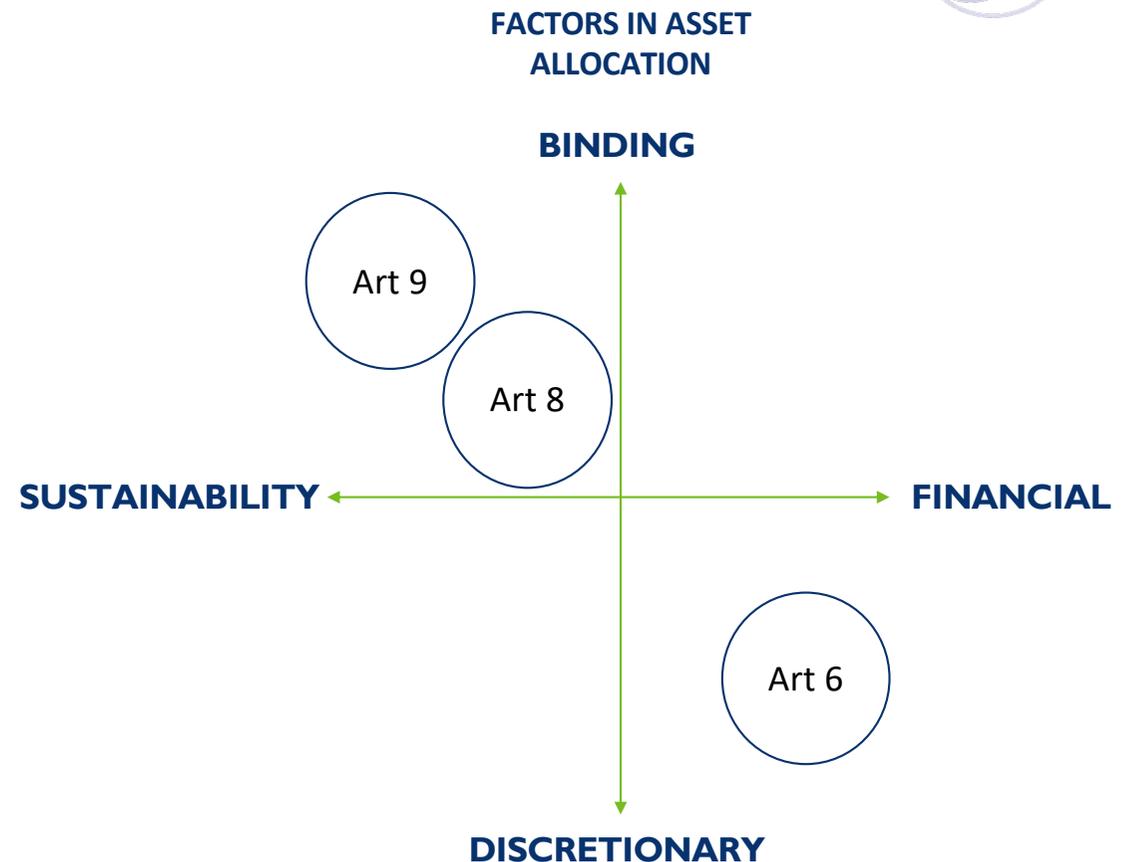
- European Commission confirmed to ESMA, EBA and EIOPA that Level rules will be delayed
- Indications that the Level 2 rules will apply as of Q1 2022 (January)
- Disclosure requirements will continue to apply as foreseen in the Level 1 legislation on a principles base
- ESAs will coordinate approach of all national supervisors – not clear whether we can expect any public statement or guidance
- Asset managers should enter in a dialogue with supervisors to understand concrete expectations

A photograph of the Eiffel Tower in Paris at night, illuminated with warm orange lights. The tower is the central focus, with the Parisian skyline and a carousel visible in the background. A large, semi-transparent blue circle is overlaid on the left side of the image, containing the text "DELAY OF LEVEL 2".

DELAY OF LEVEL 2

5. HOW DOES THE SFDR CLASSIFY FINANCIAL PRODUCTS?

- **Transparency on sustainability risks (Art 6)** – integration of sustainability risks or not for all financial products
- **Product promoting environmental and/or social characteristics (Art 8)** – binding sustainability factors integrated in the asset allocation, but DNSH optional
- **Product having as objective sustainable investments (Article 9)** – application of DNSH across entire portfolio
- **Transparency of adverse sustainability impacts (Art 7)** – does a product consider these impacts? (Dec 2022)
- **Important** – no quantitative or detailed minimum requirements for products in the SFDR



6. HOW DOES THE SFDR CLASSIFICATION APPLY TO RECOGNISED ESG/SRI STRATEGIES?



Eurosif classification of Sustainable and Responsible Investment – Eurosif Transparency Code

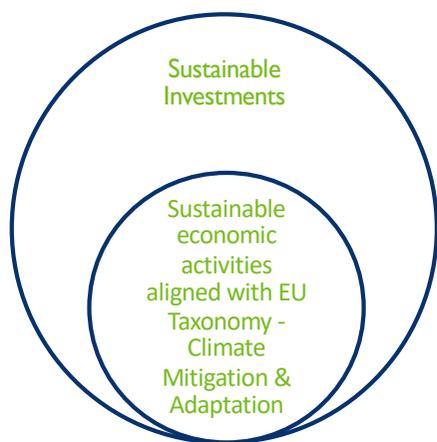
Strategy	Sustainability Themed Investment	Best-in-Class Investment Selection	Norms-Based Screening	Exclusion of Holdings from Investment Universe	Integration of ESG Factors into Financial Analysis	Impact Investing
Description	Investment in themes or assets linked to the development of sustainability.	Approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria.	Screening of investments according to their compliance with international standards and norms.	An approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries.	The explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions.	Investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return.
Art 6 SFDR		X (if based on ESG integration)		X (if at firm level)	X	
Art 8 SFDR	X (if part of portfolio)	X	X	X (if at fund level)		X (if part of portfolio)
Art 9 SFDR	X (if entire portfolio)					X (if entire portfolio)

Engagement and Voting – although identified as separate strategy in the Eurosif Transparency code, engagement and stewardship is an implicit requirement for Article 8 and 9 products, as products also have to demonstrate that the portfolio is invested in companies following good governance practices

Carbon Emission Reduction – if a product has this as binding objective, it will likely be an Art 9 product, required to use a EU Climate Transition or EU Paris-aligned Benchmark

7. WHAT IS A SUSTAINABLE INVESTMENT UNDER THE SFDR (ART 9)?

- **Sustainable Investment** – definition is key to Art 9 class of products
- **Similar but different to EU Taxonomy** – DNSH analysis is different to the definition of sustainable economic activity in EU Taxonomy



Sustainable Investment > Sustainable Economic Activities

Environmental	Social	Governance
Climate Mitigation (2022)	Social Taxonomy (European Commission report by December 2021)	Policy on identifying good governance practices and Engagement/Stewardship policy (EU Corporate Governance and Due Diligence Legislation 2021)
Climate Adaptation (2022)		
Sustainable use and protection of water and marine resources (2023)		
Transition to a circular economy, waste prevention and recycling (2023)		
Pollution prevention and control (2023)		
Protection of healthy ecosystems (2023)		
Application of EU Taxonomy	Discretion for asset manager	Discretion for asset manager

8. WHY IS THE SFDR PRODUCT RELEVANT FOR FUND DISTRIBUTION?



- **Sustainability preferences** – amendments to MiFID II suitability test to introduce concept of ‘sustainability preferences’ (for non-professional clients).
- **Link to SFDR product classification** – a link will be made with the product classification (Article 8 and 9).
- **Gold-plating of the SFDR classification?** – goal and challenge is to define a ‘product universe’ going beyond ESG integration (sustainability risks) and taking into sustainability factors and principal adverse impact indicators.
- **Marketing communications** – possibility for the ESAs to develop standard presentation of information



SUSTAINABILITY
PREFERENCES

9. IS THE SFDR LINKED TO THE EU TAXONOMY?



- **Taxonomy alignment** – asset managers subject to the NFRD will have to report on the alignment of their assets under management with the EU Taxonomy
- **Art 9** – will have to report the alignment with the EU Taxonomy of the entire product portfolio with a breakdown of sustainable, enabling and transition activities
- **Art 8** – can report the alignment with the EU Taxonomy on the share of the product portfolio invested in sustainable investments, complemented with a disclaimer/statement for the remainder of the portfolio
- **Timeline** - for entity level taxonomy alignment, ESMA Technical Advice in February 2021. For product level disclosure, consultation expected in January 2021.



10. IS THE SFDR APPLICABLE TO ASSET MANAGERS LOCATED OUTSIDE THE EU?



- **UCITS** – firms offering a range of UCITS and non-EU asset managers to whom portfolio management of UCITS ManCos has been delegated will indirectly have to comply
- **AIFMD** –EU AIFs managed by non-EU AIFMS as well as non-EU AIFs offered under national private placement regimes are in scope of the SFDR product disclosure requirements.



IMPACT BEYOND
EU



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