



The EU Sustainable Finance Agenda

Sustainable Finance Disclosure Regulation (SFDR)
and its Regulatory Technical Standards (RTS)

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Document overview:

This document presents a brief and easy-to-follow overview of the Sustainable Finance Disclosure Regulation (SFDR) and its Regulatory Technical Standards (RTS). Predominantly, we focus on the most recent developments, key information and relevant timelines, as well as specific disclosure and reporting obligations under the regulation. The Annexes of the document provide a clear overview of all types of disclosure requirements along with examples of information needed at both entity and product level.

Given the complexity and length of these policies, this briefing aims to provide key information in a concise, practical and easy-to-use form, to enable the user to gain better understanding of what information is needed, as well as when, and how it should be presented. The document should not be used in a one-size-fits-all approach, as the final requirements differ based on the specifics of the reporting organisation - which makes it almost impossible to devise the exact reporting requirements without entity-level information.

The information presented is based on the most recent and up-to-date versions of the relevant legislation and supplementary documents. Where applicable, this paper provides a direct link to the legislation and relevant articles for the regulation in question. It is important to note that some parts of these legislations may be still amended in 2022 and coming years.

The context

The Sustainable Finance Action Plan was first laid out by the European Commission in March 2018. It was a response to the signing of the Paris Agreement and the United Nations (UN) 2030 Agenda for Sustainable Development. Its aim is to promote sustainable investments across the EU.

The action plan sets out three main objectives and ten key actions needed to further connect finance with sustainability.

The three main objectives are:

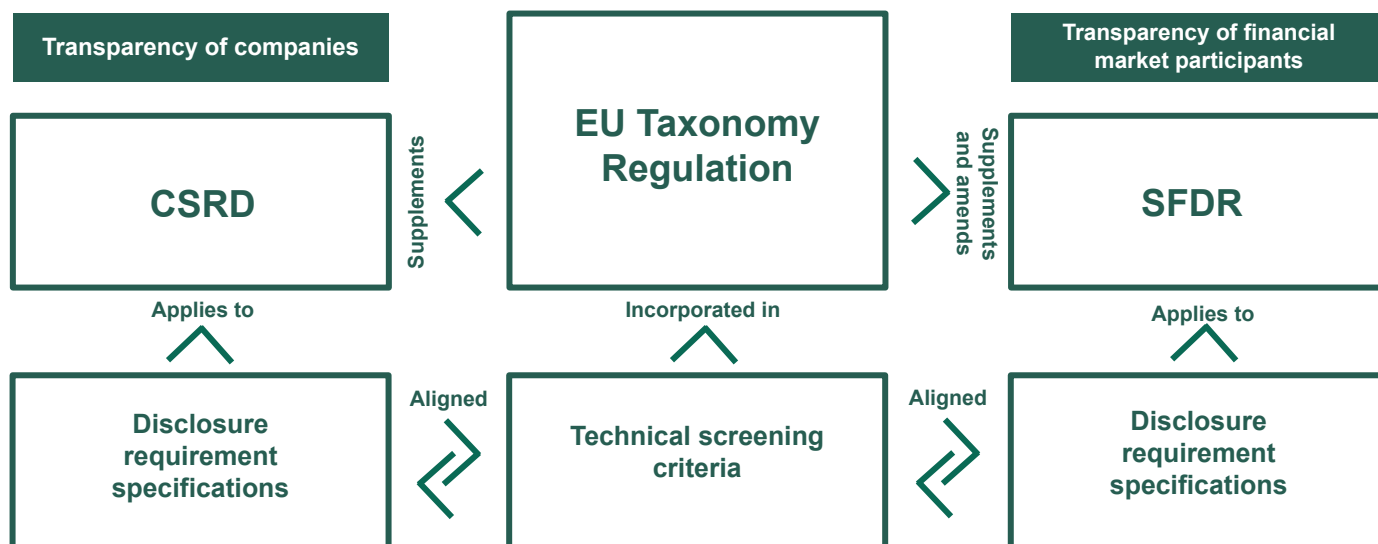
- To reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth,
- To manage financial risks stemming from climate change, environmental degradation, and social issues,
- To foster transparency and long-termism in financial and economic activity.

The Corporate Sustainability Reporting Directive - CSRD is the EU legal framework for regulating the disclosure of non-financial information by corporations. This directive amends the 2014 Non-Financial Reporting Directive (NFRD), providing more detailed requirements based on concrete indicators, with an improved focus on the social and governance factors on top of the climate and environment.

The EU Taxonomy Regulation provides for a unified classification system of activities that can be considered sustainable. It is an essential component of the Sustainable Finance Action Plan.

The Sustainable Finance Disclosure Regulation (SFDR) is another set of EU regulation, which aims to make it easier for investors to understand and compare the sustainability profile of investment funds through improved transparency and disclosure about products.

The relationship between these regulations is outlined below.



Source: The European Commission

The Sustainable Finance Disclosure Regulation (SFDR)

What is it?

SFDR introduces new obligations for **financial market participants** (FMPs) and **financial advisers** (FAs) to report on how they account for sustainability risks at both the “**entity level**” (i.e. how the whole financial organisation deals with such risks) and also at the “**product level**” (i.e. how their financial products/funds are affected by such risks) in **pre-contractual documents** (*prospectus of funds*), **websites and periodic reports** (*annual reporting*).

The SFDR regulation is often divided into two main parts, depending on when they were introduced, which are referred to as “**Level 1**” and “**Level 2**”.

- **Level 1 - [Regulation \(EU\) 2019/2088 \(SFDR\)](#)**
It sets out the framework principles to establish harmonised **transparency** rules on sustainability risks and adverse impact on sustainability factors, without specifying technical details. **This regulation has been in effect from March 10, 2021**
- **Level 2 - [Delegated Regulation \(EU\) 2022/1288](#) also known as **Regulatory Technical Standards (RTS)****
It supplements Level 1 with greater details, clarifications and structure. It specifies the exact content, methodologies and presentation of the information to be disclosed (under **Article 8 and 9 disclosures**).

Who is in scope?

Financial Market Participants (FMPs) and **Financial Advisers** (FA) in scope for disclosure obligations under the SFDR are listed below. They represent producers of financial products described under article 8(1), 9(1), 9(2) and/or 9(3) of the SFDR regulation (p.16 and 17), and will need to report to their clients on the sustainability impacts related to the financial product.

Financial Market Participants

- An insurance undertaking
- An investment firm which provides portfolio management;
- An institution for occupational retirement provision (IORP);
- A manufacturer of a pension product;
- An alternative investment fund manager (AIFM);
- A pan-European personal pension product (PEPP) provider;
- A manager of a qualifying venture capital fund registered in accordance with Article 14 of [Regulation \(EU\) No 345/2013](#);
- A manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of [Regulation \(EU\) No 346/2013](#);
- A management company of an undertaking for collective investment in transferable securities (UCITS management company).

Financial Advisers

- An insurance intermediary which provides insurance advice with regard to IBIPs;
- An insurance undertaking which provides insurance advice with regard to IBIPs;
- A credit institution which provides investment advice;
- An investment firm which provides investment advice;
- An AIFM which provides investment advice in accordance with point (b)(i) of Article 6(4) of Directive 2011/61/EU;
- A UCITS management company which provides investment advice in accordance with point (b)(i) of Article 6(3) of [Directive 2009/65/EC](#);

Timeline and recent developments

- **9 December 2019** - The first version of the SFDR Regulation
- **10 March 2021** - “Level 1” of the SFDR regulation applies
- **14 February 2021** - First Draft report of Regulatory Technical Standards (RTS) (“Level 2”) was submitted by the ESA to European Commission (EC) for review
- **22 October 2021** - Second (Final) Draft report of the RTS (“Level 2”) submitted to the EC. The proposed application for the regulation was 1 July 2022.
- **25 November 2021** - The European Commission has confirmed a **delay** to the application date for **SFDR RTS** (Level 2). The application date has been postponed from **1 July 2022** until **1 January 2023**. (The European Commission also requested for the First and Second draft of the RTS be merged into a single instrument and adopted in that form.)
- **6 April 2022** - The European Commission adopted technical standards to be used by financial market participants when disclosing sustainability-related information under SFDR

Impact of the delay

Disclosure requirements timing changed

The Commission’s letter on the delay of the application for the regulation also confirmed that **financial market participants** will be required to comply with disclosure requirements on principal adverse impacts on sustainability matters set out in the **SFDR RTS** for the first time by **30 June 2023**, however, for the financial reference period (FY) **1 January - 31 December 2022**.

The Sustainable Finance Disclosure Regulation (SFDR)

Overview - Requirements under “Level 1” (Applicable from 10 March 2021)

The “Level 1” text of the SFDR already requires “financial market participants” to make certain disclosures as to whether a financial product should be classified as an **Article 6**, **Article 8** or **Article 9 product** (see more info below), and whether they disclose the **principal adverse impacts** (PAIs) of their products.

Whilst EU regulated firms are primarily within direct scope of the definition of a “financial market participant”, SFDR disclosures also apply directly to non-EU firms marketing funds into the EU under national private placement regimes. See the definition of the **products** below:

Article 6 (Non-sustainable funds)	Article 8 (“Light Green funds”)	Article 9 (“Dark Green funds”)
Funds which do not integrate any kind of sustainability into the investment process. It can include stocks currently excluded by ESG funds such as tobacco companies or thermal coal producers.	Promote , among other characteristics, environmental and social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.	Have sustainable investment as their objective , defined in the Disclosure Regulation as any of the following: <ul style="list-style-type: none">• investments in economic activity that contributes to an environmental objective;• investments in economic activity that contributes to a social objective and in particular an investment that contributes to tackling inequality, an investment fostering social cohesion, social integration or labour relations; and• investments in human capital or economically or socially disadvantaged communities; provided that such investments do not significantly harm any of those objective

Entity level vs. Product level reporting

FMPs in scope of **SFDR Level 1** must disclose relevant information about both their organisation and their products/funds. This information then must be presented in the relevant format and place (website, product materials, reporting)

Entity Level:

The SFDR imposes to inform the clients by disclosing on the **firm’s website**:

- the firm’s policies on the integration of sustainability risks in its investment decision-making process or in its investment advice or insurance advice; and
- remuneration policies which must disclose how that policy is consistent with the integration of sustainability risks.

The policies must contain a statement on whether or not principal adverse impact of investment decisions on sustainability factors are considered. If so, a statement on due diligence policies with respect to those impacts, the nature and scale of its activities and the type of financial products which are made available must be added as from **30 June 2021**. A good example on the above disclosure can be seen on the website of [NN Investment Partners](#).

Comply or explain:

If the in-scope firm does not consider the adverse impact of investment decision on sustainability, its policies must contain information on **why** such impact is **not** considered.

Product Level:

In-scope firms must amend their relevant **pre-contractual information documents** to disclose transparency on the following information:

- The manner how sustainability risks are integrated into investment decisions and advice; and
- Results of the firm’s assessment of the likely impacts of sustainability risks on the returns.

These disclosures must be included in amongst others the prospectus or private placement memorandum or the investment management agreement. If sustainability risks are considered not to be relevant, the pre-contractual disclosures must include a clear explanation of the reasons therefor.

The SFDR: The Regulatory Technical Standards (RTS)

Overview - Requirements under “Level 2” (Applicable from 1 January 2023)

Entity Level

The ‘**Principal Adverse Sustainability Impact statement**’ (PAIS) set out in Annex I of the RTS will be phased in from January 1, 2023 and must be followed and disclosed at an entity level. The first disclosure under the RTS, from January 2023, should contain information in the “Summary,” “Description of policies to assess principal adverse sustainability impacts,” any “engagement policies” not related to reduction in impacts during the reference period, and “adherence to international standards” sections. A step-by-step instructions for preparation of the PAIS is provided in the [Annex I](#).

By June 2023, financial market participants are required to report on a set of **Principal Adverse Impact indicators**, aggregated at entity level across its investments in a given period. These PAI indicators are essentially a set of **environmental, social and governance** indicators and metrics, ranging from carbon emissions, water emissions, biodiversity impacts, social violations, and gender parity on the board. The [Annex I](#) provides clearly listed indicators in three tables split by two main themes: **Climate and other environment-related** and **Social and Employee, Respect for Human Rights, Anti-Corruption and Anti-Bribery Matters**.

Mandatory indicators can be found in Table 1 of Annex I. Additionally, FMP must disclose information on one or more additional environmental indicators, as set out in Table 2 of Annex I, and information on one or more additional indicators for social matters, as set out in Table 3 of Annex I. The information on principal adverse impacts should relate to reference periods that run from **1 January until 31 December of the preceding year**, and should be **published by 30 June each year**.

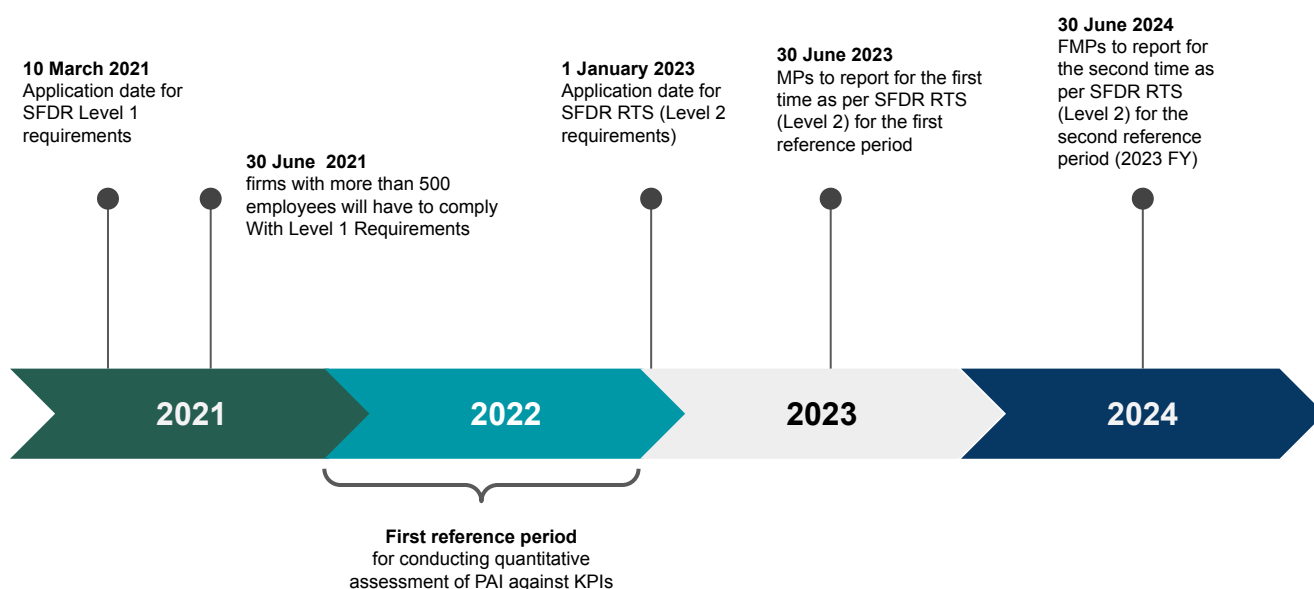
For a good practice example, please see completed [PAIS by Robecco](#).

Product Level:

Under SFDR, FMPs also need to disclose information in **pre-contractual disclosures** (for example via a prospectus document) and in **periodic reports** (for example via the annual report). Templates for these disclosures are provided in **Annexes II-V of RTS**. **Annexes II and III provide** a template for pre-contractual disclosure for article 8 and 9 products. **Annexes IV and V provide** a template to disclose information in periodic reports for article 8 and 9 products.

For more information, please see the **Annex** of this document.

The SFDR Disclosure Requirements timeline



The Sustainable Finance Disclosure Regulation (SFDR) cont.

Overview - Taxonomy-related disclosures under the SFDR

The Delegated Regulation (RTS) also aims to provide a better harmony between the **SFDR** and the **EU Taxonomy Regulation**.

The **Taxonomy-Related RTS** sections require **SFDR Article 8 and 9**, i.e. financial products which make sustainable investments with an environmental objective, to make certain additional disclosures, including how and to what extent the investments made by that financial product are in taxonomy-aligned economic activities.

As per the Delegated Regulation (RTS), the taxonomy-alignment of the investments in non-financial undertakings should be reported using:

- Turnover as the default KPI for **pre-contractual disclosures**. This applies to investments in non-financial companies but financial market participants may use CapEx or OpEx where this may be more appropriate given the features of the financial product. However the same KPI must be used for all investments in the pre-contractual disclosure.
- All KPIs (turnover, Capex and Opex) for **periodic disclosures**.

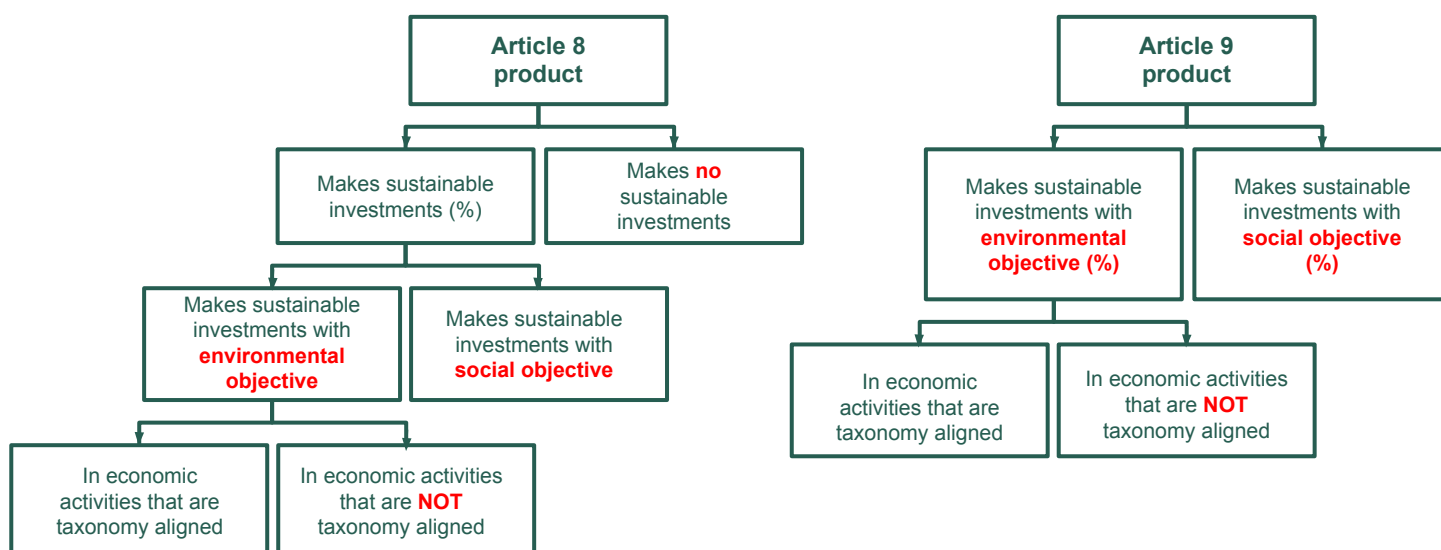
The RTS further cover the content and presentation of this additional information to the SFDR product disclosures, which are required to be presented in both pre-contractual and periodic format. Templates and instructions on taxonomy alignment are included in **Annexes II-V**.

The ESAs propose to treat the Article 9 SFDR products with an environmental objective as a subset of a larger Article 9 SFDR category, and Article 8 SFDR products which make sustainable investments with an environmental objective a subset of a larger Article 8 SFDR category of products which make sustainable investments. See diagrams below.

The Final RTS provides instructions on the **calculation of the taxonomy alignment of investments** for both Article 8 and 9 products (Article 16b, page 134).

Article 8 products, which commit to (or made) a minimum proportion of sustainable investments will further identify whether those sustainable investments have an environmental or social objective. For those products making sustainable investments with an environmental objective, the manager should disclose whether such investments were **taxonomy-aligned** or not.

Article 9 products have an environmental objective and/or sustainable investments with a social objective (in each case, identified by a percentage of such investments the product will make (for pre-contractual disclosures) or did make (for periodic disclosures). For those financial products making sustainable investments with an environmental objective, such products will be further categorised as **taxonomy-aligned** or not.



I. SFDR reporting: Overview of all requirements

Table 1 below provides a clear overview the disclosure requirements for each article in the regulation, split by the entity type (FMP/FA) reporting level (Entity/Product), and way of reporting:

Table 1 - Overview of disclosure requirements under the SFDR

	SFDR	Who			How			RTS
		FMPs	FA	FMPs who offer sus. products	Comply	Comply or explain	Big FMPs comply others comply or explain	
Entity	Art. 3	Transparency of sustainability risk policies	X	X		X		
	Art. 4	Transparency of adverse sustainability impacts at entity level	X	X			X	X
	Art. 5	Transparency of remuneration policies in relation to the integration of sustainability risks	X	X		X		
	Art. 6	Transparency of the integration of sustainability risks	X	X			X	
	Art. 7	Transparency of adverse sustainability impacts at financial product	X				X	
Product	Art. 8	Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures			X	X		X
	Art. 9	Transparency of sustainable investments in pre-contractual disclosures			X	X		X
	Art. 10	Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites			X	X		X
	Art. 11	Transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports			X	X		X

II. SFDR reporting: Locations for disclosures

Table 2 provides a clear overview of the main themes of disclosure requirements split by fund types (Article 6, 8, and 9) and location/place where the information should be presented.

Table 2: Overview of main themes and locations for reporting under the SFDR

Article 6		
Pre-contractual	Website	Periodic reports
<ul style="list-style-type: none"> • The manner in which sustainability risks are integrated into investment decisions (Art. 6) • Results of the assessment of likely impacts of sustainability risks on the returns of the financial product (Art. 6) • Whether and if so, how financial product considers principal adverse impacts on sustainability factors (Art. 7) 	<ul style="list-style-type: none"> • Information about policies on the integration of sustainability risks in the investment decision-making process (Art. 3) • Statement on due diligence policies with respect to adverse impacts on sustainability factors, or a clear reason for why not doing so (Art. 4) 	
Article 8		
Pre-contractual	Website	Periodic reports
<ul style="list-style-type: none"> • Information on how those characteristics are met (Art. 8) • If an index has been designed as a benchmark (Art. 8) • Methodology for calculation of benchmark (Art. 8) • Disclosure according to Annex II 	<ul style="list-style-type: none"> • A description of the environmental or social characteristics (Art. 10) • Information about the methodologies used to assess, measure, and monitor the environment or social characteristics, including its data sources, screening criteria, and relevant sustainability indicators (Art. 10) 	<ul style="list-style-type: none"> • The extent to which environmental or social characteristics are met (Art. 11) • Disclosure according to Annex IV
Article 9		
Pre-contractual	Website	Periodic reports
<ul style="list-style-type: none"> • If a reference index has been designated, information on how the index is aligned with sustainable investment objective (Art. 9) • If no index has been designated, an explanation of how the objective is to be attained (Art. 9) • Disclosure according to Annex III 	<ul style="list-style-type: none"> • A description of the sustainable investment objective (Art. 10) • Information about the methodologies used to assess, measure, and monitor the impact of the sustainable investment objective, including its data sources, screening criteria, and relevant sustainability indicators (Art. 10) 	<ul style="list-style-type: none"> • The overall sustainability-related impact of the financial product by means of relevant sustainability indicators or; • A comparison between the sustainability-related impact of the financial product with the impacts of the designed index and of a broad market index (Art. 11) • Disclosure according to Annex V

III. SFDR reporting: Disclosure Templates overview

Pre-contractual and periodic disclosure templates for Article 8 funds

Information to be disclosed according to template set out in Annex II and IV of the regulation

This sections provides a basic overview of the information and questions, which are set out in the templates in the Annex II and IV

Examples of questions to disclose in Annex II (Pre-contractual)

- What environmental and/or social characteristics are promoted by this financial product?
 - What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?
- Does this financial product consider principal adverse impacts on sustainability factors?
- What investment strategy does this financial product follow?
 - What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?
- What is the asset allocation planned for this financial product?
- Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?



Several questions about PAI, investment strategy, Taxonomy alignment, etc.

Does this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

●● **Yes** ●● **No**

<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments
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Examples of questions to disclose in Annex IV (Periodic)

- To what extent were the environmental and/or social characteristics promoted by this financial product met?
 - How did the sustainability indicators perform?
 - ... and compared to previous periods?
- How did this financial product consider principal adverse impacts on sustainability factors?
- What were the top investments of this financial product?
- What was the proportion of sustainability-related investments?
- What actions have been taken to meet the environmental and/or social characteristics during the reference period?
- How did this financial product perform compared to the reference benchmark?



Several questions about PAI, investment strategy, Taxonomy alignment, etc.

Did this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

●● **Yes** ●● **No**

<input type="checkbox"/> It made sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> It made sustainable investments with a social objective: ___%	<input type="checkbox"/> It promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input type="checkbox"/> It promoted E/S characteristics, but did not make any sustainable investments
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Pre-contractual and periodic disclosure templates for Article 9 funds

Information to be disclosed according to templated set out in Annex III and V of the regulation

This sections provides a basic overview of the information and questions, which are set out in the templates in the Annex III and V

Examples of questions to disclose in Annex III (pre-contractual)

- What is the sustainable investment objective of this financial product?
 - What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?
 - How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?
- Does this financial product consider principal adverse impacts on sustainability factors?
- What investment strategy does this financial product follow?
 - What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?
- What is the asset allocation and the minimum share of sustainable investments?
- Is a specific index designated as a reference benchmark to meet the sustainable investment objective?



Several questions about PAI, investment strategy, Taxonomy alignment, etc.

Does this financial product have a sustainable investment objective? [tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]

Yes **No**

<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments

Examples of questions to disclose in Annex V (periodic)

- To what extent was the sustainable investment objective of this financial product met?
 - How did the sustainability indicators perform?
 - ...and compared to previous periods?
 - How did the sustainable investments not cause significant harm to any sustainable investment objective?
 - How were the indicators for adverse impacts on sustainability factors taken into account?
- How did this financial product consider principal adverse impacts on sustainability factors?
- What was the proportion of sustainability-related investments?
- To what extent were sustainable investments with an environmental objective aligned with the EU Taxonomy?
- What actions have been taken to attain the sustainable investment objective during the reference period?
- How did this financial product perform compared to the reference sustainable benchmark?



several questions about PAI, investment strategy, Taxonomy alignment, etc.

Did this financial product have a sustainable investment objective? [tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]

Yes **No**

<input type="checkbox"/> It made sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input type="checkbox"/> It promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It made sustainable investments with a social objective: ___%	<input type="checkbox"/> It promoted E/S characteristics, but did not make any sustainable investments