

SFDR: IS THE FINANCIAL INDUSTRY READY FOR DISCLOSURE?

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With the Sustainable Finance Disclosure Regulation (SFDR) and its gradual enforcement from 10 March 2021, the European Commission (EU) is implementing the second important building block of the EU Action Plan for Financing Sustainable Growth after the EU Taxonomy – transparency of sustainability.

Transparency plays a key role in the transition to a sustainable economy through improving environmental, social and governance (ESG) disclosures on the principal adverse impacts (PAIs) of investment decisions and sustainability characteristics of financial products. In this way, the EU regulation aims to channel more demand into sustainable investments and reduce the risk of ‘greenwashing’.

In this blog, we summarize the key SFDR requirements and their challenges. Our aim is to give affected companies a better understanding of sustainability-related disclosures at the company and product levels.

WHICH COMPANIES AND FINANCIAL PRODUCTS ARE IN SCOPE FOR SFDR?

SFDR sets “*harmonized rules for financial market participants and financial advisors on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products*”.¹

Under SFDR, financial market participants and financial advisors are defined as credit institutions or investment firms providing portfolio management and investment advice as well as capital management companies and insurance undertakings,

including their financial advisors providing investment and insurance advice.

SFDR applies to portfolios managed by credit institutions or investment firms, alternative investment funds (AIFs), undertakings for collective investment in transferable securities (UCITS), insurance-based investment products (IBIPs), pension products and institutions for occupational retirement provision (IORP) as well as pan-European private pension products (PEPP).

1. [REGULATION \(EU\) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector](#)

WHAT ARE THE DISCLOSURE REQUIREMENTS AND DEADLINES FOR COMPANIES AND FINANCIAL PRODUCTS UNDER SFDR?

As of March 2021, all financial products that fall within the scope of SFDR must disclose in pre-contractual documents information on whether and how they take sustainability risks into account. Financial market participants and financial advisors must disclose information on their company's website about how sustainability risks are integrated into investment decision-making or advisory process. Similarly, information must be disclosed on how compensation policies are consistent with the integration of sustainability risks.

Financial products that promote environmental and social characteristics (Art. 8 Products) or sustainable investments, with

or without an index designated as a reference benchmark (Art. 9 Products), are subject to additional disclosure requirements under the regulation. Both pre-contractual documents and periodic reports will need to disclose information to detail these characteristics or investment objectives and how they are achieved.

In addition, as of 1 January 2023, financial market participants will be required to publish a mandatory due diligence statement on their website for each product they manage detailing PAIs of investment decisions on sustainability characteristics, to be supplemented by Level 2 measures (described below).

WHAT ARE THE CHALLENGES IN IMPLEMENTING THE PRINCIPAL SFDR REQUIREMENTS?

How difficult the implementation will be for financial products that take sustainability aspects into account, and for financial market participants or financial advisors, depends largely on the availability of the relevant ESG data. ESG data is required by the Regulatory Technical Standards (RTS) as Level 2 measures to complement the SFDR requirements. Furthermore, the obligation of investee companies to make this ESG data publicly available plays an important role.

In April 2020, the European supervisory authorities (ESMA, EBA and EIOPA) issued a draft of the RTS for consultation by September 2020. Given the stakeholder feedback on the consultation and the scope of ESG data to be disclosed, the European Commission postponed the implementation of Level 2 measures to an unspecified date ("at a later stage").

The final version of the RTS was published on 2 February 2021, however, at time of writing, the adoption by the European Commission is still pending.² Nevertheless, ESG expertise and access to the relevant ESG data are necessary now to comply with the principal requirements of the EU regulation and ensure reporting correct information.

Capco's broad industry experience can help you navigate the complex regulatory challenges ahead. Contact us to learn more about how to implement sustainability-related disclosures at your institution, how to set up the necessary data management and analysis tools environment and how to make the most of the opportunities presented by the ESG regulations and the transition to sustainable growth.

2. [Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a\(3\), Article 4\(6\) and \(7\), Article 8\(3\), Article 9\(5\), Article 10\(2\) and Article 11\(4\) of Regulation \(EU\) 2019/2088](#)



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