



SFDR - a Snapshot

CHANGES EFFECTIVE FROM 10 MARCH 2021

Your Partner For What's Next

What is the SFDR?

The Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants with substantive provisions of the regulation effective from 10 March 2021.

The SFDR was introduced by the European Commission alongside the Taxonomy Regulation and the Low Carbon Benchmarks Regulation as part of a package of legislative measures arising from the European Commission's Action Plan on Sustainable Finance.

The SFDR aims to bring a level playing field for financial market participants ("FMP") and financial advisers on transparency in relation to sustainability risks, the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products. The SFDR requires asset managers such as AIFMs and UCITS managers to provide prescript and standardised disclosures on how ESG factors are integrated at both an entity and product level. A significant portion of the SFDR applies to all asset managers, whether or not they have an express ESG or sustainability focus. The SFDR manifests in additional disclosures for financial market participants:



on websites;



in prospectuses; and



in periodic reports.

When does SFDR take effect?

The main provisions (Level 1) of the Disclosure Regulation will apply from 10 March 2021. The more detailed disclosure requirements relating to disclosures in the periodic reports of ESG-focused products are stated to apply from 1 January 2022 (Level 2).

What is the difference between level 1 and level 2?

Level 1 disclosures are entity level disclosures which require information about FMP policies on the identification and prioritisation of principal adverse sustainability impacts. FMPs will also need to provide a description of the principal adverse sustainability impacts and of any actions in relation thereto taken or where relevant, planned as well as a summary of engagement policies. While the requirements in the SFDR relating to the entity-level disclosure of principal adverse impacts apply from 10 March 2021 (Level 1) on a comply or explain basis, the additional detailed entity and product level 2 disclosures, which includes the 'principal adverse sustainability impacts statement' will apply from 1 January 2022.

Is there clarity on what the additional level 2 disclosures required under SFDR are?

Yes – but they are not final. However, it is encouraged that these draft requirements be used as a reference for the application of the Level 1 provisions. See [here](#).

These disclosure requirements are now delayed until 01 January 2022.

Is SFDR different to the taxonomy regulation?

Yes – but they interrelate. The Taxonomy Regulation is the EU Commission's principal mechanism to address "greenwashing" as it sets out criteria for determining if an activity is environmentally sustainable, including whether the activity contributes to, or does not significantly harm, one or more specified environmental objectives.

The Taxonomy Regulation requires further disclosures which need to be made in addition to those set out in the SFDR. The taxonomy regulation is effective from 01 January 2022.

What should our clients do and how can we help?

Clients need to be ready initially for the Level 1 disclosures by 10 March 2021. The more onerous requirements, however, are the level 2 disclosures – effective from 01 January 2022. Clients should be considering how they will meet these current and future requirements in the future from a framework, systems and data perspective.

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