



# SFDR: March 2021 and beyond

New disclosure requirements for  
financial market participants and  
financial advisers

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# Sustainability-related disclosure requirements

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The Sustainable Finance Disclosure Regulation (SFDR) is the first EU Action Plan for sustainable growth regulation and applies from 10 March 2021.

## Scope and objectives

The SFDR lays down sustainability disclosure obligations for financial market participants and financial advisors towards end-investors. It does so in relation to the integration of sustainability risks by financial market participants and financial advisers in all investment processes and for financial products that pursue the objective of sustainable investments.

The SFDR aims to reduce information asymmetries in principal agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment. It will achieve this by requiring financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors when they act as agents of those end investors (principals). The SFDR also creates an even playing field for ESG products/distribution channels across member states and aims to increase the market awareness of sustainability.

The draft regulatory technical standards (RTS), developed by the European Supervisory Authorities (ESAs), define the implementation requirements for financial market participants and specify the content, methodology and presentation of disclosures. The Final Report on draft RTS was published by the ESAs on 2 February 2021 with an expected application start date on 1 January 2022.

Independent from the RTS, all SFDR level 1 regulation application dates remain unchanged, as confirmed by the EU Commission in October 2020.

Financial market participants and financial advisors need to comply with the principle based SFDR requirements from 10 March 2021.

To prepare for the application of the technical standards from 1 January 2022, firms need then to shift their focus on the RTS implementation during the following months.

SFDR requirements must not be considered standalone as other regulations including MiFID II, IDD, UCITS and AIFMD are expected to cross over. A sustainability preference is likely to be introduced which refers to SFDR product characteristics and requires adjusting the companies' business processes.

## Target groups and affected products

SFDR impacts financial market participants and financial advisors. This includes inter alia:

- ▶ Insurance companies and insurance intermediaries
- ▶ Institutions for occupational retirement provision (IORP)
- ▶ Investment firms and credit institutions providing portfolio management or investment advice
- ▶ Alternative Investment Fund Managers (AIFM)
- ▶ Undertakings for collective investment in transferable securities (UCITS management companies)

Affected financial products under the SFDR are inter alia:

- ▶ Insurance-based investment products (IBIPs)
- ▶ Pension products and pension schemes
- ▶ pan-European personal pension products (PEPPs)
- ▶ Alternative investment funds (AIFs)
- ▶ UCITS
- ▶ Portfolios managed by an investment firm in accordance with MiFID II

# Key points to understand about SFDR

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Does the SFDR also apply to financial market participants who don't have environmental or social products?

Yes, the SFDR refers to financial market participants (as defined in the SFDR). This also includes companies who don't have environmental or social products.

To what extent do insurance undertakings and IORPs fall under the scope of the SFDR?

The SFDR lays down harmonized rules for financial market participants and financial advisors. This applies to insurance undertakings, where they have financial products e.g., insurance-based investment products (IBIPs), pension products or pension schemes and pan-European private pension products (PEPP). This also applies to reinsurers. Furthermore, the SFDR applies to every IORP within the scope of the IORP-II Directive.





## How should products falling under the scope of SFDR be classified and what are the requirements which apply with regard to their ESG approach?

According to the SFDR, financial products are divided into three categories:

1. Financial products promoting environmental or social characteristics (Article 8 SFDR),
2. Financial products with a sustainability objective (Article 9 SFDR) and
3. Other products not covered by Article 8 or Article 9

Article 9 products have a targeted sustainability objective (e.g., reduction of CO<sub>2</sub> emissions), whereas Article 8 products take into account environmental or social characteristics.

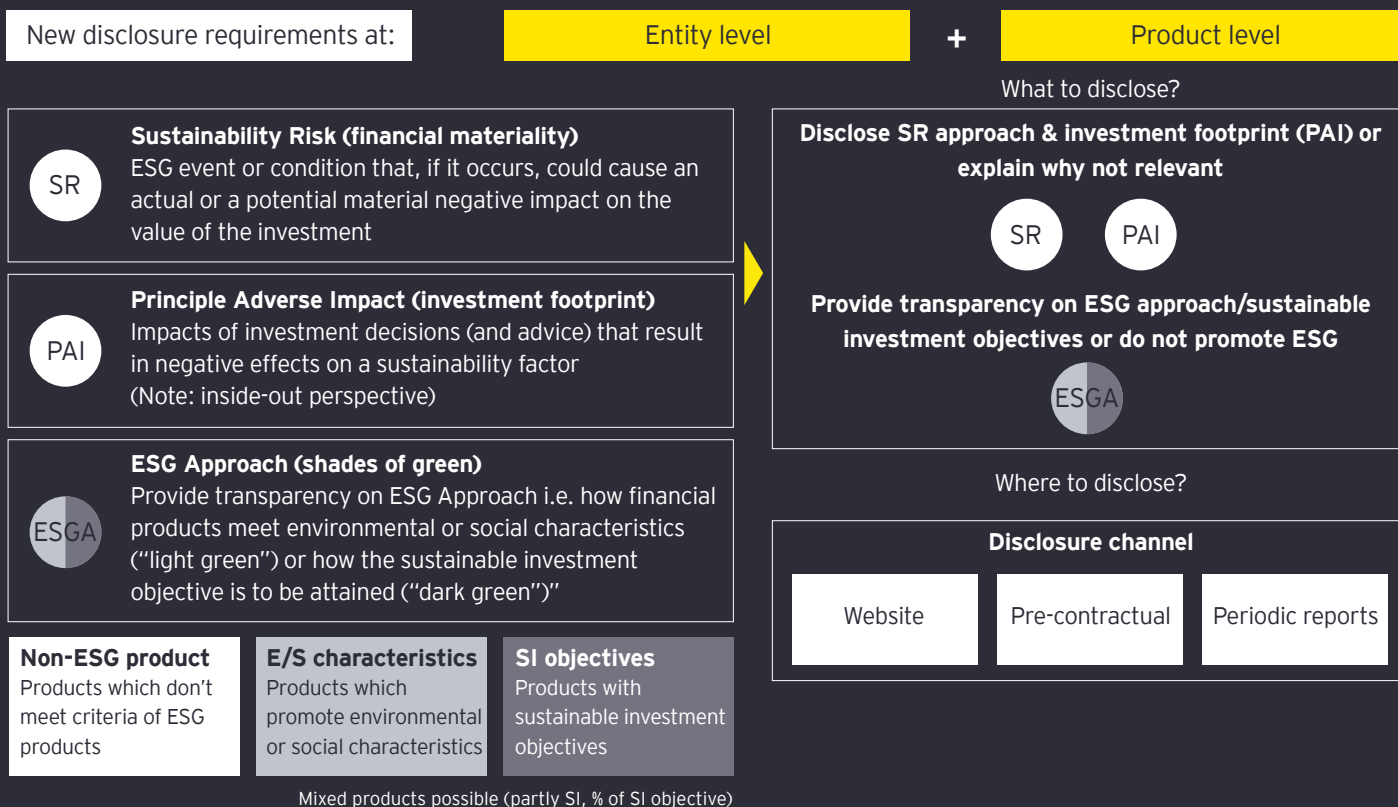
Both classifications of financial products are subject to different disclosure requirements on firms' websites as well as in their pre-contractual disclosures and periodic reporting.

In addition, supplementary taxonomy reporting will need to be carried out from 2022 if the product pursues environmental sustainability objectives, starting with climate change mitigation and adaptation.

# Disclosure requirements at entity and product\* level

SFDR disclosure requirements apply on an entity and product level. The respective information must be published on the website, in pre-contractual information as well as in periodic reports.

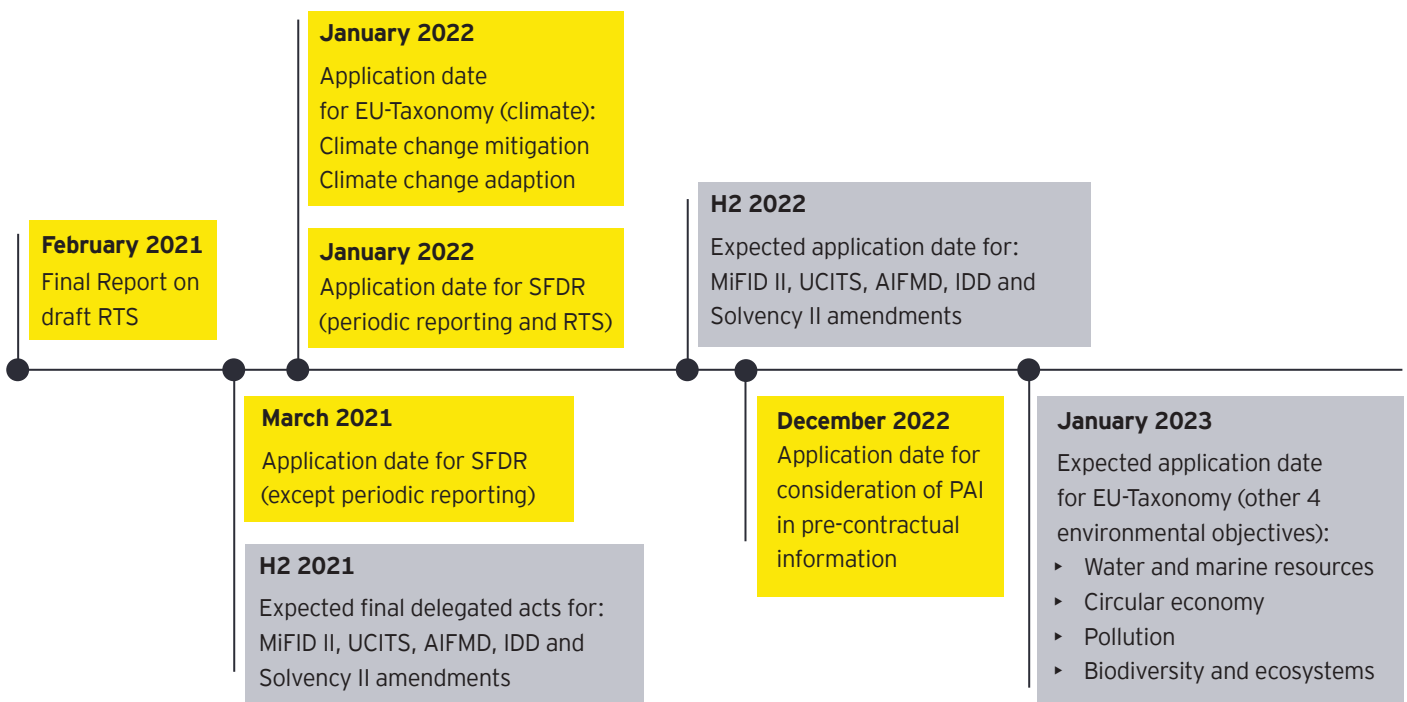
The disclosure requirements can be summarized as follows:



\* financial products as defined in article 2 (12) SFDR

# Key milestones

The SFDR requirements must be applied generally from 10 March 2021. Some elements of the regulation will be phased in after this date, as well as other delegated acts and regulatory standards:



\*Subject to changes; accurate as of March 2021, Regulation (EU) 2020/852

■ Confirmed by regulator   
 ■ Market expectation

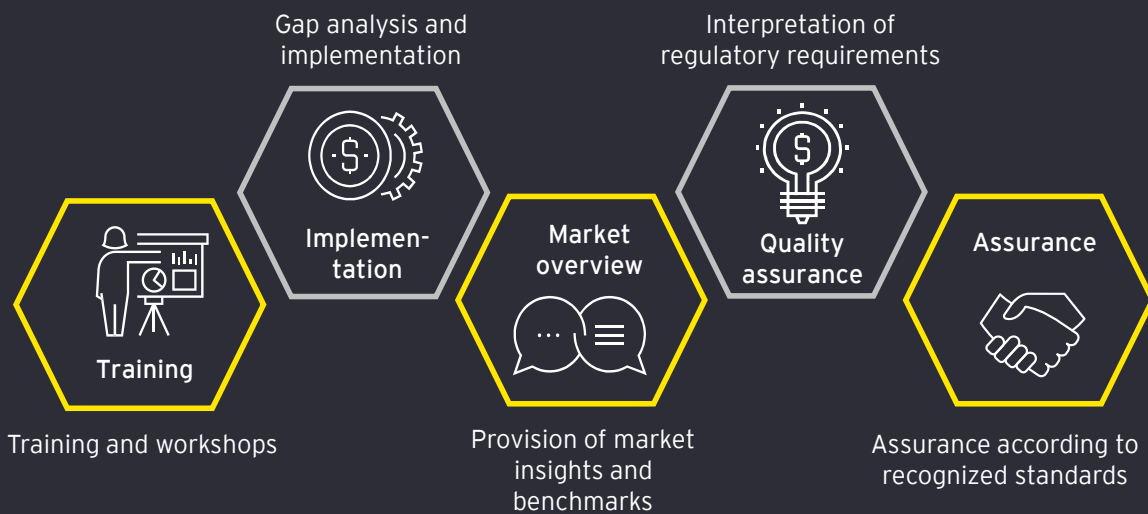




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EY teams support the implementation of sustainability-related disclosure requirements, this includes:





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