

Regulation on Sustainable Finance – Issues and solutions relating to Articles 8 and 9 SFDR – 28 June 2022

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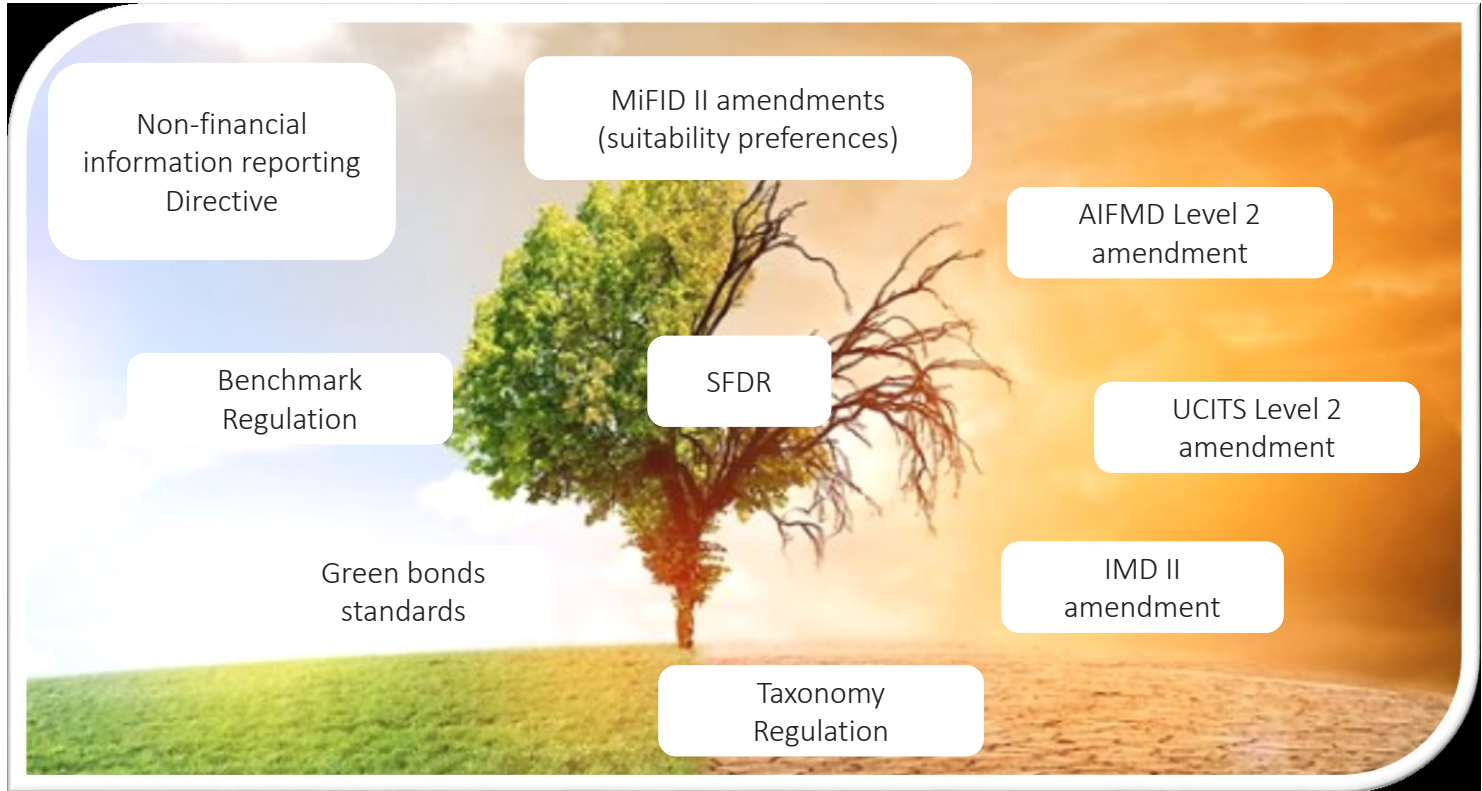


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I. Sustainable Finance – a key EU policy initiative



II. The Sustainable Finance Disclosure Regulation (SFDR)

Objective

- ☐ Disclosures regarding the integration of sustainability risks into investment decisions, the consideration of adverse sustainability impacts and ESG and sustainability-related information with respect to financial products (UCITS, AIFs...).
- ☐ Combat greenwashing and increase comparability.

Scope

- ☐ Applies to (i) financial market participants (FMPs) which includes, amongst others, UCITS management companies (and self-managed UCITS) and AIFMs, investment firms, which provide portfolio management and (ii) financial advisors.

Where

- Entity level disclosures
- Product level disclosures

- ☐ Website and in the pre-contractual disclosure and annual reports of financial products (e.g. UCITS and AIFs).

When

- ☐ Application date 10 March 2021.
- ☐ The SFDR RTS to apply from 1 January 2023.



III. Sustainability risks versus principal adverse impact

Sustainability risks

ESG risks with (potential) material negative impact on the value of the fund's investment (e.g. physical climate risks such as flooding, heat waves etc...)

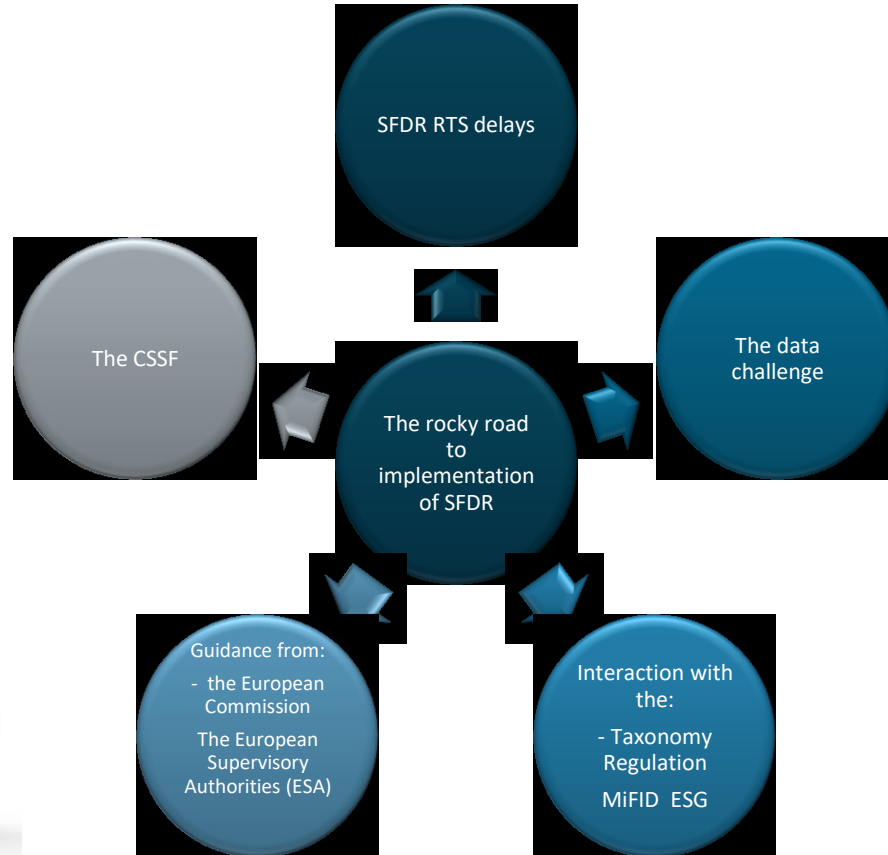
Principal adverse impact of investment decisions on the environment, social + employee matters, human rights

The **negative externalities** of investments on the environment or society (e.g. GHG emissions, carbon footprint, energy consumption, emissions to water etc.).

PAI indicators are divided into a core set of universal mandatory indicators that will always lead to principal adverse impacts of investment decisions on sustainability factors, irrespective of the result of the assessment by the FMP + additional opt-in indicators to be used to identify, assess and prioritise additional principal adverse impacts.



IV. SFDR – The challenges

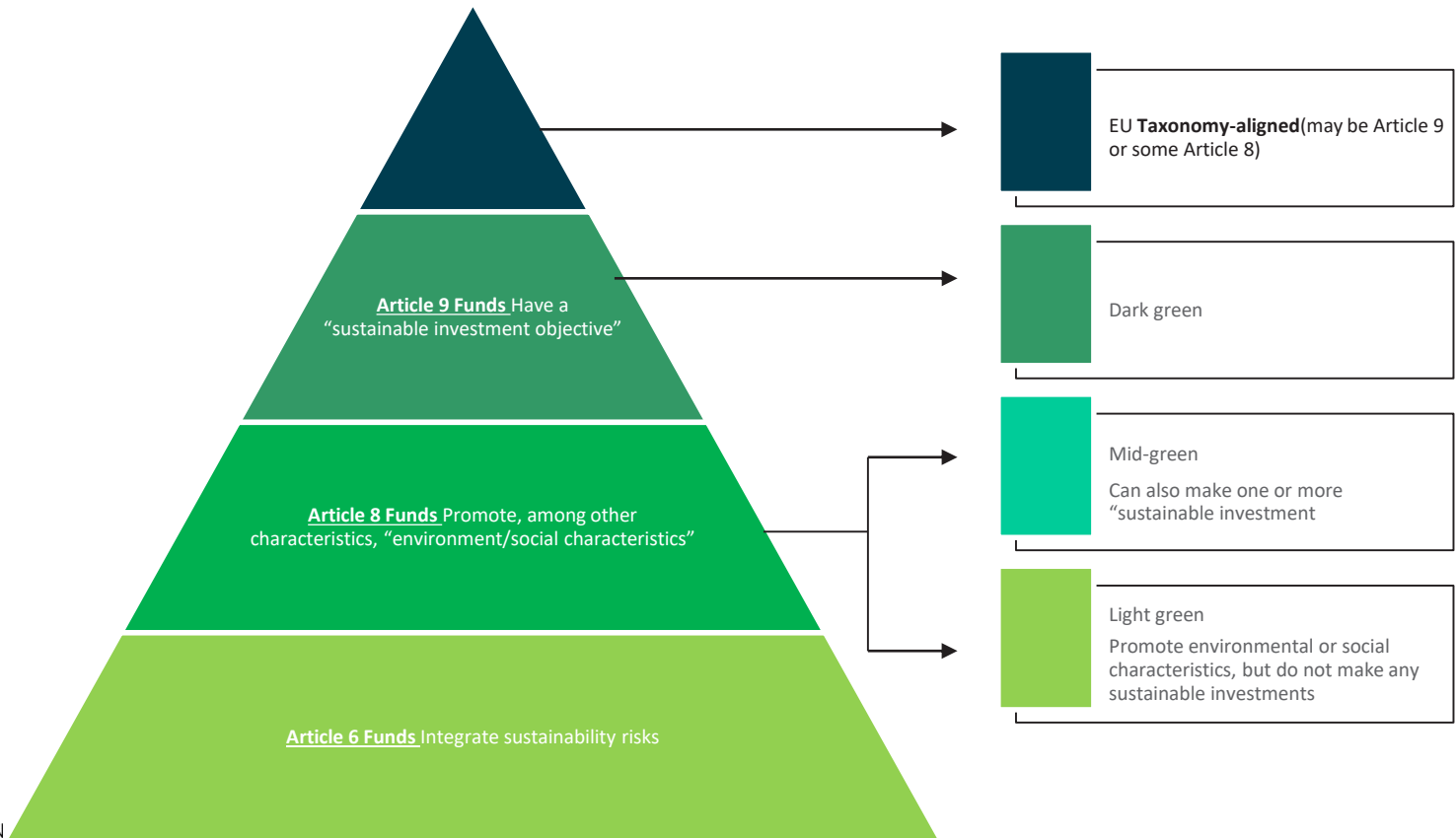


V. SFDR Fund classification

SFDR classification	Description
Article 6 Investment Funds	Investment funds which do not refer to any sustainable or ESG element or strategy
Article 8 Investment Funds	Investment funds which promote, among other characteristics, environmental or social characteristics, provided that the companies in which the investments are made follow good governance practices
Article 9 Investment Funds	Investment funds which have a Sustainable Investment* objective

* ***“Sustainable Investment”*** means as an investment in an economic activity that contributes to an environmental objective or an investment in an economic activity that contributes to a social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices (extract from def. Art. 2 (17) SFDR)

IV. SFDR Fund classification



IV. SFDR Fund classification

Practical issues and questions

Where to draw the line between article 6 and article 8 ?

Article 6

- Duty to maximize risk-adjusted returns
- Integrating sustainability risks into investment decision-making (applies to all funds irrespective of SFDR categorization)
- No promotion of ESG

Article 8

- The concept of “promotion”
- Good governance of investee companies
- E/S characteristics which are being promoted
- Different ESG approaches permissible (i.e. best-in-class, exclusions, thematic, integration)
- Binding elements
- MiFID Sustainability preferences



IV. SFDR Fund classification

A high standard for article 9 funds

Article 9:

- Sustainable investment objectives. Impact investing
- Exclusive investment in “sustainable investments” (article 2(17) SFDR)

Questions :

- How to apply the DNSH test ?
- How to calculate the asset allocation and minimum share of sustainable investments?

The sustainable investment test of article 2(17) SFDR: *investment in an **economic activity that contributes to an environmental or social objective**, provided that such investments **do not significantly harm** any of those objectives and that the investee companies follow **good governance practices**, in particular with respect to management structures, employee relations, remuneration of staff and tax compliance.*





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