

SFDR

What does it mean for my business?

What is it?

The Sustainable Finance Disclosure Regulation (SFDR) is a core pillar of the European Green Deal's Sustainable Finance Action Plan. The regulation imposes mandatory ESG disclosure obligations on financial market participants and advisors. It aims to increase transparency and environmental and social responsibility in the finance industry.



Timeline

SFDR was implemented on March 10th, 2021. The SFDR's level 2 requirements regarding product-level disclosures came into effect January 1st, 2023.



Scope

The SFDR requires firms to communicate and inform investors about sustainability risks, disclose impact on environment and society, and how financial products meet sustainable objectives.



Companies

Criteria for companies are as follows;

- Financial market participant or financial advisor
- Based in the EU
- 500+ employees

Entity-level disclosure

Entity level disclosures describe the firm's sustainability practices as a whole, to keep investors and customers informed of their processes. This must be published on their website. At this level, they are required to disclose the following information:

Sustainability risk policy – A statement on how sustainability risks are taken into account in their investment decisions.

Principal adverse impact (PAI) – A description of how their investments have a negative effect on a range of sustainability factors.

Sustainability risk remuneration policy – A statement on how sustainability risks are taken into account in their remuneration policy.

Product-level disclosure

Product level disclosures describe information on how sustainable their products are. These disclosures must be included in the firms pre-contractual disclosures and periodic reports. The three main classifications of products are described below:

Article 6: General product category. These products do not have ESG-focus and make no sustainability claims.

Article 8: Referred to as "light green" products. These products promote environmental and social characteristics but do not target sustainable investments.

Article 9: Referred to as "dark green" products. These products target specifically sustainable investments.



Interrelated to EU Taxonomy

Organizations that fall within the SFDR framework, will be required to report on the taxonomy. The EU Taxonomy's classification for environmentally sustainable and economic activities will primarily impact product-level disclosures. SFDR will also contribute to EU's larger effort to become climate neutral by 2050.



Sustainability Factors

The SFDR specifies "sustainability factors" as respect for human rights; anti-corruption and anti-bribery matters; and employee, social, and environmental matters. The SFDR requires companies to report on 14 mandatory indicators and 31 voluntary indicators. In addition to the 14, the company must choose at least two additional factors to report on.