

Sustainable Finance Disclosures Regulation (SFDR) - Practical Issues

SFDR, UCITS, AIFs and disclosure templates




SFDR regulatory deadlines fast approaching

The Central Bank of Ireland (CBI) has agreed a fast-track filing deadline of 1 December 2022 for Irish authorised UCITS and AIFs filing pre-contractual disclosure templates under A8 and A9 of the Sustainable Finance Disclosures Regulation (SFDR) which must be published by 1 January 2023.




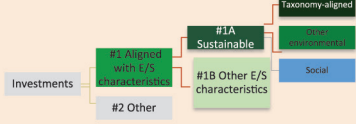

If you have an Irish authorised UCITS or AIF that is disclosing under A8 or A9 SFDR, have you already prepared and populated the pre-contractual disclosure templates under SFDR? While the pre-contractual disclosure template must be prioritised in light of the CBI filing deadline, it should be looked at in conjunction with the SFDR website disclosure, which should also be available from 1 January 2023, and the SFDR periodic disclosure template, which will need to accompany any financial statements published after 1 January 2023.

Key questions



The following are some key questions to be answered when preparing a SFDR pre-contractual disclosure template for an AIF or UCITS Fund:

Article 8		
Question	Sample considerations	Extract from template
What environmental (E) or social (S) characteristic does the Fund promote?	How does the investment approach for the Fund align with promoting environmental or social characteristics? Is the characteristic promoted linked to the theme? Does it apply exclusionary screening only? How does that link to the characteristic promoted?	 <p>What environmental and/or social characteristics are promoted by this financial product? <i>(indicate the environmental and/or social characteristics promoted by the financial product and whether a reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product)</i></p>
What indicator is linked to the E or S characteristic?	Can the indicator measure the progress of the characteristic? What is the metric? Will the Fund use SFDR Principal Adverse Impact (PAI) indicators?	<ul style="list-style-type: none"> What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?
Will the Fund make any sustainable investments?	If yes, will this be classified under a proprietary sustainable investment framework? Or will any sustainable investment percentage be the same as taxonomy aligned investments? What is your view on the latest European Securities and Markets Authority (ESMA) questions to the European Commission on meaning of sustainable investment?	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments

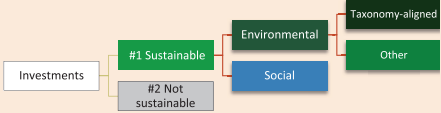

Article 8 (continued)

Question	Sample considerations	Extract from template
Is a PAI statement being published at entity level?	If your Fund has a UCITS management company or AIFM – is it in scope to produce a PAI statement at entity level or has it opted into doing so?	
Does the Fund consider PAI on sustainability factors?	Will your Fund tick “yes” to this? What do you mean by consider? Is it just qualitative consideration? If quantitative where do you get the data from and how is it processed? Do you look at all the mandatory PAI indicators and any relevant optional ones?	 <p>Does this financial product consider principal adverse impacts on sustainability factors?</p> <p><input type="checkbox"/> Yes, _____ <i>[If the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available]</i></p> <p><input type="checkbox"/> No</p>
For those Funds with an E characteristic - will the Fund have a taxonomy alignment %?	Will this be 0%? Why? If not 0% where do you get the data to back up Taxonomy alignment? Is taxonomy alignment expressed as a share of turnover, CapEx or OpEx?	<p><i>The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.</i></p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="895 891 1161 1061"> <p>1. Taxonomy-alignment of investments including sovereign bonds*</p>  </div> <div data-bbox="1166 891 1433 1061"> <p>2. Taxonomy-alignment of investments excluding sovereign bonds*</p>  </div> </div> <p>* For the purpose of these graphs, ‘sovereign bonds’ consist of all sovereign exposures</p>
What does the asset allocation look like?	How will the infographic in the template be populated?	<p><i>[Include only relevant boxes, remove irrelevant ones for the financial product]</i></p>  <p>#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.</p> <p>#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.</p> <p><i>[Include the note below where the financial product commits to making sustainable investments]</i></p> <p>The category #1 Aligned with E/S characteristics covers:</p> <ul style="list-style-type: none"> - The sub-category #1A Sustainable covers sustainable investments with environmental or social objectives. - The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.
Does the Fund use a reference benchmark/index to determine if the Fund is aligned with the E or S characteristic?	How is the index continuously aligned with the E or S characteristic? How does it differ from a broad market-based index?	 <p>Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes? <i>[include section where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product and indicate where the methodology used for the calculation of the designated index can be found]</i></p>

Article 9

Question	Sample considerations	Extract from template
<p>What is the Fund's sustainable investment objective?</p>	<p>How does the investment approach for the Fund align with the sustainable investment objective of the Fund? Does it have a theme - is the objective linked to the theme? If an E objective, to which of the EU Taxonomy objectives does it contribute? Does the Fund have an objective of carbon emissions reduction?</p>	<p> What is the sustainable investment objective of this financial product? <i>[indicate the investment objective pursued by the financial product, describe how the sustainable investments contribute to a sustainable investment objective and indicate whether a reference benchmark has been designated for the purpose of attaining the sustainable investment objective. For financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributes. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate that the financial product has the objective of reducing carbon emissions and explain that the reference benchmark qualifies as an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark under Title III, Chapter 3a, of Regulation (EU) 2016/1011 and indicate where the methodology used for the calculation of that benchmark can be found. Where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark as qualified in accordance with Regulation (EU) 2016/1011 is available, describe that fact, how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the objectives of the Paris Agreement and the extent to which the financial product complies with the methodological requirements set out in Commission Delegated Regulation (EU) 2020/1818]</i></p>
<p>What indicator measures the E and/or S objective?</p>	<p>Can the indicator measure the progress of the objective? What is the metric? Will the Fund use PAI indicators?</p>	<p>● What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?</p>
<p>The Fund must invest fully in sustainable investments – what % will it state?</p>	<p>Will this be classified under a proprietary sustainable investment framework? Or will any sustainable investment percentage be the same as taxonomy aligned investments? What is your view on the latest ESMA questions to the European Commission on meaning of sustainable investment</p>	<p>Does this financial product have a sustainable investment objective? <i>relevant, the percentage figure represents the minimum</i></p> <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___%</p> <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <p><input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%</p>
<p>Is a PAI statement being published at entity level?</p>	<p>If your Fund has a UCITS management company or AIFM – is it doing this? See ESMA supervisory guidance that suggests an expectation that AIF Funds will.</p>	
<p>Does the Fund consider PAI on sustainability factors?</p>	<p>Will your Fund tick “yes” to this? What do you mean by consider? Is it just qualitative consideration? If quantitative where do you get the data from and how is it processed? Do you look at all the mandatory indicators and any relevant optional ones?</p>	<p> Does this financial product consider principal adverse impacts on sustainability factors?</p> <p><input type="checkbox"/> Yes, _____ <i>[if the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available]</i></p> <p><input type="checkbox"/> No</p>
<p>For those with an E objective - Will the Fund have a taxonomy alignment %?</p>	<p>Will this be 0%? Why? If not 0% where do you get the data to back up Taxonomy alignment?</p>	<p>The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy-alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy-alignment only in relation to the investments of the financial product other than sovereign bonds.</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="895 1865 1161 2033"> <p>1. Taxonomy-alignment of investments including sovereign bonds*</p> <p>■ Taxonomy-aligned ○ Other investments</p>  </div> <div data-bbox="1169 1865 1449 2033"> <p>2. Taxonomy-alignment of investments excluding sovereign bonds*</p> <p>■ Taxonomy-aligned ○ Other investments</p>  </div> </div> <p>* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures</p>

Article 9 (continued)

Question	Sample considerations	Extract from template
<p>What does the asset allocation look like?</p>	<p>How will the infographic in the template be populated?</p>	<p><i>[Include only relevant boxes, remove irrelevant ones for the financial product]</i></p>  <pre> graph LR Investments --> S1[#1 Sustainable] Investments --> S2[#2 Not sustainable] S1 --> Environmental S1 --> Social Environmental --> Taxonomy-aligned Environmental --> Other </pre> <p>#1 Sustainable covers sustainable investments with environmental or social objectives.</p> <p>#2 Not sustainable includes investments which do not qualify as sustainable investments.</p>
<p>Does the Fund designate a reference benchmark/index to meet the sustainable investment objective?</p>	<p>How is the index continuously aligned with the E or S objective? How does it differ from a broad market-based index?</p>	<p> Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes? <i>[include section where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product and indicate where the methodology used for the calculation of the designated index can be found]</i></p>

Some additional considerations for website disclosure differ from those that come up for pre-contractual disclosures. For Article 8 disclosure these include:

Article 8 WEBSITE

Considerations

Monitoring of environmental or social characteristics

Describe how the E or S characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of those E or S characteristics promoted by the financial product are monitored throughout the lifecycle of the financial product and the related internal or external control mechanisms

Methodologies

Describe the methodologies used to measure how the E or S characteristics promoted by the financial product are met

Data sources and processing

Describe

1. the data sources used to attain each of the E or S characteristics promoted by the financial product
2. the measures taken to ensure data quality
3. how data are processed
4. the proportion of data that are estimated

Limitations to methodologies and data

Describe

1. any limitations to the methodologies referred to in “methodologies” and to the data sources referred to in “data sources and processing”
2. how such limitations do not affect how the E or S characteristics promoted by the financial product are met

A description of **due diligence** on underlying assets is required.

Describe **engagement policies** where these are used

Do you need to translate the summary section of the website disclosures under the SFDR RTS requirements?

How Grant Thornton can help

Grant Thornton's Financial Services Risk, Consulting and Advisory teams are comprised of dedicated experts who are experienced in supporting investment firms with a variety of regulatory and ESG challenges including SFDR.

In particular, our industry-leading sustainability team understands that regulation continues to drive the strategic agenda for financial and non-financial institutions working together with our regulation specialists, we believe our skillsets combine the best of scientific knowledge with real world experience to deliver practical, actionable solutions.

We specialise in assisting clients across the financial services sector in navigating through the maze of regulation and support clients to identify regulatory obligations and work towards full compliance balanced with your business needs.

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