

Navigate the maze of fund disclosures – SFDR and SDR

CFA Society United Kingdom webinar

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Simmons Global Financial Services Regulatory
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agenda

SFDR and SDR

- 1** SFDR vs SDR
- 2** SFDR – fund naming guidelines
- 3** SFDR – amendments to the RTS (SFDR 1.5)
- 4** SFDR – 2.0?
- 5** SDR – sustainability labels
- 6** SDR – naming and marketing rules
- 7** Q&A

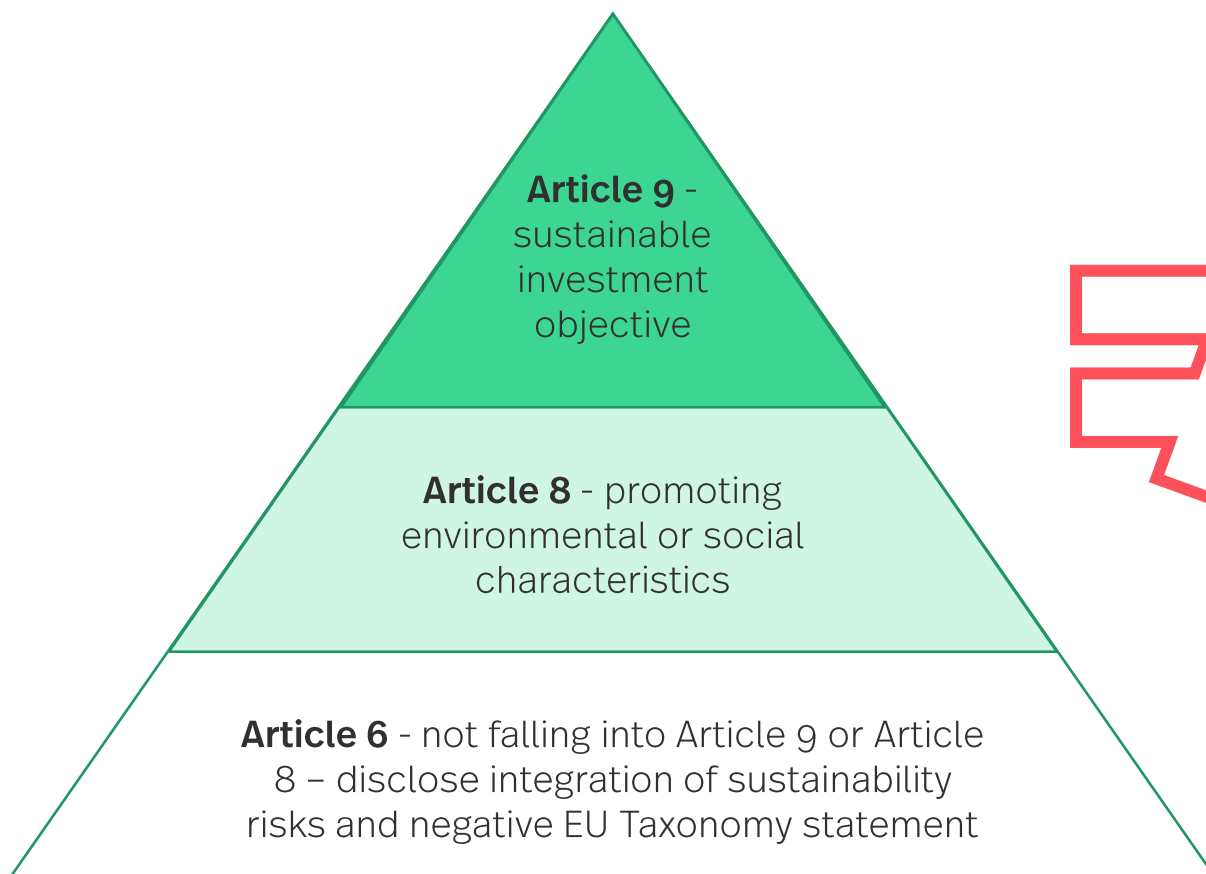
SFDR vs SDR

SFDR vs SDR

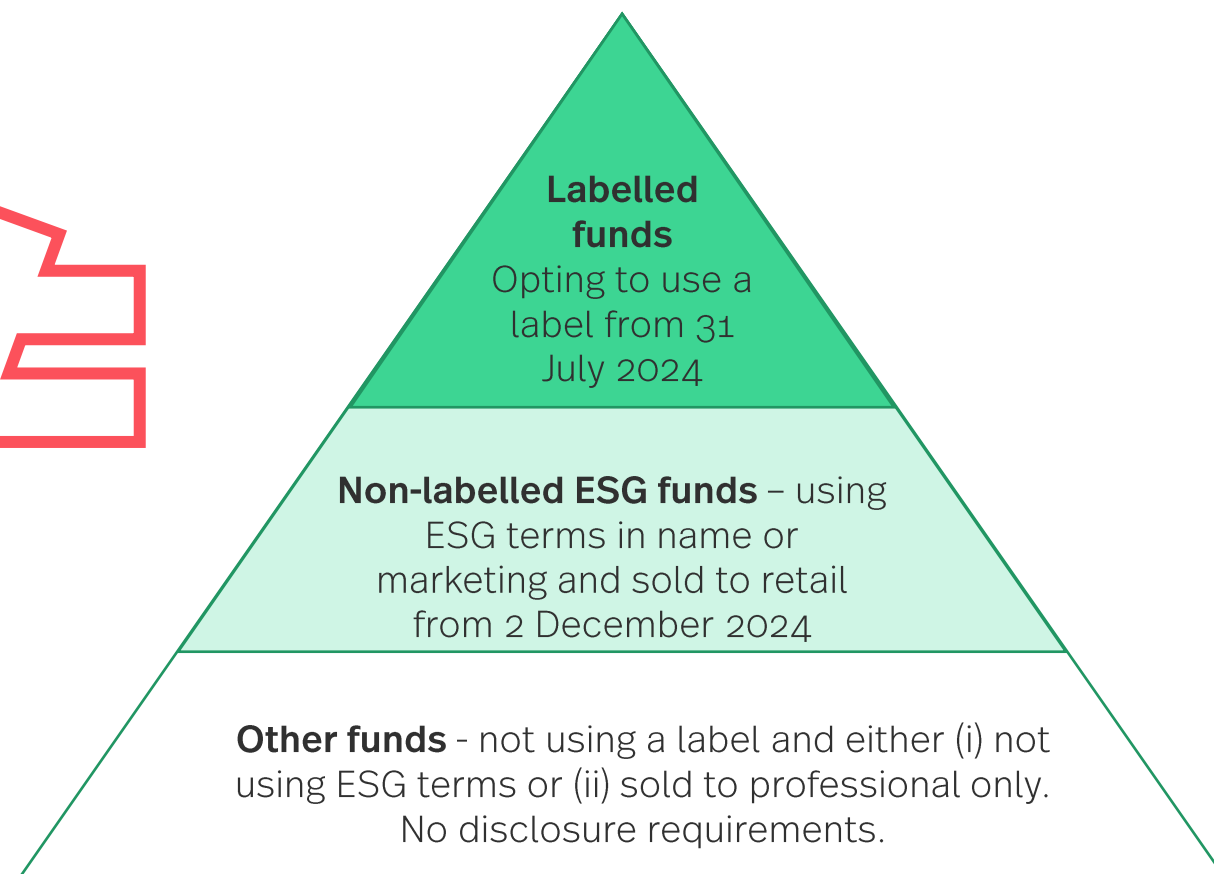
SFDR vs SDR

Fund landscapes in EU and UK

EU SFDR



UK SDR



SFDR vs SDR

Key similarities and differences

	SFDR	SDR
Type of regime	Disclosure – either under Article 6, 8 or 9	Labelling (4 labels) and disclosure
Scope	Financial products (including funds and portfolio management). EU financial market participants but also non-EU AIFMs	UK funds only (NB extension to portfolio management and overseas funds?)
Investor types	All investors (retail and professional)	Labels (all investors) – Non-labelled funds (retail only)
Disclosures	Pre-contractual, website, periodic	Consumer facing disclosure (CFD), pre-contractual and periodic
Prescribed templates	Yes – pre-contractual and periodic	No (NB industry template for CFD)
Naming restrictions	Not yet	Yes
Requirement for specific fund objective	Yes for Article 9	Yes, for Labelled funds
Min. proportions of assets	Yes for Article 9 No for Article 8 (NB see fund naming guidelines)	Yes, for labelled funds (70% invested in accordance with objective and “other” assets must not conflict with objective) (NB non-labelled funds with ESG in name?)
KPIs	KPIs required but not prescribed (NB see PAI indicators)	KPIs required but not prescribed (NB see TCFD requirements)
DNSH	Prescribed assessment against PAIs for sustainable investments to ensure DNSH	Labelled fund – identify and disclose whether pursuing objective could result in negative E/S outcomes.
Good Governance	All investee companies must follow good governance practices	No specific requirement for disclosure on governance – “ <i>governance is enabler of E/S outcomes</i> ”

SFDR – ESMA fund naming guidelines

ESMA Fund naming guidelines

What's the latest?

November 2022 – consultation paper

- Consultation paper on proposed new ESMA Guidelines – see:
https://www.esma.europa.eu/sites/default/files/library/esma34-472-373_guidelines_on_funds_names.pdf
- Radio silence for over a year until...

December 2023 – press release

- Provided summary update on ESMA's responses to consultation – see:
https://www.esma.europa.eu/sites/default/files/2023-12/ESMA34-1592494965-554_Public_statement_on_Guidelines_on_funds_names.pdf
- Indicates some modifications likely
- But core of proposals will remain in place
- Highlighted **key changes in yellow** on these slides

November 2022
Consultation paper
published

December 2023
Press release
published

Q2 2024?
ESMA expects to
issue final
guidelines

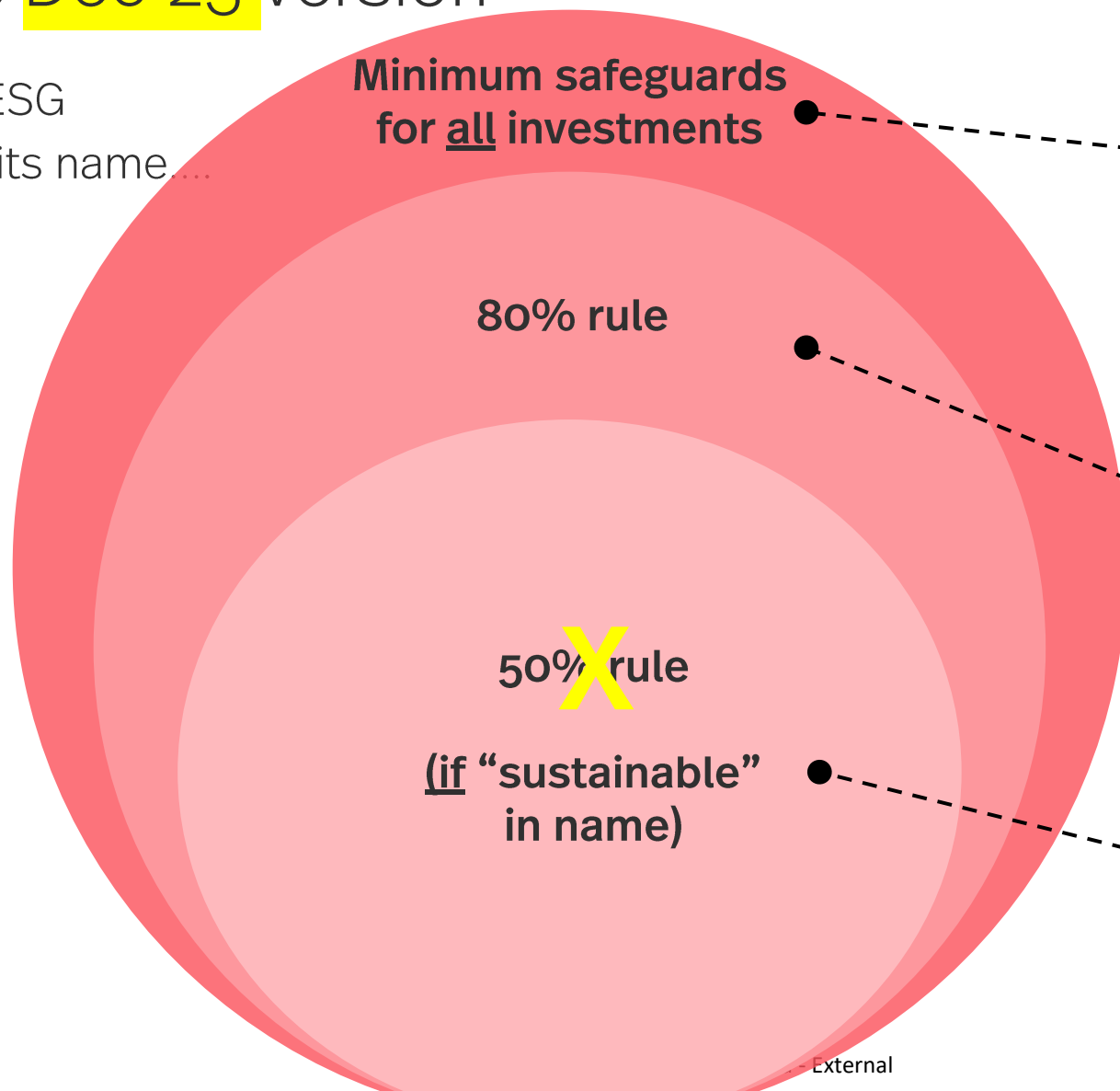
Q3/Q4 2024?
Guidelines to
apply 3 months
after publication
and translation
(subject to
transitional period
for existing funds)

Q1/Q2 2025?
Six month
transitional period
ends for existing
funds

Quantitative restrictions

Nov 22 vs Dec 23 version

If a fund uses ESG terminology in its name....



Read across to **exclusion criteria** for either Paris-Aligned Benchmarks (using E terms) or Climate Transition Benchmarks (using S or G terms or “transition”) under BMR

At least **80%** of fund investments must be used to **attain E/S characteristics** of fund (as disclosed in SFDR pre-contractual disclosures)

Invest **meaningfully** in sustainable investments, reflecting **investor expectations**

Other proposals

- **If a fund uses “impact” in its name**
 - must also make investments with the intention to **generate positive and measurable E/S impact**, alongside a financial return
- **If a fund uses “transition” in its name**
 - must also make investments with the intention to make investments on a **clear and measurable path to E / S transition**, alongside a financial return
- **If a fund has a reference benchmark**
 - Must still comply with the Guidelines

If there is a breach of the quantitative thresholds

- Temporary deviation (if not due to deliberate choice of fund manager) is a “passive breach” and to be corrected in best interests of investors

SFDR 1.5 – amendments to RTS

Proposed changes to Level 2 RTS

Who?	Any firm reporting on PAI, all Article 8 and 9 products
Why?	In response to mandate from EC to consider aspects of the operation of the RTS
When?	Unknown. Final report published 4 December 2023, but needs to be adopted by Commission. Likely late 2025 at earliest.
What?	<ul style="list-style-type: none">• Revisions to Article 8/9 disclosure templates<ul style="list-style-type: none">• New dashboard• Removal of asset allocation “tree”• Changes to disclosure of sustainable investments• Disclosures in relation to GHG emission reduction targets• 3 new mandatory PAI, 7 new optional PAI, other clarificatory amendments• Confirmations on DNSH disclosures (but no wholesale revision)• Other changes:<ul style="list-style-type: none">• Calculating proportion of sustainable investments• Machine readability of disclosures• Use of estimates

Also to note ...

Proposed changes to RTS where FMP discloses **ESG ratings** in marketing communications

SFDR 1.5

The “dashboard”

Current Article 8 PCD

Does this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

☒ **Yes** ☒ **No**

<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ____%	<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
<input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective 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	<input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ____%	<input type="checkbox"/> with a social objective
<input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments	

SFDR 1.5

Proposed Article 8 PCD

Pre-contractual information: Is this product sustainable?

This product has limited sustainability characteristics, certain investments could be harmful for the environment or people. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product has and which ones it does not have.



[specify the environmental and/or social characteristic(s) promoted by the product and the [X]% of the product's investments that promote those characteristics – 500-character limit with spaces]



[if a%>0 use text:] This product commits to make minimum of [a, calculated according to Article 17a of this regulation]% sustainable investments.

a %

[if a%=0 use text:] This product does not commit to making sustainable investments.



[if b%>0 use text:] This product commits to make a minimum of [b, calculated according to Article 17 of this Regulation] % EU Taxonomy-aligned investments. The higher this number is, the more this product protects the environment.

b %

[if b%=0 use text] This product does not commit to making EU Taxonomy-aligned investments.



This product *[insert as applicable: does not commit to consider/ commits to consider]* the most significant negative impacts of its investments on the environment and people.



This product aims to decrease the **greenhouse gas emissions** that results from the activities the product will invest in. It intends to lower these emissions by ____% by year ____ *[the date of achievement of the target]* compared to year ____ *[baseline year]*". *[Replace this statement with "This product does not have a greenhouse gas emissions reduction target" where the product does not have a GHG emissions reduction target]*

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the **EU Taxonomy-aligned investments**, ensuring that such investments protect the environment.

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the investee companies, for example to make them more eco-friendly.

The following pages provide more details about the way this product promotes sustainability characteristics. You might be able to access them by clicking on the boxes below. Additional information is also available here at [\[link\]](#).

SFDR 1.5

SFDR 1.5

GHG emissions reduction targets

Pre-contractual, website and periodic disclosures

1. Does the fund have aim to decrease **financed GHG emissions**? Y/N
2. What is **strategy** to achieve this? Divesting, identifying assets with transition plans, engaging, other?
3. What is the **target** (against baseline year)? (interim targets if final target over 5 years, disaggregated for sovereigns)
4. Is target **compatible with Paris Agreement objective**? Y/N/not assessed



SFDR 2.0?




SFDR 2.0

SFDR 2.0

Possible changes to Level 1 SFDR

- Who?** Any firm subject to SFDR
- Why?** Gathering information on experience of implementing SFDR to understand how it has been implemented, any potential shortcomings, interaction with other parts of EU sustainable finance framework and exploring options for improvement.
- When?** Unknown. Consultation closed 15 December 2023. To be presented to next Commission.
- What?** [Public](#) and [Targeted](#) Consultation
- Current requirements of the SFDR
 - Interaction with other sustainable finance legislation
 - Potential changes to financial market participant disclosures
 - Potential establishment of categorisation system for financial products
 - **Approach 1:** move away from Articles 8/9 and introduce new labels
 - **Approach 2:** convert Articles 8/9 into formal categories.

APPROACH 1

Cat.	Detail	UK SDR equivalent?
A	Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet.	 Sustainability Impact™
B	Products aiming to meet credible sustainability standards or adhering to a specific sustainability-related theme .	 Sustainability Focus™
C	Products that exclude activities and/or investees involved in activities with negative effects on people and/or the planet.	No direct equivalent
D	Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in.	 Sustainability Improvers™

UK Sustainability Disclosure Requirements (SDR) and investment labels

UK – FCA SDRs and investment labels

UK SDRs

Four key areas covered by the SDRs



Anti-greenwashing

Sustainability claims must be consistent with characteristics of product/service and fair, clear and not misleading.
Additional guidance subject to consultation.

In force: 31 May 2024



Product labels

Four new opt-in sustainability labels for funds with sustainability objectives.

Available for use: 31 July 2024



Non-labelled ESG funds

Additional disclosure requirements for funds using ESG terms in name or marketing

In force: 2 December 2024



Disclosures

Fund-level disclosures & reports
(+ rules for distributors of funds)
/
Entity-level reports

Entity level reports due:
2 December 2025 (AUM>50bn)
2 December 2026 (AUM>5bn)

Applicable to **all firms** for **all products / services**

Relevant to **UK fund managers** and **UK funds** (and **recognised funds** for fund **distributors**) only.
FCA to consult in “early 2024” on application to **portfolio managers**

Sustainability Labels

What are the sustainability labels?



“invests mainly in assets that focus on sustainability for people or the planet”



“invests mainly in assets that may not be sustainable now, with an aim to improve their sustainability for people or the planet over time”



“invests mainly in solutions to sustainability problems, with an aim to achieve a positive impact for people or the planet”



“invests mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet”

What are the sustainability labels?



Product labels

General qualifying criteria

Sustainability Objective

- **explicit** part of the investment objective
- consistent with **aim** of label (see below)
- **clear, specific** and **measurable**
- determine & disclose any **material negative E/S outcomes**
- **trackers**: index methodology **aligned** with objective and other requirements

Resources and Governance

- **Resources, governance** and **organisational arrangements** commensurate with achieving objective
- Adequate **knowledge** and **understanding** of assets
- High standard of **due diligence** in selection of **data** used in investment decisions

Investment Policy and Strategy

- **≥70%** gross assets invested in accordance with objective
- **robust, evidenced based standard** to select assets – absolute measure of sustainability
- **independent assessment** of the standard – internal or external
- proprietary or third-party methodology for selection of assets

Stewardship

- Identify, maintain and apply the **stewardship strategy needed** to deliver the objective (including expected activities and outcomes)
- No requirement for specific KPIs or demonstration of causal link

KPIs

- robust and evidenced based KPIs to **demonstrate progress**

Escalation Plan

- Actions to be taken if assets do not demonstrate **sufficient progress**
- Anticipated **timescales** for addressing insufficient progress

What are the sustainability labels?



Product labels

Label specific criteria



Sustainability objective is consistent with the aim of investing in assets that **are environmentally and/or socially sustainable** determined using a **robust, evidenced based standard**

Sustainability objective is consistent with the aim of investing in assets that have the **potential to improve** environmental and/or social sustainability over time, determined by the potential of those assets to meet a **robust, evidenced based standard**

Sustainability objective is consistent with the aim of achieving a **pre-defined, positive, measurable impact** in relation to an environmental or social outcome

Sustainability objective is to invest in accordance with **2 or more of the other sustainability objectives** attached to a label

No additional criteria!

NB. “*investment strategies such as **exclusions, negative screening, ESG integration** or **basic ESG tilts** alone would **not be enough** to qualify for a label*”

ADDITIONAL CRITERIA:

Identify and disclose:

- **expected time period** for assets to meet standard
- short- and medium-term **targets** for improvement, **commensurate with investment horizon**

Obtain (and disclose summary of) **robust evidence** of satisfaction of standard

ADDITIONAL CRITERIA:

Specify and disclose:

- a **theory of change** – how investment activities and assets will contribute to achieving a positive and measurable impact in accordance with robust, evidenced-based standard
- a robust method to measure and demonstrate impact

ADDITIONAL CRITERIA:

- Identify **proportion of assets** invested in accordance with objectives of other labels
- Meet the **requirements of those other labels**

CANNOT use “impact” in fund name

CANNOT use “impact” in fund name

CAN use “impact” in fund name

CANNOT use “impact” in fund name

Use and disclosure requirements for labels



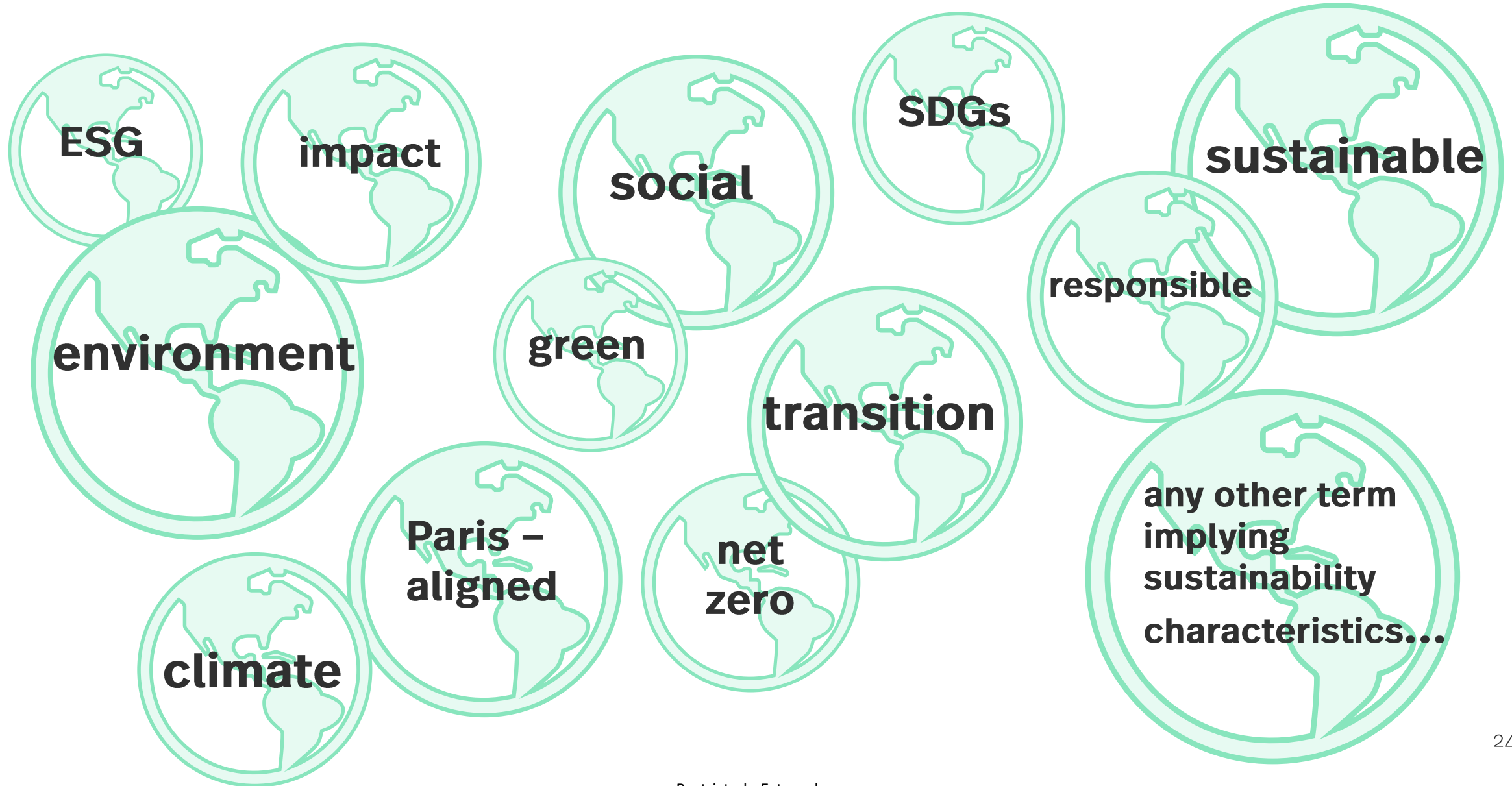
Use of label	Consumer-facing disclosures	Detailed product-level disclosures	Ongoing product reporting
<ul style="list-style-type: none">✓ Not misleading✓ Must not contradict information published by the FCA✓ Must not suggest that the FCA has approved the use of the label, or that the use of the label suggests that the fund has been approved or endorsed by the FCA	<ul style="list-style-type: none">✓ For retail clients✓ Clear, concise (2 pages max)✓ Website disclosure✓ Including sustainability objective, investment policy, metrics✓ Reviewed and updated annually and prior to making any changes to the fund	<ul style="list-style-type: none">✓ Pre-contractual disclosures in fund prospectus✓ Detailed disclosure on objective, policy, metrics, stewardship, escalation, and category-specific information✓ Review prior to making any changes to the fund	<ul style="list-style-type: none">✓ Annual disclosure in product report✓ First report to be published within 12 months from the fund's first use of a label (earliest deadline: 31 July 2025)✓ Disclosure on progress and KPIs / metrics performance

Naming and marketing rules

Sustainability-related terms



Naming and marketing



Naming and marketing rules



Naming rules

Use of sustainability-related terms in the **name of fund sold to retail clients**
(e.g. **sustainable** equity fund, **climate** change solutions fund, MSCI **Paris-aligned** fund)
is **prohibited** unless.....

- the fund has **sustainability characteristics** and a name which **accurately reflects** those characteristics;
- the sustainability characteristics are **material** to the fund;
 - e.g. at least 70% of the assets should have sustainability characteristics;
- if feeder fund, sustainability terms are consistent with the master fund

BUT cannot use “**sustainable**”, “**sustainability**” or “**impact**” in product name for Non-Labelled fund.

Marketing rules

Use of sustainability-related terms in **financial promotions to retail clients in UK**
in relation to sustainability characteristics of a fund sold to retail

- Triggers additional disclosure and reporting requirements
- Some exemptions where terms used solely:
 - to make short factual statements which are not financial promotions; or
 - to make statements in a context not intended to refer to, or describe, sustainability characteristics of a product
- Is this effectively the UK’s version of Article 8 SFDR?

All in scope funds:

Statement to be included on **website, consumer facing disclosure** and **pre-contractual disclosure**:
“Sustainable investment labels help investors find products that have a specific sustainability goal. This product does not have a UK sustainable investment label.” + brief explanation as to why it does not use a label.

Optional link to FCA webpage: [Identifying sustainable investments | FCA](#)

Disclosure requirements for Non-Labelled funds



Disclosure requirements

Consumer-facing disclosures

- ✓ For retail clients
- ✓ Clear, concise (2 pages max)
- ✓ Website disclosure
- ✓ Including investment policy and strategy, key sustainability characteristics of assets, metrics
- ✓ Reviewed and updated annually and prior to making any changes to the fund

Detailed product-level disclosures

- ✓ Pre-contractual disclosures in fund prospectus
- ✓ Detailed disclosure of investment policy and strategy (including criteria applied to determine sustainability of assets) and metrics.
- ✓ Review prior to making any changes to the fund

Ongoing product reporting

- ✓ Annual disclosure in product report
- ✓ First report to be published within 12 months from the fund's first use of a sustainability-related term (earliest deadline: 2 December 2025)
- ✓ Disclosure on policy/strategy and metrics

Q&A

Speaker

Please contact me for more information on SFDR and SDR



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