

## Sustainability | SFDR Reporting – state of play and key learning points

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# Getting Started

Here with you today

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**Bernhard Bittner**  
Partner IM & Alternatives Consulting  
bbittner@deloitte.lu



**Francesca Messini**  
Partner & Sustainability Leader  
fmessini@deloitte.lu



**Sergio Venti**  
Partner IM & Alternatives Consulting  
sventi@deloitte.lu



# Sustainability Disclosure Regulation – What it is about?



## WHAT IS THE AIM OF SFDR?

- Channel private investment towards sustainable investing while **preventing greenwashing practices** by requiring financial industry actors to provide **greater transparency** on the degree of sustainability of financial products



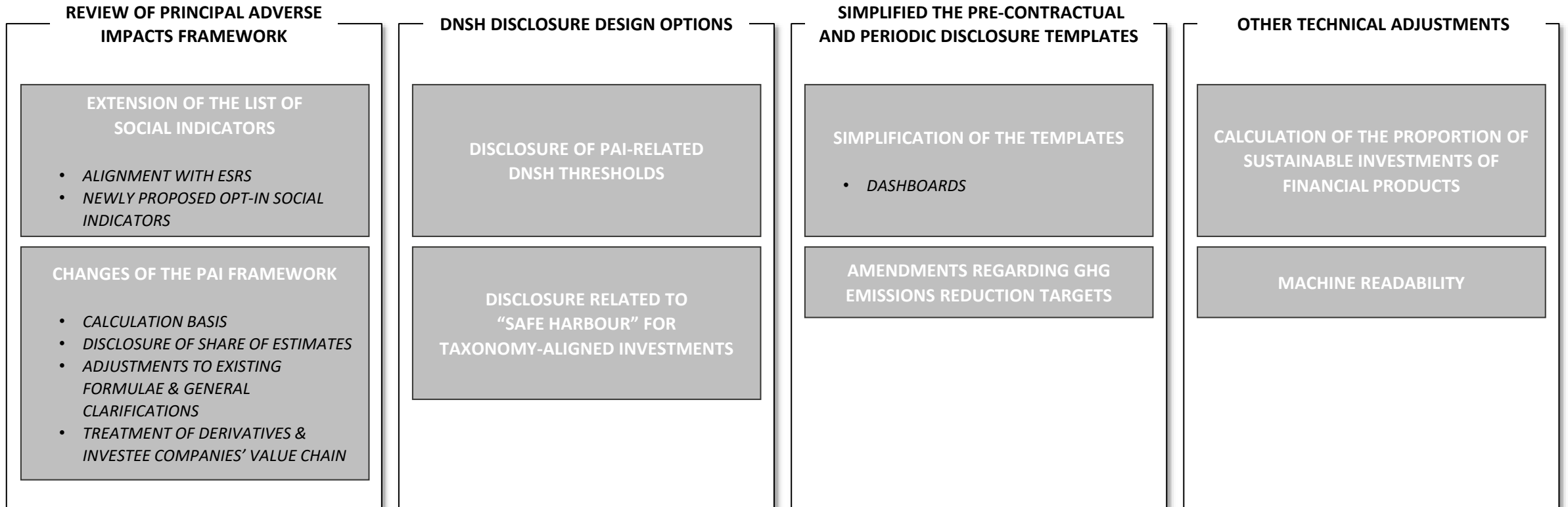
## WHO IS IN SCOPE?

- **Financial market participants (FMPs)** making available financial products, for example alternative investment fund managers (AIFMs), UCITS management company, alternative investment funds (AIFs) and insurance-based investment products (IBIPs)
- **Financial advisers (FAs)** providing investment or insurance advice, for example insurance undertakings, credit institutions, investment firms, AIFMs
- **Financial Products (FPs)** such as AIFs, UCITs and pension products

# ESAs put forward amendments to sustainability disclosures for the financial sector



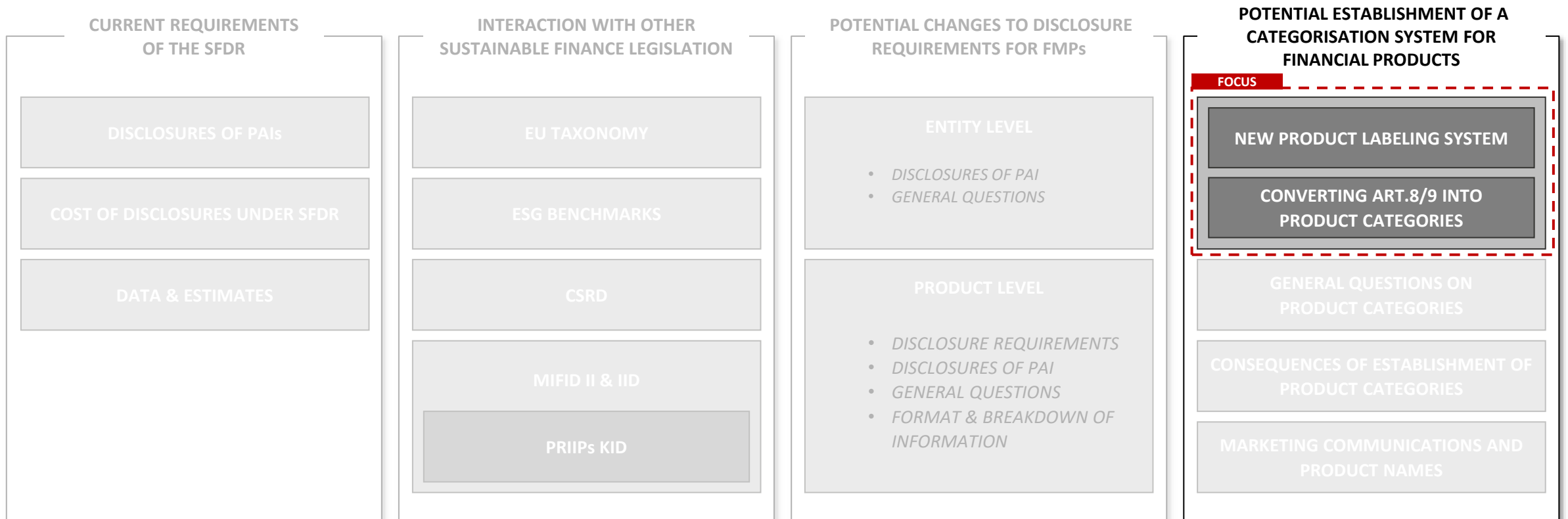
On Monday December 4, ESAs published their **Final Report amending the draft Regulatory Technical Standards (RTS)** to the Delegated Regulation supplementing the Sustainable Finance Disclosure Regulation (SFDR). The ESAs propose adding **new social indicators** and **streamlining the framework for the disclosure of principal adverse impacts** of investment decisions on the environment and society.



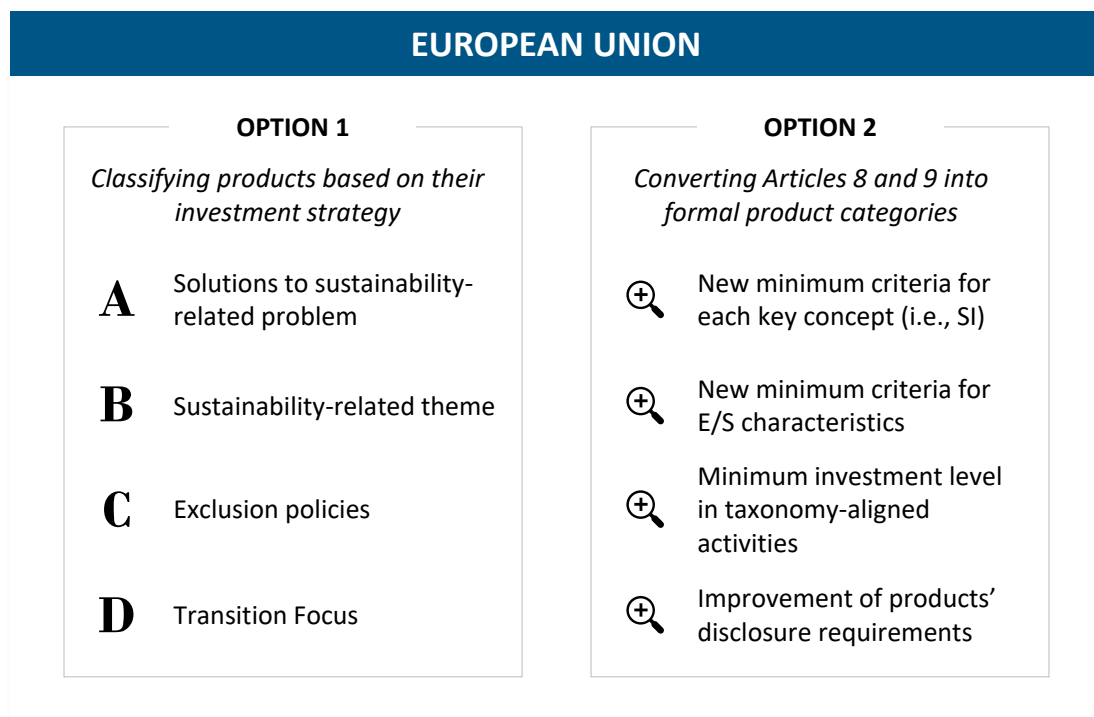
- The European Commission will study the draft RTS and decide whether to endorse them **within three months**. These draft RTS would be applied independently of the comprehensive assessment of SFDR announced by the European Commission in September 2023 and before changes resulting from that assessment would be introduced.

# European Commission targeted consultation – SFDR Implementation

- A consultation launched in September to assess SFDR’s **potential shortcomings**, focusing on **legal certainty, the useability of the regulation and its ability to tackle greenwashing practices**.



# Move from disclosure regime to product label scheme – EU SFDR & UK SDR



## National trends

- Dutch regulator proposes overhaul ahead of green fund consultation closure
- France follows Belgium in revising SRI label
- In the UK, any fund wanting to use “sustainable” or “impact” in its name will need to be granted a product label (4 labels available)

# Move from disclosure regime to product label scheme – EU SFDR & UK SDR

<p><b>SUSTAINABILITY IMPACT</b></p>	<ul style="list-style-type: none"> <li>• Non-financial objective to achieve a pre-defined, positive, measurable impact**</li> <li>• Must invest at least 70% in assets that provide solutions to environmental or social problems, often in under-served markets or to address observed market failures</li> <li>• Supported by a theory of change emphasising the contribution to the problem at hand</li> <li>• Have a robust method to measure and demonstrate impact</li> </ul>
<p><b>SUSTAINABILITY IMPROVERS</b></p>	<ul style="list-style-type: none"> <li>• Non-financial objective</li> <li>• Must invest at least 70% in assets that have the potential to become more sustainable over time, including in response to stewardship (in various forms)</li> <li>• Must obtain robust evidence for selecting assets</li> </ul>
<p><b>SUSTAINABILITY FOCUS</b></p>	<ul style="list-style-type: none"> <li>• Non-financial objective</li> <li>• Must invest at least 70% in either assets with a “robust, evidence-based standard that is an absolute measure of sustainability”*</li> </ul>
<p><b>SUSTAINABILITY MIXED GOALS</b></p>	<ul style="list-style-type: none"> <li>• Non-financial objective to invest in products with any combination of the other labels</li> <li>• Must invest at least 70% in accordance with a combination of the sustainability objectives for the other labels</li> <li>• Disclose details of the proportion of assets invested in accordance with each relevant label</li> <li>• Must comply with the requirements for each of the relevant labels</li> </ul>

\*This was previously referred to as a “credible standard”. The FCA has clarified that internal frameworks can be used and independent assessment can be carried out either by a third party or via a firm’s internal processes. The option to qualify for the Focus label by aligning with a sustainability theme has also been removed.

\*\*The FCA has removed references to real world impact but has noted that all labels lead to some form of impact.

# Sustainability Disclosure Regulation – Detailed product-level disclosures

FCA proposed the following detailed product-level disclosure requirements, aimed at both institutional investors and retail investors:

## Pre-contractual disclosures

- Made in either a fund prospectus, prior information document, or 'Part A (Asset managers) of a sustainability product report, as relevant.

## Ongoing sustainability-level disclosures

- Made in Part B of a sustainability product report (ref. to TCFD product report).

## On-demand information

- Information that certain firms must provide on request to eligible clients;
- The rules apply in respect of UK Alternative Investment Funds (AIFs) not listed on a recognised exchange.

## EXECUTIVE SUMMARY

- 01** > All products using a label or using sustainability-related terms in their naming and/or marketing without a label must include sustainability information in:
  - Pre-contractual disclosures (from the date the label is first used or by 2 December 2024 for products using the terms without a label), and
  - Ongoing product-level disclosures annually (after 12 months from either the date the label or terms are used)
- 02** > For products using a label, the information that must be disclosed is broadly associated with the qualifying criteria for the labels.
- 03** > For products not using a label, the pre-contractual and ongoing product-level disclosures must, at a minimum, include information relating to the investment policy and strategy and any relevant metrics.
- 04** > For the 'Sustainability Mixed Goals' label only, the disclosures must include the proportion of assets invested in accordance with each of the relevant labels, and the information required in relation to those labels.



## Key attributes of the product-level disclosures – Pre-contractual disclosures

- The disclosures must be clearly identifiable in the precontractual materials, which may be achieved by including the information in a dedicated section.
- Disclosures relating to the label and sustainability objective, or statement clarifying that the product does not have a label, must be located in a prominent place in the pre-contractual materials.

LABELLING	SUBJECT MATTER	DESCRIPTION	SFDR DISCLOSURES MAPPING
L	Label	The label used for the product.	Sustainable investment objective table
NL	Statement	Statement clarifying that the product does not have a label and why.	SFDR Article 6 Statement (ref. Article 7 TR)
L	Sustainability objective	The sustainability objective; where the investment strategy to pursue the objective may result in a material effect (including expected effect) on the financial risk and return; the link between the objective and positive environmental and/or social outcome; and where pursuing that objective may result in material negative environmental and/or social outcomes.	<ul style="list-style-type: none"> <li>- E/S characteristics promoted or sustainable investment objective</li> <li>- Investment strategy and binding elements</li> <li>- Sustainability indicators</li> <li>- DNSH and PAI</li> </ul>
L + NL	Investment objective & strategy	<ul style="list-style-type: none"> <li>• Details of the investment policy and strategy for the product, including how the manager determines the assets the product invests in (e.g., the criteria it applies to determine sustainability characteristics).</li> <li>• The robust, evidence-based standard of sustainability, including the basis on which the standard is considered appropriate and the function or third party that carried out the independent assessment (without naming individuals).</li> <li>• The proportion of assets invested in accordance with the sustainability objective and the types of assets that are held for other reasons, and why.</li> <li>• How the index providers' methodology aligns with the product's sustainability objective (where relevant).</li> </ul>	<ul style="list-style-type: none"> <li>- Investment strategy and binding elements</li> <li>- <i>(Third-party assurance being optional)</i></li> <li>- Asset allocation</li> <li>- Index and reference benchmark</li> </ul>
L	Sustainability metrics	Details of the policies and procedures, and the KPIs, that the firm will use to monitor and demonstrate performance towards the sustainability objective.	<ul style="list-style-type: none"> <li>- Investment strategy and binding elements</li> <li>- Sustainability indicators</li> </ul>
NL	Sustainability metrics	Details of any other metrics a consumer may find useful in understanding the investment policy and strategy for the product.	Sustainability indicators
L	Investor stewardship	Details of the investor stewardship strategy and resources to support achievement of the sustainability objective, including how that strategy will be applied and, where relevant, whether the firm is a signatory to the UK Stewardship Code.	Shareholder engagement ( <i>Annex IV/V</i> )
L	Escalation plan	Any actions the firm will take in accordance with its escalation plan.	N/A
L	Category-specific disclosures	<p>Specific disclosures associated with the relevant labels:</p> <ul style="list-style-type: none"> <li>• Sustainability Improvers (e.g., expected timescales for improvement and the types of evidence relied on),</li> <li>• Sustainability Impact (e.g., the theory of change and method to measure and demonstrate impact) and</li> <li>• Sustainability Mixed Goals (e.g., the proportion of assets invested in accordance with each sustainable investment category and the specific disclosures associated with each category).</li> </ul>	N/A

## Key attributes of the product-level disclosures – Ongoing & on-demand product-level disclosures

- These disclosures must be made annually from when the firm starts to use the label for a product.
- They must be made in a Sustainability Product Report (Part B), which builds from the TCFD product report where firms are in scope of the TCFD-aligned disclosure requirements, or on demand.

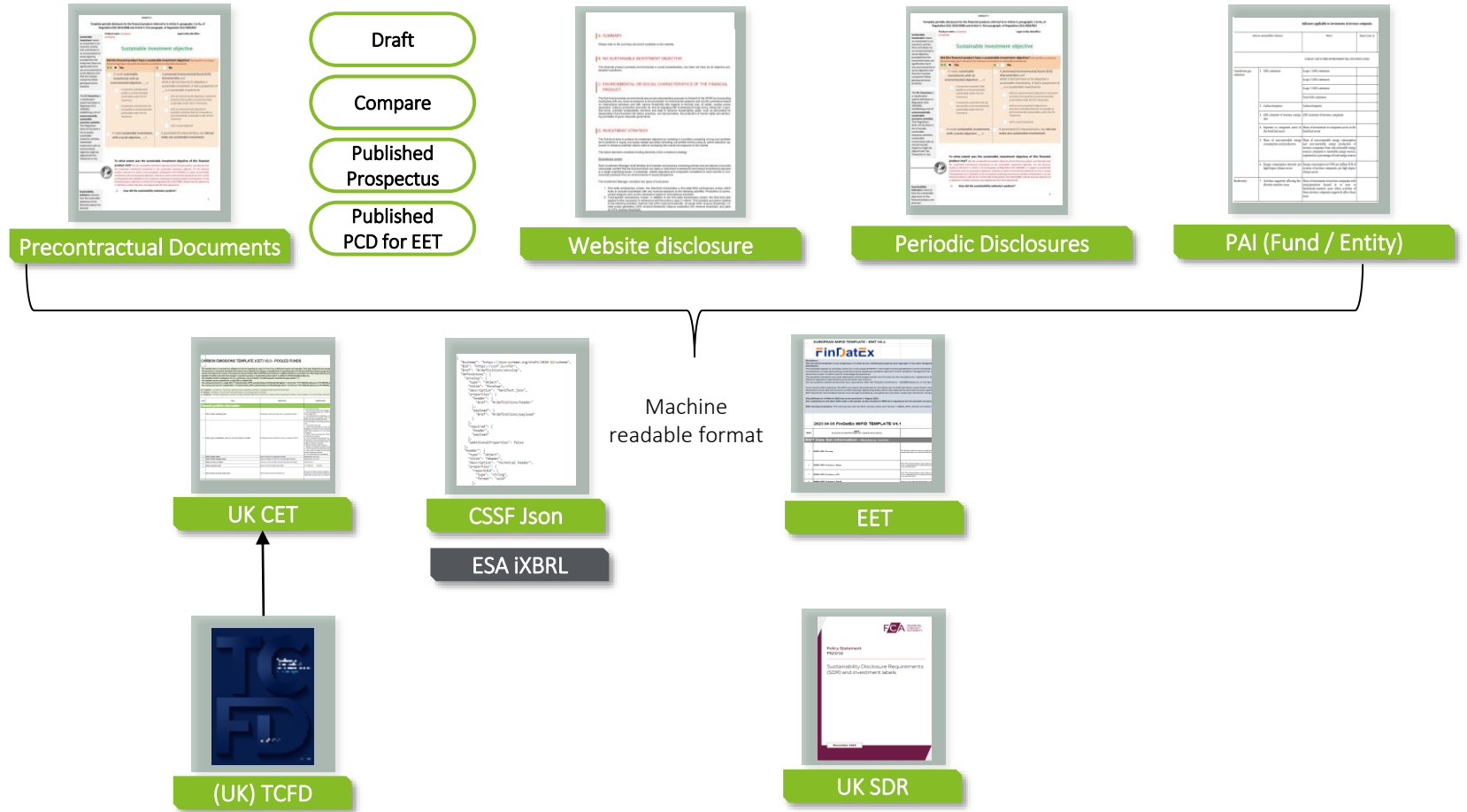
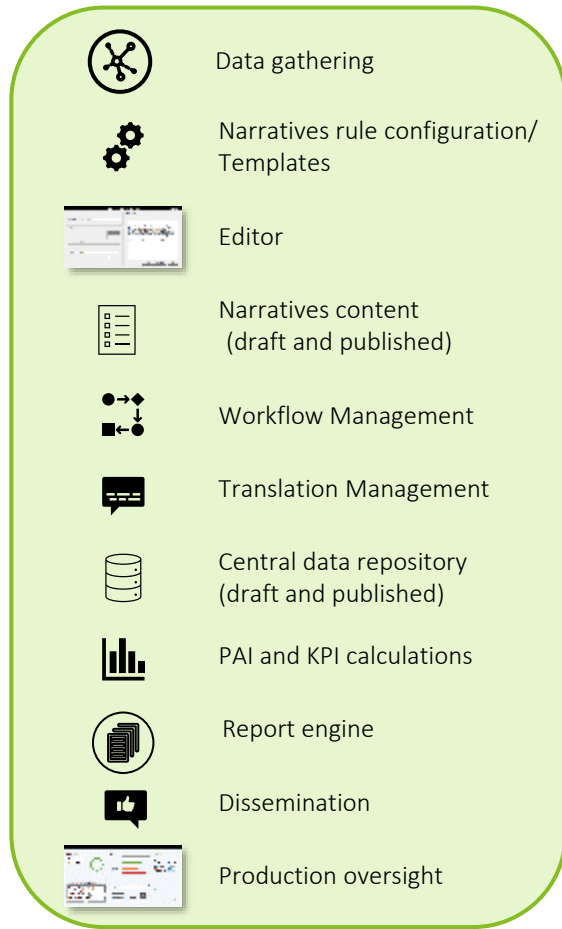
LABELLING	SUBJECT MATTER	DESCRIPTION	SFDR DISCLOSURES MAPPING
L + NL	Basic information	Date of the report	/
L	Label	The label used for the product.	Sustainable investment objective table
NL	Statement	Statement clarifying that the product does not have a label and why.	Article 7 TR
L	Sustainability objective	Details of the sustainability objective, progress towards achieving the objective, the proportion of assets invested in accordance with the sustainability objective and the types of assets held for other reasons (and why)	<ul style="list-style-type: none"> <li>- E/S characteristics promoted or sustainable investment objective</li> <li>- Sustainability indicators</li> <li>- Asset allocation table</li> </ul>
L + NL	Investment objective & strategy	Details of how the product is invested in accordance with its investment policy and strategy on an ongoing basis	- Investment strategy and binding elements
L	Sustainability metrics	Details of the product's performance against KPIs.	- Sustainability indicators
L + NL	Sustainability metrics	<ul style="list-style-type: none"> <li>• Details of any other relevant metrics that a consumer might find useful in understanding the investment policy and strategy for the product</li> <li>• Contextual information and historical annual calculations for the KPIs and/or metrics (as relevant)</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainability indicators</li> <li>- Asset allocation table (i.e., Other)</li> </ul>
L + NL	Material deviations	Details as to how the firm's approach to the product materially deviates from its entity-level approach (where relevant)	N/A
L	Investor stewardship	Details as to how investor stewardship has been applied, including activities undertaken and outcomes achieved (or expected to be achieved). These may include cross-references to Stewardship Code reporting, provided that information relevant to the product is clearly signposted.	Shareholder engagement ( <i>Annex IV/V</i> )
L	Escalation plan	Details of matters escalated.	N/A
L	Category-specific disclosures	Specific disclosures associated with the relevant labels: <ul style="list-style-type: none"> <li>• Sustainability Impact (e.g., progress that the product is making towards achieving a positive impact)</li> </ul>	N/A

### ON-DEMAND DISCLOSURES

- Where public disclosures are not appropriate, which may be the case for unauthorised AIFs not listed on a recognised exchange, the information above must be provided to eligible clients on demand. Eligible clients are those that need the information for their own sustainability-related disclosure requirements.
- Firms are not required to produce on-demand disclosures before 2 December 2025.

# Current state of play

- Focus on operational workflow and efficiency in ESG reporting



Benchmarking

Prospectus Management

PAI calculation

One-stop solution

# Q&A



# Next Link'n Learn webinar

*Date: 13/12/2023*

**Topic: Alternative Investments |  
Carried Interest and Performance  
Fee Incentives**





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