

SFDR - One year on: 2022 and beyond

Find out what's happened during the first year since SFDR was introduced, and the key milestone dates to look out for in the coming years.

Pre-2022

SFDR came into force on 10 March 2021, with in-scope investment managers required to publish ESG and sustainability statements and disclosures on their websites and in any private placement memoranda being distributed to potential investors.

The extent to which managers have to disclose information under the SFDR varies according to the manager's investment focus. All in-scope managers must make sustainability risk disclosures and Principal Adverse Impact ("PAI") disclosures, while those funds promoting environmental or social characteristics and those that have sustainability as a specific objective are required to make additional disclosures relating to benchmark indices and how sustainability objectives will be attained.

2021 also saw the introduction of the EU's **Taxonomy Regulation** (the "Taxonomy"), with Technical Screening Criteria ("TSC") assessing economic activities' effects on environmental objectives being published in December.

2022

Under the SFDR, investment managers who have opted in to publishing Principal Adverse Impact ("PAI") statements on or after 1 January 2022 are required to publish their first detailed statement. These statements are 'qualitative only' (without a reference to any reporting period) and must be published on the date on which the manager opts in.

During 2022, the European Commission will consider options for extending the **Taxonomy Regulation** (the "Taxonomy") beyond environmentally sustainable objectives, to include other sustainable objectives such as those focused on social

factors. The European Commission also intended to publish a paper outlining the provisions required to cover economic activities which don't have a significant impact on environmental sustainability, as well as those activities that significantly harm environmental sustainability.

1 January 2022

Under the **SFDR** and the EU **Taxonomy Regulation** (the "Taxonomy"), the first reference period for conducting quantitative assessments of Principal Adverse Impacts ("PAIs") against key performance indicators begins. This reference period ends on 31 December 2022 and the reference period for each investment manager begins from the date on which they opted in, from 1 January onward. The first quantitative PAI assessment calculation dates fall quarterly on 31 March, 30 June, 30 September and 30 December following opt-in, and in each year thereafter.

Funds promoting environmental and social characteristics or having sustainability as an objective are required to make several disclosures relating to the two key climate change objectives:

- which environmental objectives are being promoted;
- how and to what extent investments qualify as 'environmentally sustainable' under the Taxonomy;
- what proportion of the fund's investments qualify as 'environmentally sustainable';
- a prescribed form statement that the fund's activities do no significant harm to any other Taxonomy objectives; and
- a prescribed form statement referencing the goals of the Paris Agreement (if carbon emissions reduction is an objective and if the fund has sustainability as an objective).

These funds are also be required to publish the following in investor reports (currently on a best effort / principles-first basis, until publication of the Regulatory Technical Standards ("RTS") and subject to clarification of the reference period the reported data covers):

- which environmental objectives are being promoted;
- how and to what extent investments qualify as 'environmentally

sustainable’;

- what proposition of the fund’s investments qualify as ‘environmentally sustainable’;
- the overall sustainability impact of the fund, referencing sustainability indicators;
- the extent to which ESG characteristics are met or the overall sustainability impact of the fund; and
- comparisons between the fund’s impact of (i) any designated benchmark indices and (ii) a broad market index.

Funds not promoting environmental and social characteristics, and that do not have sustainability as an objective, are required to disclose in their private placement memoranda that the fund doesn’t take the Taxonomy into account.

Finally, managers of funds promoting environmental and social characteristics or having sustainability as an objective must disclose the following on their websites:

- the ESG characteristics or sustainable objectives of the fund;
- methodologies used to assess and monitor those characteristics or the fund’s impact; and
- information on the selected indices or an explanation of how the objective of the fund will be attained if no index has been selected.

30 June 2022

The final date by which managers who opted into publishing Principal Adverse Impacts (“PAI”) statements under the SFDR before 1 January 2022 are required to publish their first detailed PAI statement on their website. These statements are not required to reference any prior reporting period, and are ‘qualitative only’ statements.

13 July 2022

On 13 July 2022, and every year thereafter, the European Commission will publish a report on the application of the EU **Taxonomy Regulation** (the “Taxonomy”), including:

- a progress evaluation of the development of Technical Screening Criteria

- (“TSC”) for environmentally sustainable activities;
- access to the data required for reporting; and
- the effectiveness of the Taxonomy in promoting sustainable investment.

31 December 2022

The final date by which all managers who consider Principal Adverse Impacts (“PAIs”) are required to publish SFDR PAI Statements on their websites. These statements must also be included in private placement memoranda where relevant.

1 January 2023

1 January 2023 is the expected introduction date for Regulatory Technical Standards (“RTS”) setting out detailed requirements for certain quantitative and qualitative **SFDR disclosures**, including the content, methodology and presentation of these disclosures. The requirements include:

- manager-level website disclosures on the Principal Adverse Impacts (“PAIs”) of investment decisions on sustainability factors; and
- Private Placement Memoranda, website and periodic reporting disclosures for funds promoting environmental or social characteristics, and funds which have sustainability as an objective.

This will also be the beginning of the second reference period for periodic annual reports for funds promoting environmental or social characteristics, those having sustainability as an objective, and those managers considering PAIs.

Funds which promote environmental or social characteristics and those that have sustainability as an objective will be required to include disclosures on the four environmental **Taxonomy objectives**, specifically:

- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control; and
- the protection and restoration of biodiversity and ecosystems.

30 June 2023

From 30 June 2023 (and every 30 June thereafter), investment managers who considered Principal Adverse Impacts (“PAIs”) in the previous calendar year are required to publish a detailed PAI statement on their websites.

These first statements relate to the first PAI reference period of January - December 2022, including an assessment of PAIs against key performance indicators under the Regulatory Technical Standards (“RTS”) (i.e. qualitative and quantitative PAI statements). These statements are also to be included in fund Private Placement Memoranda, where relevant.

30 June 2024

The final date for publication of periodic reporting on the second reference period for funds **promoting environmental or social characteristics, or having sustainability as an objective.**