

## Sustainable Finance Disclosure Regulation - Overview of key requirements

Entity level disclosures: Firms are required to publish entity level disclosures on their website. These obligations concern their policies on decision-making on sustainability risks and include:

- **Sustainability risks**
  - The Article 3 requirement relates to the disclosure of information relating to a firm's policies on the integration of sustainability risks in its investment decision-making process.
- **Principal Adverse Impacts (PAIs)**
  - Article 4 is a fundamental tenet of the SFDR and relates to reporting PAIs. Firms should provide a statement on their policies regarding the PAIs of investment decisions or advice. Firms should disclose information regarding the consideration (or not) of PAIs described as the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social, and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Specific indicators are prescribed [within the RTS](#).
  - Firms must provide a qualitative statement which includes a summary of the identified PAIs and an explanation of the actions taken to reduce its impact.
  - Reporting against PAIs is a mandatory process for large firms (those with over 500+ employees). For firms with fewer than 500 employees, the 'Comply or Explain' principle applies; here firms are not required to comply with the PAI at firm-level, but they must explain why they do not.
- **Remuneration policies**
  - Under Article 5 firms need to provide an explanation for how remuneration policies are consistent with the integration of sustainability risks.

Product level disclosures: Reporting obligations concerning the financial products and their sustainability risks include:

- **Pre-contractual disclosures**
  - A number of articles are addressed here. This includes Article 6 (non-ESG funds), Article 8 (light green funds) and Article 9 (dark green funds) which are discussed below. It also includes Article 7 considerations of PAIs which complement the entity level disclosures.
  - The pre-contractual disclosures at the product-level include consideration of sustainability risks, sustainability indicators used to measure environmental or social characteristics, sustainable investments, EU taxonomy alignment, PAIs and significant harm of the product.
- **Periodic reports**
  - Article 11 requires annual disclosures delineating the extent to which the characteristics outlined in the pre-contractual disclosures were met during the period. This might include percentage asset allocation, sustainable or taxonomy aligned investments, or the actions taken to meet the environmental or social characteristics.
- **Web disclosures**
  - Disclosures must be published on the website under Article 10 and this includes details on the environmental or social characteristics, any sustainable investment objective, investment strategy, monitoring, data sources, methodologies and limitations, due diligence and engagement policies.

The disclosure requirements differ depending on whether the products are considered to have a sustainable investment objective (commonly referred to as Article 9), environmental and/or social characteristics (commonly referred to as Article 8), or neither of the above (commonly referred to as Article 6).

- **"Article 6"** strategies either integrate consideration of sustainability risks into the investment decision making process, or explain why sustainability risk is not relevant, but do not meet the additional criteria of Article 8 or Article 9 strategies.
- **"Article 8"** strategies promote social and/or environmental characteristics, include consideration of PAIs and good governance, and may invest in sustainable investments, but do not have sustainable investing as a core objective.
- **"Article 9"** strategies have a sustainable investment objective.

There is a requirement for enhanced disclosures for Article 8 and Article 9 financial products; [reporting templates](#) are provided depending on the disclosure ambition.

### Additional terms and definitions

- **Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment "does not significantly harm" any environmental or social objective and that the investee companies follow good governance practices.
- **Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.