Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) is creating completely new standards for both legal entities (e.g. AIFMs) and products (e.g. investment funds). Together with the taxonomy regulation, these new frameworks will shape the future.

It is crucial to take the right approach now and build strong foundations for the future. Getting it right in terms of interpretation and implementation of the SFDR will be key for compliance and the running of business going forward.

What is the aim of SFDR?

The policy aim is to enable end investors to make informed decisions between service providers in relation to sustainability.

The regulation obliges companies conducting investment decision-making activities on behalf of clients/beneficiaries (known as Financial Market Participants) and financial advisers, to provide transparency on the extent to which they incorporate ESG considerations into the services they provide to their clients.

Prevent "greenwashing" – Managers offering funds or separate accounts/strategies with a sustainable objective or with environmental and/or social characteristics to evidence through disclosure at a product level how those characteristics or objectives are met.

What you need to know about ESG regulation in 5 points

Provide transparency and create standartds on entity and product level

Incorporating sustainability as part of financial advice and investment decission making process

Developing sustainability benchmarks and better integrating sustainability into ratings

Establishing a taxonomy for sustainable activities

Strengthening disclosures made by financial market participants to their clients

What is the impact on AIFM?

Acting as third-party Alternative Investment Fund Manager (AIFM) having five licenses from the CSSF (RE, PE, Debt, Infra and FoF) we need to comply with the regulations at legal entity (e.g. AIFM itself) and a wide range of products (e.g. investment funds).

This is a challenging task for all AIFMs as we need to ensure that sustainability risks and sustainability factors are integrated within a manager's organisational, operating risk management, and product governance process.

What does it mean for you as asset manager?

Managers will be required to comply with the SFDR's "high level and principle-based requirements" from 10 March 2021 onwards.

Pre 10 March 2021

– Update policies and procedures on ESG risk management, remuneration, investment due diligence;

– Publish entity level (AIFM) SFDR disclosures based on Level 1 requirements including principal adverse sustainability impacts (PASI) and sustainability risks in relevant policies;

– Update of fund issuing documents and relevant agreements (e.g. AIFM, advisory, portfolio management and distribution agreements);

– Publish appropriate disclosures on product and AIFM websites.

Level 2 requirements will come into force between 10 March 2021 and 1 January 2022

– Update of fund issuing documents in line with the final applicable Level 2 rules;

– Update disclosures on product and AIFM websites in line with the final applicable Level 2 rules;

– Preparing compliance with Taxonomy Regulations coming is effect on 1 January 2022.

After 1 January 2022

– Publication of product level reports required by SFDR Level 1 rules and Level 2 as from 2023;

– Publication of PASI reports required by SFDR Level 1 rules and Level 2 as from 2023.

Our team will help you unlock opportunities

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