SFDR disclosures

A three-layer transparency path towards darker green bond markets

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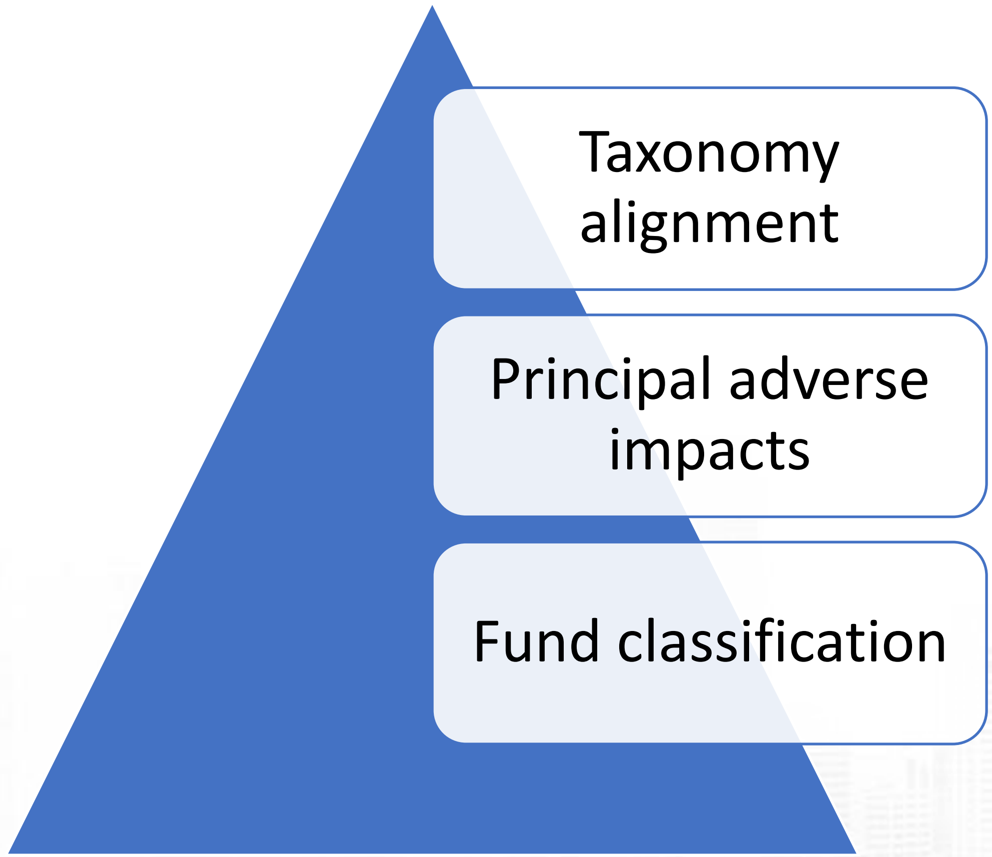
The SFDR provides for three disclosure layers



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SFDR disclosures for financial market participants

Entity level

Website

1. **Sustainable risk policies (Article 3)**
Integration sustainability risks investments decision process

Statement due diligence polices with respect to impacts

Reasons why not, and info whether and when intended to be considered

2. **Adverse sustainability impacts (Article 4)**
Adverse impact on sustainability factors considered?

3. **Renumeration policies (Article 5)**
How are these consistent with integration sustainability risks?

Product level

1. Non-green, 2. Light green and 3. Dark green

1. **Pre-contractual** (eg prospectus) **(Article 6)**
a. Integration sustainability risks into investments decisions & impacts sustainability risks on product returns

Additional info

Light green (Article 8): Information on how environmental or social characteristics are met

Index as reference benchmark? How is the index consistent with these characteristics? Methodology index used

Dark green (Article 9):
Index used: How is index aligned with sustainable investment objective? How does the index differ from broad market index?
No index used: How is the sustainable investment objective achieved?

b. Explanation on consideration of principal adverse impacts on sustainability factors (or reason why not considered) (Article 7)

2. **Periodic reports** (eg annual reports) **(Article 11)**

Light green (Article 8): Extent to which environmental or social characteristics are met

Dark green (Article 9): The sustainability related impact of the product via sustainability indicators. **Index used:** comparison with the impact of the index and the broad market index via sustainability indicators

3. **Website (Article 10)**

Three types of products

Fund classifications in the early days of the SFDR

Article 6 Non-green

- Do not promote environmental or social characteristics.
- Do not invest in economic activities that contribute to an environmental/social objective.
- Only pre-contractual disclosures required.

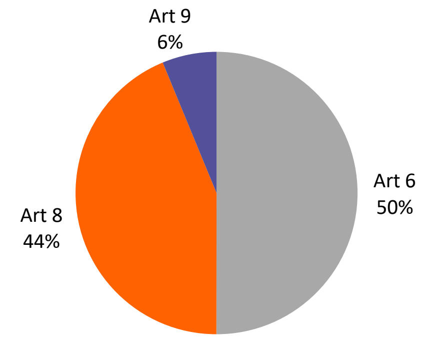
Article 8 Light green

- Financial products that promote environmental or social characteristics.
- Additional information required on how the environmental and social characteristics are met.
- Where applicable, whether and how the index designated as reference benchmark is consistent with those characteristics.

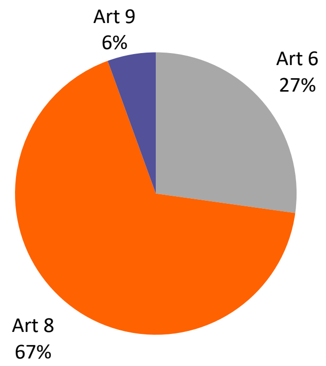
Article 9 Dark green

- Financial products that invest in an economic activity that contributes to an environmental or social objective, provided that these investments do no significant harm to any of these objectives and that the investee companies do follow good governance practices.
- Explain how the environmental/social objectives are accomplished (active or passive investment strategy).
- If reducing carbon emissions is the objective: information on objective of low carbon emissions in light of Paris agreement.

Article 6, 8 and 9 funds (nr funds)

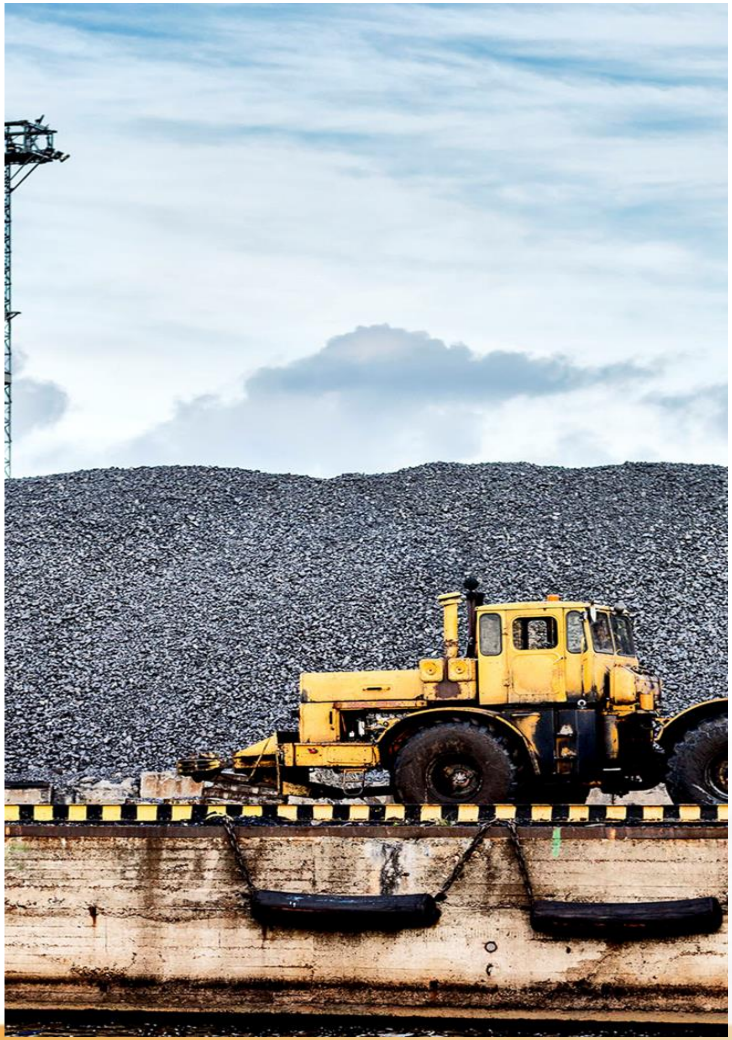


Article 6, 8 and 9 funds (AuM)



Source: 18 asset managers, info available by end of April 2021

Principal adverse impacts



	Environmental	Social	Total
Universal mandatory	**12**	**6**	**18**
Investee companies	9	5	14
Sovereigns & supras	1	1	2
Real estate assets	2		2
Opt-in additional	**22**	**24**	**46**
Investee companies	16	17	33
Sovereigns & supras	1	7	8
Real estate assets	5		5

Financial market participants have to describe the adverse impacts for all mandatory indicators, but only for at least one of the additional climate related indicators and at least one of the additional social indicators

Source: EC Delegated Regulation on the various RTS required under the SFDR of 6 April 2022

Principal adverse impacts real estate assets

Only environmental impacts are applicable to investments in real estate assets

Mandatory (environmental)

1. **Exposure to fossil fuels through real estate assets**: share of investments in real estate assets involved in the extraction, storage, transport, manufacture of fossil fuels
2. **Exposure to energy-inefficient real estate assets:** share of real estate asset built before 31/12/202 with ***EPC label of C or below*** plus real estate assets built after 31/12/202 with ***PED below NZEB***, versus real estate assets required to abide by EPC and NZEB rules

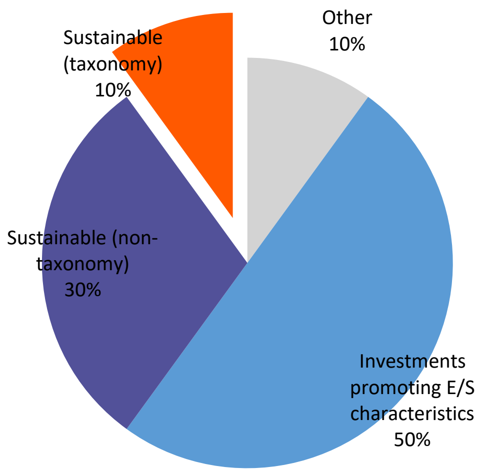
Additional (environmental)

1. GHG Emissions (Scope 1, 2, 3 and total)
2. Energy consumption intensity
3. Waste production in operations
4. Raw materials consumption for new construction and major renovations
5. Land artificialisation

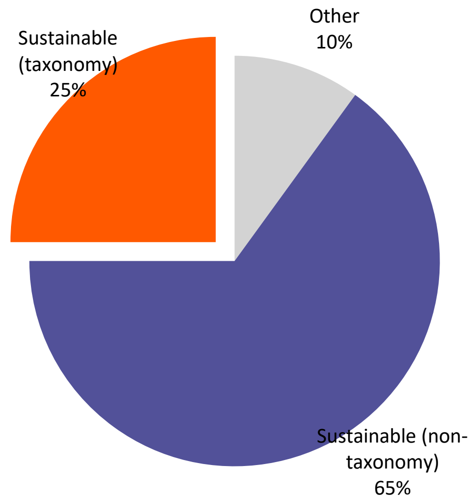
Example of reporting on taxonomy compliance

Investors have to report on the taxonomy alignment of their investments, a) by including sovereign bonds and b) by excluding sovereign bonds

Article 8 fund



Article 9 fund



Taxonomy KPI under the SFDR

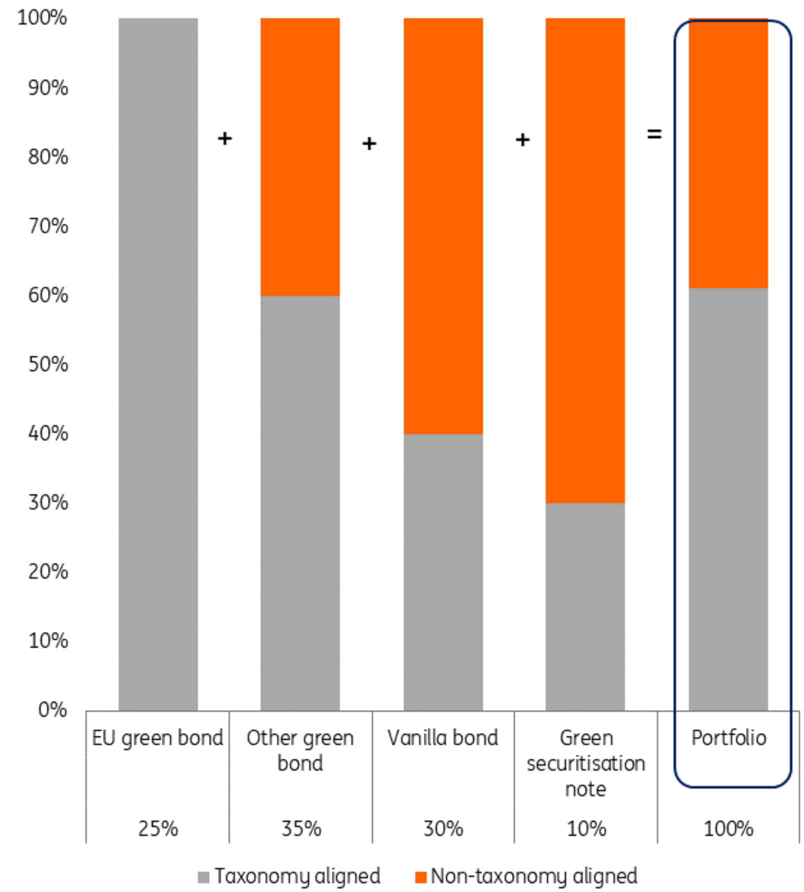
A simple illustration why higher taxonomy alignment by banks and their green bonds matters

$$KPI = \frac{\text{Market value of all taxonomy aligned investments of the financial product}}{\text{Market value of all investments of the financial prodcut}}$$

Taxonomy aligned investments

- **Green bonds** issued under the future **EU green bond standard** (GBS) = 100% market value
- **Other green bonds** = proportion of the market value corresponding to the proportion of the proceeds used to finance environmentally sustainable (ie taxonomy aligned) activities
- **Debt instruments** and equities in **investee companies** = market value of the proportion of debt instruments/equities reflecting the proportion of activities of the investee companies that is associated with environmentally sustainable activities (eg NFRD (CSRD) disclosures)
- **Green securitisation notes** = market value of the proportion of the underlying exposures in environmentally sustainable activities

Indicative investment portfolio



Based on European Commission, regulatory technical standards, adopted on 6 April 2022