SFDR disclosures

A three-layer transparency path towards darker green bond markets

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From the presentation given during the EEMI Bauhaus Week in Trento on 14 February 2023
The SFDR provides for three disclosure layers:

1. Taxonomy alignment
2. Principal adverse impacts
3. Fund classification
### SFDR disclosures for financial market participants

#### Entity level

1. **Sustainable risk policies (Article 3)**
   Integration sustainability risks investments decision process
   - Statement due diligence policies 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. **Pre- contractual (eg prospectus) (Article 6)**
   - 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): 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

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)**

#### Product level

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

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**Article 6, 8 and 9 funds (nr funds)**

- Article 6 50%
- Article 8 44%
- Article 9 6%

**Article 6, 8 and 9 funds (AuM)**

- Article 6 27%
- Article 8 67%
- Article 9 6%

Source: 18 asset managers, info available by end of April 2021
## Principal adverse impacts

<table>
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<tr>
<th></th>
<th>Environmental</th>
<th>Social</th>
<th>Total</th>
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<tr>
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<tr>
<td>Investee companies</td>
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<td>2</td>
</tr>
<tr>
<td>Real estate assets</td>
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<td><strong>Opt-in additional</strong></td>
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<td>Investee companies</td>
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<tr>
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<td>1</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Real estate assets</td>
<td>5</td>
<td></td>
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</table>

*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
Investors have to report on the taxonomy alignment of their investments, a) by including sovereign bonds and b) by excluding sovereign bonds.
A simple illustration why higher taxonomy alignment by banks and their green bonds matters

**Indicative investment portfolio**

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<table>
<thead>
<tr>
<th>KPI</th>
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<tbody>
<tr>
<td>Market value of all taxonomy aligned investments of the financial product</td>
</tr>
<tr>
<td>Market value of all investments of the financial product</td>
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</table>

- **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 (i.e., 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 (e.g., NFRD (CSRD) disclosures)
  - **Green securitisation notes** = market value of the proportion of the underlying exposures in environmentally sustainable activities

- **Indicative investment portfolio**
  - EU green bond: 25%
  - Other green bond: 35%
  - Vanilla bond: 30%
  - Green securitisation note: 10%
  - Portfolio: 100%
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Based on European Commission, regulatory technical standards, adopted on 6 April 2022