

The SFDR: what fund managers need to know



The Sustainable Finance Disclosure Regulation (“SFDR”) enhances the transparency on the degree of sustainability of financial products and prevents greenwashing. Investors are able to make better informed investment decisions, and direct investments to more sustainable activities.

Why does SFDR matter to you?

Marketing to investors in EU

SFDR applies to (EU and non-EU) financial institutions selling funds in EU

1. Typically, investment firms and asset managers (e.g. private equity, venture capital, retail funds) in the EU
2. Non-EU financial institutions that market funds and other financial products in EU
3. If no marketing in EU, may choose to voluntarily disclose to demonstrate the financial product’s sustainability objectives

ESG product development opportunities

Upside potential to enhance ESG in product development and the investment framework

- Increasing investor demand for sustainable / ‘green’ products
- SFDR as a framework for ‘green’ product development
- Integrate SFDR concepts to establish a robust sustainability investment framework

What are ‘art. 8’ and ‘art. 9’ products under the SFDR?

The SFDR asks fund managers to explain the sustainability ambition and investment strategy of the financial product (e.g. fund) through the features of three distinct product categories. The ‘greener’ the product, the more sustainability features (and disclosure thereof) it will have.



Art. 6 product (‘Main-stream’)

- **No ESG promotion**
- Does not consider sustainability in investment strategy



Art. 8 product (‘Light-green’)

- **Promotion of ESG**
- Integration of **environmental / social characteristics** (‘E/S’) in investment strategy



Art. 9 product (‘Dark-green’)

- **ESG impact objective**
- **Sustainable investment** is the objective of the investment strategy

What are the SFDR disclosures?



Contains sustainability-related disclosure requirements at **entity, service and product level**.

At the financial **product** level, disclosure on **key sustainability concepts**, such as:



- **‘showing the good’**: the product’s sustainability performance measurement through **sustainability indicators** over the lifecycle of the product
- **‘avoiding the bad’**: the (negative) external impact of the underlying investments on **sustainability factors** (i.e. **Principal Adverse Impacts (PAI)**)
- **investments in ‘green’ activities**: the alignment of investment activities to the **EU taxonomy** (an EU classification system)

SFDR disclosures



Pre-contractual disclosure (e.g. prospectus, PPM)



Website (e.g. entity policies, PAI statement & product disclosures)



Periodic reports (e.g. fund annual report)

Detailed product level disclosure templates apply as of **1 January 2023**

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Integrating sustainability in the financial product design and development

The SFDR encourages you to optimise key ESG considerations in the fund product design, across the investment framework, and discover value creation opportunities.



How can PwC help you?

Product strategy	<ul style="list-style-type: none"> Advice on SFDR product classification and product strategy Finetune the product's E/S characteristics/sustainable investment objective, including sustainability indicators and relevance of PAIs Assess readiness for integration in line with SFDR requirements Identify gaps with envisioned product category and develop improvement plan Develop roadmap with milestones and actions to ensure requirements are met
Governance	<ul style="list-style-type: none"> Integrate sustainability considerations into the existing governance (e.g. investment and risk management framework), internal controls and processes Establish or enhance existing policies (e.g. due diligence)
Disclosures	<ul style="list-style-type: none"> Develop product level disclosures and reporting to investors in accordance with SFDR's detailed templates Develop entity level disclosures (e.g. sustainability risk policy, PAI statement) Provide on-demand training sessions to upskill on SFDR requirements
Data & Systems	<ul style="list-style-type: none"> Establish data collection tooling and collection procedures to obtain information from investees to fulfil the SFDR requirements

Why choose to work with PwC?

- ✓ **On the ground China (mainland & HK) expert team in strong collaboration with SFDR experts in the EU network** to provide technical support and market insight.
- ✓ **Fully integrated sustainability approach** that links the financial product's ESG strategy to the investment framework, governance, policies, processes and disclosures.
- ✓ **Subject matter expertise** with significant deals experience, resulting in a team that knows your requirements and practical challenges at different stages of the investment process.



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