

**Sustainable  
Finance Disclosure  
Regulation (SFDR)**

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## What is the purpose of SFDR?

SFDR is a key initiative to achieve the climate neutrality goal of the EU's European Green Deal. It seeks to integrate sustainability considerations into the financial system and steer capital towards sustainable investments.

SFDR will achieve this goal by improving understanding of the impact of investments by stakeholders in the financial sector.

## Who has to comply with SFDR?

SFDR primarily applies to firms in the financial industry, namely 'Financial Market participants' within the EU.

However, entities outside the EU are also in scope if they provide their services within the EU territory.

SFDR applies to:

- Asset managers (including Alternative Investment Fund Managers)
- Venture capital / social enterprise fund managers
- Pension fund providers
- Insurance providers
- Financial advisors
- Commercial banks

Note: there are SFDR requirements even for small AIFMs and legacy funds.

## What are the compliance requirements?

Depending on what type of manager / fund you are, some or all of the following may apply to you:

### Entity level disclosures

- Integrate sustainability risk considerations into portfolio and risk management functions and publish information on websites about this
- Publish information about remuneration policies and sustainability risks on websites
- In some cases, factor in, disclose and report on the potential harmful impact of a firm's investment decisions on a wide range of ESG factors - PAIs (Principal Adverse Impacts)

### Product level disclosures - Overall

Financial market participants must include in pre-contractual disclosures:

- The manner in which sustainability risks are integrated into their investment decisions
- Assessment of the likely impacts of sustainability risks on returns
- Where sustainability risks are not deemed relevant, an explanation why

### Product level disclosures – Article 8

Where a financial product promotes environmental or social characteristics, the pre-contractual document of the product, using a prescribed template, must disclose amongst other things:

- What the characteristics are and how they are assessed
- How the firm assesses the good governance practices of the investee companies
- Asset allocation - those promoting E or S characteristics and those that will be sustainable and / or Taxonomy aligned
- Information around how consistent any index being used as a reference benchmark is with promoted characteristics
- Periodic reporting for Article 8 funds is also required using a prescribed template covering:
  - How the designated environmental or social characteristics were attained
  - Asset allocation
  - Actions that have been taken to meet the environmental and/or social characteristics

### Product level disclosures – Article 9

Where a financial product has sustainable investment as its objective, the pre-contractual document of the product, using a prescribed template, must disclose amongst other things:

- The sustainable investment objective(s) of the fund
- The indicators used to assess the success of the sustainable investment objective
- How good governance practices of the investee companies are assessed
- How a sustainable investment has not caused harm to any of the other sustainability objectives and considers the effect on PAIs
- Asset allocation - those that will be sustainable and / or Taxonomy aligned
- Some additional requirements if the investments are aligned to the Taxonomy

- Periodic reporting for Article 9 funds is also required using a prescribed template:
  - How the designated sustainable investment objectives were attained
  - How the attainment of one objective did not cause significant harm to another objective / PAIs
  - Alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights
  - Asset allocation
  - Extent of alignment with the EU Taxonomy and reasons for those that are not
  - Share of sustainable investments with a social objective
  - Details of actions taken to meet the environmental and/or social characteristics

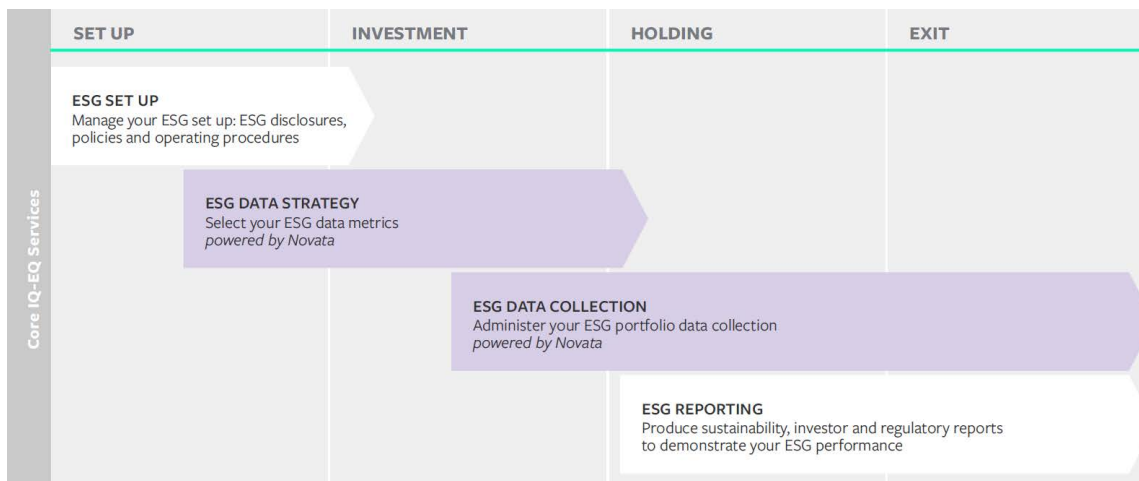
SFDR also applies to **Financial Advisors** who are required to disclose on their website, information about their policies on the integration of sustainability risks in their advice to their clients and also details of their remuneration policies.

They are also required to consider the sustainability preference of their clients in their advice and to document various matters in relation to sustainability in pre-contractual and product governance documents.

## Key dates for compliance

Date	
10 March 2021	Application of SFDR level 1 requirements including firm level and product level disclosures relating to pre-contractual documents / websites.
30 June 2021	Large Financial Market Participants required to publish and maintain on their websites a statement on their due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors.
1 January 2022	Periodic disclosure requirements applicable to Article 8/9 products start to apply on a best effort basis.
1 January 2022	Product disclosures under Articles 5/6 of the Taxonomy Regulations start to apply for Article 8/9 funds under SFDR with respect to the first two environmental objectives.
30 December 2022	Product level PAI considerations start to apply at product level.
1 January 2023	Effective date of (Regulatory Technical Standards) RTS, thus the guidance and templates contained therein become mandatory.
30 June 2023	Deadline for first PAI statement by in scope Financial Market Participants.

## IQ-EQ's role



## Our services

IQ-EQ will support your ESG objectives by managing all administrative, data and reporting requirements through the full investment cycle.

### ESG Set Up

Manage your ESG set up: ESG disclosures, policies and operating procedures

- Support your ESG strategy creation at fund, investment and portfolio company level
- Build out of required processes and documentation by experienced ESG practitioners
- Ensuring set up is compliant with regulatory requirements (e.g. SFDR) and investor expectations

### ESG Data Strategy

Select your ESG data metrics powered by Novata

- Alignment of relevant ESG frameworks to your strategy
- Guidance by ESG experts on selecting appropriate metrics from over 650 options
- Tailored data requests to portfolio companies via a secure multi-user platform

### ESG Data Collection

Administer your ESG portfolio data collection powered by Novata

- Management of ESG data capture and collation from portfolio companies
- Experienced ESG teams to help guide and support both you and your portfolio companies to complete data requests
- Guardrails, definitions and calculators to ensure data quality and alignment
- Aggregation of portfolio data

### ESG Reporting

Produce sustainability, investor and regulatory reports to demonstrate your ESG performance

- ESG reporting managed by our experienced ESG team
- Data and benchmarking sourced directly from the Novata platform
- Ensuring ongoing compliance with ESG regulatory obligations (e.g. SFDR, SDR, TCFD)
- Meet your investor reporting requirements

Bespoke dashboards to measure, track improvements and analyse ESG performance

## Key benefits

See ESG benefits across the full investment lifecycle.



#### Reduce administrative burden

IQ-EQ's expert team will manage all your administrative, data collection and analytics requirements.



#### Stay compliant

IQ-EQ's expert team will manage all your administrative, data collection and analytics requirements.



#### Enhance value creation

Enriched ESG data and reporting to allow better portfolio risk management and access to wider investors.

## Appendix

### IQ-EQ Consulting: ESG Service Offering May 2023

Category	#	Scope of work
Pre-analysis	1	Analysis of the Funds structure, including where Funds are domiciled and marketed to, AIFM's and advisor entities involved and providing an advisory report to include the Compliance, Disclosure, and Reporting obligations applicable to all entities involved under SFDR.
	2	Review of the investment portfolios and any applicable PAIs and sustainability scorecards which the Firm has collected data through to understand the sustainable nature of each of its investments and advise whether the Firm's targeted percentage of sustainable investments is appropriate for the purposes of the product level Pre-Contractual Disclosures.
	3	Review of ESG Scorecards, PAIs and any applicable data relating to measuring its sustainable investments to ensure these are aligned to the type of sustainable investments of the Funds and advise on any remediation actions to enhance the robustness of its sustainability assessments
	4	Full drafting of the product level Pre-Contractual disclosures for the Fund(s) (The above service numbers 1 and 3 would be required to be undertaken for us to deliver an effective full draft Pre-Contractual disclosure)
Disclosures and Reporting Full Drafting Service Offering	5	Full drafting of the AIFM level SFDR website disclosures, to be published on the Fund and AIFM websites: a) Sustainability Risk Policy b) ESG Policy c) Principal Adverse Impact Policy d) Remuneration Disclosure
	6	Full drafting of the product level Periodic Disclosures for the Fund(s)
	7	Upon receipt of the required data, full drafting/ review of the PAI's Annex 1 reporting (if applicable)
	8	Preparation of the Firm's UNPRI public Transparency Report
	9	Review of the product level Pre-Contractual disclosures for the Fund(s) which have been prepared by the AIFM
Disclosures and Reporting Review Service Offering	10	Review of the product level SFDR website disclosures, to be published on the Fund and AIFM websites. The scope of this work stream includes: a) Sustainability Risk Policy b) ESG Policy c) Principal Adverse Impact Policy d) Remuneration Disclosure
	11	Review of the product level Periodic Disclosures for the Fund(s)
	12	Review of the Firm's UNPRI public Transparency Report
ESG Bespoke Training	13	Preparation and Delivery of 1 x Bespoke ESG Training Session (unlimited attendees)

## Key facts and figures\*

People worldwide	Worldwide location	Assets under administration	Minimum senior team experience	Funds under administration
<b>4750<sup>+</sup></b>	<b>25</b>	<b>\$750<sup>+</sup> bn</b>	<b>20yrs</b>	<b>800<sup>+</sup></b>

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\*Information correct as of February 2023

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