

CHANGES PROPOSED TO SFDR

The European Securities Authorities (“ESAs”), which include the European Securities and Markets Authority (“ESMA”) have issued a joint opinion (the “Opinion”) on the Sustainable Finance Disclosures Regulation (“SFDR”). This includes various recommendations to revise the SFDR including a proposal for inclusion of a sustainability indicator to grade financial products including investment funds.

Background

The ESA are comprised of ESMA, the European Banking Authority (“EBA”) and the European Insurance and Occupational Pensions Authority (“EIOPA”). They have issued the Opinion at their own initiative in the context of a comprehensive review of the SFDR framework by the European Commission following practical experiences from the first years of it being effective.

Recommendations

The Opinion primarily focuses on the introduction of new clear categories for financial products consisting of two voluntary categorisations namely “sustainable” and “transition”. These would be used to assist investors in understanding the purpose of the products and reduce the potential for greenwashing through the use of set rules to permit use these categorisations. In addition, it is proposed that this system be supplemented by the introduction of a sustainability indicator to grade financial products to further facilitate investor preferences. The Opinion also addresses other areas and includes additional recommendations such as the following:

- Improved definitions of relevant terms
- Simplification of disclosures
- Disclosures for products falling outside the main two categories proposed
- Investor testing prior to the introduction of new measures to ensure comprehension,
- Technical amendments to categorisations.

Next Steps

The European Commission will consider the Opinion as part of its review of the SFDR framework and may incorporate these proposals within amending regulations.

How Clerkin Lynch Can Help

The asset management team at Clerkin Lynch LLP can assist in advising on the establishment of Irish investment funds, including those designed to achieve sustainable investment goals or comply with other ESG goals. We also advise all funds on ensuring ongoing compliance with related legislation. Please feel free to contact us for more information.



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