Regulatory update

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Sustainable Finance: ESAs provide specific guidance on the SFDR application timeline

On 25 February 2021, the European Supervisory Authorities (ESAs) published a joint statement on the application of the Sustainable Finance Disclosure Regulation (SFDR).

The purpose of this statement is to provide further guidance and ensure consistent application of the sustainability-related disclosures within the interim period between 10 March 2021 (when most SFDR Level 1 requirements start to apply) and 1 January 2022, which is the proposed application date of the draft Level 2 Regulatory Technical Standards (RTS).

The ESAs recommend that financial market participants and financial advisers should use the interim period to prepare for the application of the RTS. In this context, the ESAs recommend using the draft RTS as a reference for the purposes of applying the following provisions of the SFDR:

- **Article 2a**—Principle of “do no significant harm” (DNSH)
- **Article 4**—Transparency of adverse sustainability impacts at entity level
- **Article 8**—Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures
- **Article 9**—Transparency of sustainable investments in pre-contractual disclosures
- **Article 10**—Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites

The ESAs do however warn that the RTS are still a draft text and therefore the European Parliament or the Council may object to the current version within three months of notification of the RTS being adopted by the Commission. Therefore, the final RTS may in fact differ from the current draft document.
Pre-contractual, website and periodic product disclosures

As they now stand, the product periodic reports referred to in Article 11(2) of the SFDR must comply with the requirements laid down in that Article from 1 January 2022. The ESAs believe this timeline to be too burdensome for financial market participants, especially considering the very detailed content and presentation requirements for sustainability related information in periodic reports set out in Chapter V of the RTS.

Therefore, the ESAs suggest, in case the RTSs are not adopted sufficiently early to allow at least six months to enable financial market participants to gather the necessary information, that:

This Chapter should apply to periodic reports published in or after 2022 in relation to reference periods starting from 1 January 2022;

The periodic reports published in 2022 in relation to reference periods starting before 1 January 2022 would apply the high level and principle-based requirements in Article 11(1) of the SFDR.

Finally, the ESAs also provided a summary table laying out the implementation timelines of disclosure obligations under SFDR and the Taxonomy Regulation for financial market participants, financial advisers and financial products.

What does this mean for my organization?

This ESAs’ guidance will apply to and be useful for all stakeholders impacted by the SFDR regulation, notably in their preparation for disclosure at firm level by 2022.

These Guidelines should be a definite help in understanding and applying the SFDR requirements until the delegated regulations are finalized. As the final advice has been issued in at the end of February, the hope now is that they could be transformed on time (before year end) into the official delegated act, which at this stage will be a challenge. That is a reason why the ESAs (European Authorities) are inviting users to consider them as of today for their application during the interim period. ESMA’s aim is to ensure coherence in the market’s interpretation so that environmental, social and governance (ESG) standards converge and are aligned at EU level.
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