

New SFDR principal adverse impacts or PAI regime in – key points

1. Speed read

The most innovative and challenging aspect of the EU's Sustainable Finance Disclosure Regulation (**SFDR**) is probably the new principal adverse impacts or PAI regime. This is being introduced in stages, starting from 10 March 2021. But when in full effect, it will require relevant firms to provide extensive disclosures on various ESG related matters, including greenhouse gas emissions and other indicators, in a (controversial) template format. This briefing gives further detail on the new regime and when its various strands will come into effect.

2. How did we get here?

The Sustainable Finance Disclosure Regulation 2019/2088 was adopted on 27 November 2019,¹ and began to apply on 10 March 2021.

A final report on draft regulatory technical standards was published by the European Supervisory Authorities (**ESAs**) on 4 February 2021 (the **RTS**)² – this is now being considered by the European Commission. These were initially expected to come into effect on 1 January 2022, but this has been revised as below.

In the meantime, on 15 March 2021, the ESAs published for consultation a new draft RTS for SFDR and the Taxonomy Regulation, including a consolidated version of the RTS.³ A truncated consultation period of 8 weeks rather than 3 months applied for this, ending on 12 May 2021. The ESAs proposed to consider the consultation responses and issue a final report – which is expected shortly. This tight timetable suggests little or no changes will be made to the document being consulted on. However, this March RTS is not directly relevant to the PAI regime. For more information on how the Taxonomy Regulation interacts with SFDR, see below.

In a letter⁴ dated 8 July 2021, the Director-General for Financial Stability, Financial Services and Capital Markets Union of the European Commission indicated a delay to the start date of the RTS of 6 months. That is, rather than beginning to apply on 1 January 2022, the RTS is proposed to now begin to apply from 1 July 2022. **It is not yet clear if this will mean a delay of 6 months to all the other dates relevant to SFDR (as amended by the Taxonomy Regulation); so far, we are assuming that only the start date is affected.** But this is to be confirmed and the industry may of course prefer that all relevant dates are pushed back.

01_ For a copy see <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>, or for a consolidated version, see <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R2088-20200712>.

02_ For a copy see https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

03_ For a copy see <https://www.esma.europa.eu/press-news/consultations/joint-consultation-taxonomy-related-sustainability-disclosures>

04_ For a copy see https://www.esma.europa.eu/sites/default/files/library/com_letter_to_ep_and_council_sfdr_rts.pdf

3. When does the pai regime apply?

The PAI regime is coming into force in stages, beginning on “day 1” of SFDR – 10 March 2021. This is explained in the timeline in Schedule 1.

4. Who does the PAI regime apply to?

- **Financial market participants (FMPs)** – defined in Article 2(1) SFDR as including: credit institutions (as defined in EU CRR) and investment firms (as defined in EU MiFID) providing MiFID portfolio management; manufacturers of certain types of pension products (based on definitions in EU PRIIPs); AIFMs; UCITS management companies; and insurance undertakings (as defined in EU Solvency II) that make available insurance-based investment products (**IBIPs**) – e.g. fund link insurance products.
- **Financial advisers** – defined in Article 2(11) of SFDR as including: credit institutions, investment firms, AIFMs and UCITS management companies that provide investment advice as defined in EU MiFID, and insurance undertakings and insurance intermediaries that provide advice (as defined by the EU IDD) with regards to IBIPs.

Can other firms voluntarily or contractually agree to comply?

Yes, and we expect this will begin to occur more and more, given the amendments proposed to be made to MiFID II for ESG (as explained below). Further advice should be sought if this is contemplated, to ensure the firm is aware of the risks and issues, and can also consider how best this might be done. E.g. a firm may be prepared to commit to track what is required to be done under SFDR, or just under the PAI regime. Alternatively, it may prefer to limit itself to a “commercially reasonable endeavours” type obligation and/or commit to a time limited obligation only.

5. What ESG changes are proposed to MIFID II?

The European Commission has proposed amendments to MiFID II for ESG⁵ including, among other things, a requirement that EU MiFID II portfolio managers and advisers ask their clients about their “sustainability preferences”, and then comply with such preferences when making decisions or providing advice. This term is proposed to be defined as follows (emphasis added):

“(7) ‘sustainability preferences’ means a client’s or potential client’s choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:

(a) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of [the Taxonomy Regulation];

(b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of [SFDR];

*(c) a financial instrument that **considers principal adverse impacts on sustainability factors** where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client”.*

Important points to note about this proposal:

- All three limbs apply to all MiFID II products (not just those within the scope of SFDR) – e.g. they may in theory apply to a bond, derivative, structured product etc.
- In essence, the third limb on PAI would be available to product providers that “consider [the] negative externalities of investments on the environment or society in terms of principal adverse impacts on sustainability”, outside of the scope of SFDR.⁶
- It is expected that this will drive client/investor demand for more product providers to consider PAI outside the scope of SFDR.
- Possibly this will involve such a product provider voluntarily complying with the SFDR PAI disclosure regime, at least to some extent – e.g. to explain how and to what extent PAI is considered.
- It is not clear when the MiFID II proposals will be finalised, but if they are adopted in their current form, this may be as early as Q3 or Q4 2022.

For a copy of our separate briefing on the MiFID II proposals, please ask your usual A&O contact.⁷

05_ https://ec.europa.eu/finance/docs/level-2-measures/mifid-2-delegated-act-2021-2616_en.pdf

06_ See page 2 of https://ec.europa.eu/finance/docs/level-2-measures/mifid-2-delegated-act-2021-2616_en.pdf

07_ Note that the proposed ESG changes to MiFID II will also include other ESG related requirements – e.g. on sustainability risk, ESG issues in product governance, conflicts etc. This is also part of a broader package of reforms across a number of sectors – e.g. AIFMD, UCITS, insurance etc.

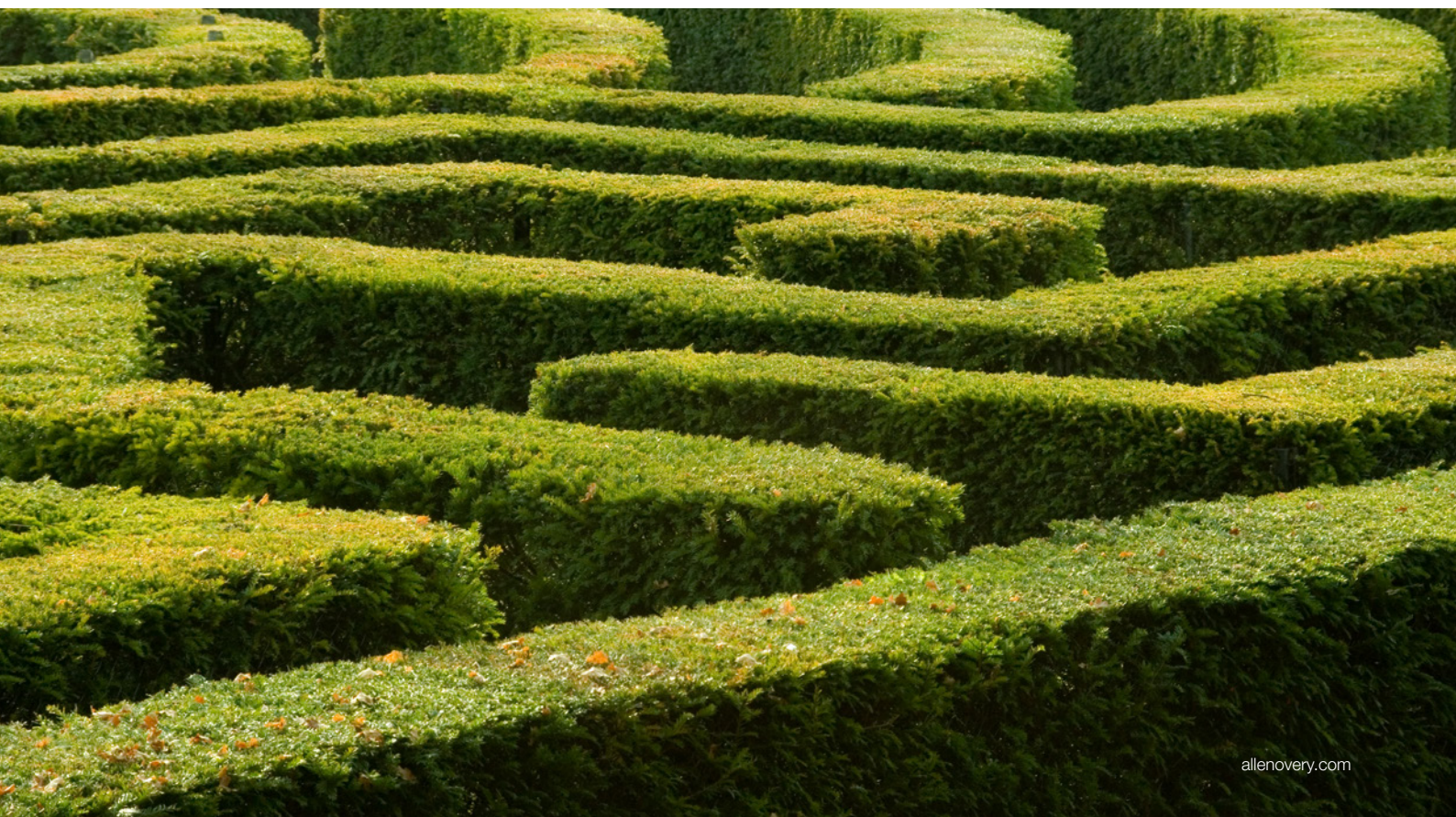
6. What does the PAI regime require?

| Financial Market Participants (FMPs) | Financial Advisers |
|---|---|
| <p>The new PAI regime contemplates two types of disclosures for FMPs:</p> <ul style="list-style-type: none">– entity level disclosures (Article 4 SFDR); and– product level disclosures (Article 7 SFDR). <p>This is subject to an “opt out” for smaller firms, as discussed below. Initially, larger firms were also able to use the opt out, but this option fell away on 30 June 2021.</p> <p>When the RTS begins to apply (now expected to be 1 July 2022), the entity level disclosure at minimum will have to follow the template in Annex I to the RTS.</p> | <p>The new PAI regime contemplates one type of disclosure for Financial Advisers:</p> <ul style="list-style-type: none">– entity level disclosures (Article 4 SFDR). <p>This is subject to an “opt out”. NB: The opt out is available for all firms (large or small), and applies permanently.</p> <p>The template in Annex I of the RTS does not apply.</p> |

7. What is the goal of the regime?

Central to the regime is the concept of “sustainability factors”, meaning “*environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters*” (Article 2(24) of SFDR). In general terms, firms must disclose whether or not they consider such factors (e.g. before making investment decisions or when giving advice), and after an investment is made, whether they monitor and mitigate relevant impacts. In short, to disclose whether they consider the negative externalities of investments on the environment or society.

Overall, the European Commission’s hope is that clients and investors will use such disclosures to select the firms they wish to buy products or services from, steering towards firms that do more on “sustainability factors” and away from firms that do less. It is also hoped that this will have a “trickle down” effect; i.e. providing a strong commercial incentive for underlying investee companies and product providers to adopt the sorts of “norms” the Commission wishes to see become widespread on climate change, diversity, anti-bribery etc.





8. Summary of new PAI regime for financial market participants

How must an FMP make the new required PAI disclosures?

– **Entity level disclosures** – These must be uploaded to the FMP’s website, although (from 1 July 2022) this must be done in line with the detailed requirements in the RTS (Articles 2 and 4 RTS) – e.g.:

“...financial market participants shall publish the information referred to in ... Article 4 of [SFDR] and this Section on their websites in a separate section titled, ‘Principal adverse sustainability impacts statement’ located in the same part of the website as the section referred to in Article 31 [of the SFDR RTS re sustainability-related product disclosures].”

At this stage, prior to the application of the RTS, firms are tending to upload these disclosures to the same page as other pre-existing disclosure on subjects such as best execution, product disclosure etc. But they can, if they wish, create a separate section of the website now labelled as prescribed above.

– **Product level disclosures** – These must be included in a firm’s relevant pre-contractual disclosures and periodic reports (Article 7(1) SFDR).

In terms of the substance of the disclosures, the ESAs indicate some sympathy for the challenge for firms to obtain all of the data required for PAI reporting. A recital states that firms should use “*all reasonable means available*” through the use of internally and externally available data and through engagement with the management of investee companies. The ESA’s commentary states that “*The ESAs are aware that it may not be straightforward to assess the adverse impact of an investment decision due to the lack of reported data on a particular indicator. Nevertheless, the ESAs are convinced that the situation is improving, as evidenced by the growing share of ESG data provided by data providers.*”

Other requirements for disclosing relevant information are also set out in the RTS – e.g.:⁸

- Provide relevant information in a manner that is easily accessible, non-discriminatory, free of charge, prominent, simple, concise, comprehensible, fair, clear and not misleading.
- Present and lay out the information in a way that is easy to read, use characters of readable size and use a style that facilitates its understanding.
- It is permissible to adapt the font type and size as well as the colours of the prescribed templates.
- Provide relevant information in searchable electronic format (subject to sectoral requirements as to pre-contractual and periodic disclosures being provided on paper).
- Keep relevant information published under SFDR on a relevant website up to date. This requirement may raise particular challenges; i.e. how regularly a firm must check and possibly refresh disclosures previously uploaded to its website.
- Include the date of publication of the information and clearly identify any updated text with the date of the update.
- Where information is presented as a downloadable file, indicate the version history in the file name.
- Provide legal entity identifiers (LEIs) and international securities identification numbers (ISINs) when referring to entities or financial products in the information provided in accordance with SFDR, where available.

What entity level disclosures are required by FMPs?

Snapshot

Article 4 of SFDR requires an FMP, on a “comply or explain” basis, to publish a statement on the due diligence policies concerning the principal adverse impacts of investment decisions on sustainability factors (a **PAI statement**), taking into account the FMP’s size, nature, scale of activities and the types of financial products they make available. This is referred to in the industry as an entity level disclosure, and must be posted on the firm’s website.

Where an FMP does not consider principal adverse sustainability impacts, then a statement to that effect must be made with clear reasons as to why the FMP does not do so, and whether it intends to do so in the future. The RTS prescribes the content and format of such a statement.

Effectively, this means there is an “opt out” for firms that do not wish to consider principal adverse impacts issues. However, this “opt out” fell away from 30 June 2021 for larger firms – i.e. FMPs with more than 500 employees during the financial year (or FMPs that are the parent undertaking of a large group with more than 500 employees).

The RTS provides a prescribed format or template for the PAI statement in Annex I of the RTS. This was published in February 2021, and is presently being considered by the European Commission. In the interim, the industry is working on the assumption that it will come into force on 1 July 2022.

Further detail

Entity level disclosures required for “day 1” – i.e. from 10 March 2021

There is a short “shopping list” of matters specified in Article 4 SFDR to be covered. FMPs are entitled to stick to this list only for “day 1”, and ignore the highly detailed requirements of the RTS, including the template in Annex I. In our experience, this is the approach being taken by most firms in the industry at present.

In high level terms, the “shopping list” is as follows:

- Where the FMP considers the principal adverse impacts of its investment decisions on sustainability factors, include a statement on its due diligence policies with respect to such impacts – we interpret this to mean, provide a summary.
- Include information on the FMP’s policies on the identification and prioritisation of such impacts, and relevant indicators used.
- Include a description of the principal adverse sustainability impacts – we interpret this to mean, provide a summary of the actual impacts.
- Include a description of any actions taken or planned to be taken in relation to the impacts that have been identified.
- Include a brief summary of the engagement policies adopted by the FMP in accordance with SRDII where applicable – in practice, if a particular firm is not subject to SRDII, we interpret this to mean, provide a summary of the policies and procedures the firm has in place more generally on the subject of engagement.
- Refer to the FMP’s adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting.

Entity level disclosures required once the RTS comes into force (expected 1 July 2022)

When the RTS comes into force, it will introduce a highly detailed and prescriptive set of requirements, meaning a firm must completely rewrite its PAI statement. As noted above, the statement must also follow the format or template prescribed in Annex I of the RTS.

Significant work is likely to be required by all firms to develop the necessary processes and procedures to enable such disclosures to be made.

Quantitative disclosures

The PAI statement must include a description of principal adverse sustainability impacts and any related action planned or taken by the FMP as well as other information.

The various aspects of this description are more fully set out in the RTS — it requires FMPs to publish quantitative data on **14 key indicators (9 indicators related to the environment, while the remaining 5 will cover social factors)** for assessing adverse sustainability impacts across a range of ESG factors, with additional indicators applicable to investments in sovereigns and supra-nationals, and investments in real estate assets.

In addition to the 14 key indicators set out above, FMPs must report against at least one additional environmental indicator and one additional social indicator.

The assessment must be based on **an average of four calculations made in quarterly “snapshots”** during the year, **with historical comparisons going back at least five years.** Information is required in the disclosure on methodologies to assess the impacts and data sources.

The template for reporting is in Annex I to the RTS.

Qualitative disclosures

For qualitative descriptions in the PAI statement, the RTS requires the inclusion of:

- a summary of the PAI statement and the relevant reference period;
- a description of policies to identify and prioritise principal adverse sustainability impacts, the date of their approval and a description of the methodologies to select the indicators, and a description of the data sources used;
- information on engagement policies and policies relating to reducing principal adverse impacts; and
- references to international standards, including a description of adherence to responsible business conduct codes, internationally recognised standards for due diligence and reporting, and where relevant, the degree of alignment with the objectives of the Paris Agreement.

What is the reference period for reporting?

Reporting the information set out in PAI statement is with reference to the previous calendar year. As the ESAs propose that the RTS should apply from 1 July 2022, FMPs should prepare to disclose information against the indicators described above from that date.

Where an FMP discloses a PAI statement for the first time, the RTS does not require the FMP to make disclosures relating to a previous reference period. In practice, this means that the earliest that the information on the indicators in the PAI statement would be disclosed in accordance with the RTS is 2023 in respect of a reference period relating to 2022.

But note: as mentioned above, the RTS start date is to be pushed back by 6 months from the initial proposed date (1 January 2022) to 1 July 2022. It is unclear if this is intended to bring about a delay to these reference periods as well; until this is clarified, we are taking a conservative approach and assuming that only the start date of the RTS is affected. But this is to be confirmed and the industry may of course prefer that all relevant dates are pushed back.



What product level disclosures are required by FMPs?

Firms that consider PAI

Where an FMP does consider the principal adverse impacts of its investment decisions on sustainability factors, it must decide whether and how each financial product considers such impacts, and make prescribed disclosures on this in the relevant product's pre-contractual disclosure documents (Article 7(1) SFDR).

- This is a product level disclosure, but it only applies from 30 December 2022.
- The disclosure must also include a statement that information on principal adverse impacts on sustainability factors is available in the information to be disclosed pursuant to Article 11(2) SFDR (periodic reports).
- By implication, such information must be so included – i.e. a PAI disclosure must be included in the periodic reports prepared for the product.
- It is not strictly required for such disclosures to follow the format for disclosures made under Article 4 and the RTS – it is possible this may be the expectation of regulators, but in the interim, we are taking the view that this is not necessary.

Firms that do not consider PAI

Where an FMP does not consider principal adverse impacts, it must include in its pre-contractual disclosure documents a statement that it does not consider the adverse impacts of investment decisions on sustainability factors and the reasons for that decision (Article 7(2) SFDR).

- This is a product level disclosure requirement and applies from “day 1” of SFDR – i.e. 10 March 2021.





9. Summary of new PAI regime for financial advisers

The PAI regime is more limited for Financial Advisers compared with FMPs – e.g. as noted above, both small and large Financial Advisers can use the “opt out” for the PAI regime on a permanent basis, only entity rather than product level disclosures apply, and there is no template. By way of a summary:

- **10 March 2021** – A Financial Adviser should have uploaded to its website a PAI disclosure:
 - explaining whether it considers in its investment or insurance advice the principal adverse impacts on sustainability factors; or
 - if not, information as to why it does not do so and (where relevant) information as to whether and when it intends to consider them (i.e. to change its mind).

As regards the first bullet, Financial Advisers are entitled to stick to this only for “day 1”, and ignore the more detailed requirements of the RTS. In our experience, this is the approach being taken by most firms in the industry at present.

- **1 July 2022** – When the RTS comes into effect (expected to be 1 July 2022), a Financial Adviser must update the PAI disclosure on its website to comply with the RTS:
 - **How**
 - The disclosure must be posted on its website in a separate section titled “Adverse sustainability impacts statement” OR (if it does **not** consider PAI) titled “No consideration of sustainability adverse impacts” (Article 10(1) and 12(1), RTS).
 - Note that the template in Annex I of the RTS does **not** apply.
 - See also the detailed requirements in Article 2 of the RTS – e.g. simple, concise, comprehensible, fair, clear and not misleading etc.
 - **What** – If a Financial Adviser considers PAI, the disclosure must contain details on the process it uses to select the financial products⁹ it advises on, including the following (Article 10(2), RTS):
 - how it uses the information published by Financial Market Participants under the PAI regime;
 - whether the Financial Adviser ranks and selects financial products based on at least the indicators in Table 1 of Annex I;
 - where applicable, a description of the ranking and selection methodology used; and
 - any criteria or thresholds used to select financial products and advise on them based on those impacts.

OR if the Financial Adviser does **not** consider PAI:

- its disclosure must include a prominent statement that it does not consider the adverse impacts of investment decisions on sustainability factors in its investment advice or insurance advice; and
- it must provide clear reasons why it does not do so, with (where relevant) information on whether and (if relevant) when it intends to consider such adverse impacts by reference to at least the indicators in Table 1 of Annex I (Article 12(2), RTS).

⁰⁹ Note that this only relates to products and services within the scope of SFDR.

10. How does the PAI regime interact with the Taxonomy?

The Taxonomy Regulation is a key plank of the European Commission's green strategy and, broadly speaking, is a framework for identifying what activities are "green" vs those which are not. It relevantly interacts with SFDR in two ways as explained below, however, it is not specifically relevant to the requirements that arise under the PAI regime:

- For certain products falling within Article 8 and 9 of SFDR, additional disclosures are required under the Taxonomy Regulation:
 - In high level terms, the disclosures are intended to make transparent what component of the relevant product is considered "green" under the taxonomy (or more particularly, "environmentally sustainable").
 - The only products in scope for this disclosure requirement are:
 - Article 8 products that promote an environmental characteristic; and
 - Article 9 products that invest in an economic activity that contribute to an environmental objective within the meaning of SFDR.
 - Detailed amendments have been proposed to the SFDR RTS for this purpose.
 - These are product level disclosures applicable from 1 January 2022 to pre-contractual disclosures and periodic reports.
- Secondly, in broad terms, an activity is only considered "green" under the taxonomy if it meets four tests, one of which is that it does not significantly harm any of the environmental objectives in the Taxonomy Regulation.
 - This is referred to in the industry as "DNSH" (do not significantly harm or do no significant harm).
 - Detailed requirements are prescribed for this test.

This test can overlap in practice with the PAI regime, in that both consider negative externalities and there can also be an overlap in terms of relevant indicators and issues. Further advice on this point can be provided on request.

11. Next steps

The European Commission is expected to finalise the SFDR RTS and the proposed ESG changes to MiFID II discussed above shortly. The European Commission and/or the ESAs may also issue guidance on SFDR, in particular on the timing issue explained in paragraph 2 above. This would be in addition to the responses the European Commission published¹⁰ on 26 July 2021 in response to a list of priority questions relating to SFDR application that the ESAs submitted on 7 January 2021

12. Recommendations

In terms of what firms should be doing now:

- Get up to speed on the new regime, develop an implementation strategy, and establish an internal team to execute that strategy so you are in a position to ensure compliance given the timings referred to in Schedule 1.
- Ensure you are "plugged in" to industry work on the PAI regime.
- Look out for the final SFDR RTS and any guidance issued by the European Commission and/or the ESAs – in particular, on the timing issue explained in paragraph 2 above.

If you have any questions on the new requirements mentioned above or SFDR generally, please get in touch with your usual A&O contact.

¹⁰For a copy please see [sfd_r_ec_qa_1313978.pdf](#) (europa.eu)

Schedule 1 – PAI regime timeline^{9 10}

| Time | Legislation | Requirement(s) | Pre-contractual disclosure | Website disclosure | Periodic reports | Financial Market Participants (FMPs) | Financial Advisers | Legislative reference |
|-----------------------------------|-------------|---|----------------------------|--------------------|------------------|--------------------------------------|--------------------|-----------------------------------|
| <u>10 March 2021</u> | SFDR | <p>Various requirements began to apply for Financial Market Participants (FMPs) and Financial Advisers:</p> <ul style="list-style-type: none"> – Subject to an “opt out”, website disclosure re principal adverse impacts (PAI) (Article 4) – Pre-contractual product disclosure for FMPs that do not consider PAI (Article 7(2)) | √ | √ | √ | √ | √ | Articles 4(1), 4(5) and 7(2) SFDR |
| <u>Ongoing from 10 March 2021</u> | SFDR | Continue to review marketing communications to ensure they do not contradict any information disclosed under SFDR | | | | √ | √ | Article 13 SFDR |
| <u>30 June 2021</u> | SFDR | PAI “opt out” for larger FMPs fell away – i.e. if they had not made a positive PAI disclosure before, they must have done so by this date | | √ | | √ | | Article 4 SFDR |
| | SFDR | Update or delete any disclosure previously made in a pre-contractual document to the effect that PAI is not considered, if this is out of date because the “opt out” was previously used but has fallen away | √ | | | √ | | Article 7(2) SFDR |
| <u>30 December 2022</u> | SFDR | <p>Product level PAI disclosure – For FMPs that consider principal adverse impacts in relation to products in scope of SFDR:</p> <ul style="list-style-type: none"> – Include in the pre-contractual disclosures for that product a clear and reasoned explanation of whether, and, if so, how the product considers the principal adverse impacts on sustainability factors and a statement that information on principal adverse impacts on sustainability factors is available in the information to be disclosed pursuant to Article 11(2) (periodic reports) – It is not strictly required for this to follow the RTS format for Article 4 disclosures, and we are assuming this is not required (although this may be the expectation of regulators in due course). If correct, this means that qualitative disclosures only are required - i.e. a narrative on relevant matters. And not quantitative disclosures – i.e. data <p>Uncertainty re push back of RTS start date</p> <ul style="list-style-type: none"> – The delay in the commencement of the RTS (as discussed above) has raised a question for this row – The RTS was originally proposed to begin on 1 January 2022, but has now been pushed back to 1 July 2022 – It is unclear if the European Commission proposes to also push back other dates in this timeline, including the date in this row – Until this is clarified, we are taking a conservative view and assuming that the start date for the RTS will change but that all other dates in this timeline will hold | √ | | | √ | Article 7(1) SFDR | |

09_See also https://www.esma.europa.eu/sites/default/files/library/jc_2021_06_joint_esas_supervisory_statement_-_sfdr.pdf

10_**Delay to RTS start date:** In a letter dated 8 July 2021, the European Commission indicated a delay to the start date of the RTS of 6 months. That is, rather than beginning to apply on 1 January 2022, the RTS is proposed to now begin to apply from 1 July 2022. It is not yet clear if this will mean a delay of 6 months to all the other dates relevant to SFDR (as amended by the Taxonomy Regulation); so far, we are taking a conservative approach and assuming that only the start date of the RTS is affected. But ideally, all relevant dates would similarly be pushed back.

For ease of reference, in the first column of the matrix, we have underlined the dates affected by this point.

| Time | Legislation | Requirement(s) | Pre-contractual disclosure | Website disclosure | Periodic reports | Financial Market Participants (FMPs) | Financial Advisers | Legislative reference |
|---|--------------|--|----------------------------|--------------------|------------------|--------------------------------------|---------------------|--|
| In periodic reports issued after 30 December 2022 | SFDR | <p>Product level PAI disclosure – For FMPs that consider principal adverse impacts in relation to products in scope of SFDR:</p> <ul style="list-style-type: none"> – Comply with the statement referred to above – i.e. begin to include information on principal adverse impacts on sustainability factors in the periodic reports for the product – It is not strictly required for this to follow the RTS format for Article 4 disclosures, and we are assuming this is not required (although it may be the expectation of regulators in due course). If this assumption is correct, it means that qualitative disclosures only are required - i.e. a narrative on relevant matters. And not quantitative disclosures – i.e. data <p>See also the point in the previous row re “Uncertainty re push back of RTS start date” – this applies equally to this row</p> | | | √ | √ | | Article 7(1) SFDR |
| 1 July 2022 ¹¹ | SFDR RTS | <p>Entity level PAI disclosure – For FMPs and Financial Advisers that consider principal adverse impacts, issue updated PAI disclosure that complies with SFDR RTS</p> <p>For FMPs:</p> <ul style="list-style-type: none"> – Use the template in RTS Annex I, but leave blank any sections requiring disclosures for one or more reference periods. Under the RTS, a reference period is a calendar year – 1 Jan to 31 Dec (Article 1 RTS) – These sections only have to be completed in the firm’s report as at 30 June 2023, for the reference period – 1 Jan 2022 to 31 Dec 2022 (subject to the point flagged above re “Delay to RTS start date”) – Information that must be published in the first statement not related to reference periods includes the following sections in Table 1 of Annex I: “Summary”, “Description of policies to identify and prioritise adverse sustainability impacts”, “Engagement policies” and “References to international standards” | | √ | | √ | √ (but no template) | Article 4 SFDR RTS (including, for FMPs, the template in Annex I) |
| By 30 June 2023 | SFDR and RTS | <p>Entity level PAI disclosure – For relevant firms that consider PAI:</p> <ul style="list-style-type: none"> – Publish a PAI statement in accordance with the RTS, now including the information that refers to a reference period (in respect of the reference period relating to 2022) <p>See also the point in the row above marked “Uncertainty re push back of RTS start date” – this applies equally to this row</p> | | √ | | √ | √ | Article 4 SFDR and RTS RTS Annex I |
| By 30 June 2024, 2025 etc | SFDR and RTS | Going forward, relevant firms that consider PAI must publish annual PAI statements by 30 June each year which must include information on the most recent reference period (i.e. the previous calendar year) plus historical reference periods | | √ | | √ | √ | As above |

¹¹As per the European Commission letter dated 8 July 2021 announcing a delay to the RTS start date.