

SFDR For North American Investors

A quick look at the influence of European Regulation outside
the European Union

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The Sustainable Finance Disclosure Regulation

While Sustainable Finance initiatives coming out of the EU continue to make waves for European markets, the ripple effects for North American investors seem to be drawing increasing attention as reporting deadlines approach. While the Biden administration has taken the first steps towards a more sustainable, more inclusive, low-carbon economy, Canada has also explored a potential Green Taxonomy of its own. Despite these initiatives, many North American investors, advisors, and corporate issuers alike are all looking to the EU initiatives first to ensure they can satisfy potential reporting requirements.

Within the maze of acronyms and new terminology the EU has developed as part of the broader holistic Sustainable Finance Action Plan, the European Supervisory Authorities or “ESA’s” have delicately set boundaries and guidelines on how to implement these requirements. The Sustainable Finance Disclosure Regulation (SFDR) is aimed to combat green-washing, and drive capital into truly sustainable products over the coming decades. With SFDR considered one of the more pressing EU initiatives purely based on projected timelines, below are some common areas of confusion that have come up on the topic.

When it comes to the scope of application, SFDR can potentially apply to two different types of players in the financial ecosystem, financial market participants (FMP) and advisors. The ESA’s have defined FMPs as including asset & portfolio managers, pension product providers, and insurance-based investors; while advisors encompass investment firms and credit institutions which provide investment advice and/or portfolio management advice. The definition of advisor also applies to firms that provide advice in relation to insurance-based investment products including various life policies linked back to funds.¹

Reach Outside the EU

While EU entities are largely familiar with potential SFDR ramifications, firms across North America could potentially find themselves in scope of these regulations as well, depending on their products and services, and where they eventually market them. With these various factors and considerations coming together to shape a

¹ <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

company's operations, there may not be a one size fits all application for SFDR when it comes North American entities. These firms should ultimately consult with their legal and compliance teams to determine whether their firm falls within scope of these new regulations, and how the firm is consequently impacted.

The SFDR reporting requirements are extensive, including a combination of principles based and prescriptive disclosures, as well as reporting of adverse impact indicators that form the backbone of enhanced pre-contractual disclosures, website disclosures and periodic reporting. For more information on what MSCI is doing around the SFDR and EU Action Plan, be sure to check out our Sustainable Finance resources here:

- Our [EU Sustainable Finance Package resource page](#) summarizes the legislative proposals outlined in the EU's sustainable finance action plan and what we're doing to support them. For more information, download a copy our [Sustainable Finance FAQ here](#)
- Our [Sustainable Finance Solutions page](#) summarizes our data and metrics to support your SFDR requirements and includes a roadmap to our forthcoming index, analytics and Real Estate solutions
- Finally, our [Global Sustainable Finance page](#) provides more details on our efforts to support and comply with sustainable finance legislation globally including a list of MSCI consultation responses

SFDR may come as the first real ESG reporting hurdle for many North American based firms, well ahead of any local rules. MSCI is uniquely positioned to leverage existing communication channels with firms across the globe to offer a robust SFDR data solution. MSCI's new EU Sustainable Finance module will not only offer Principal Adverse Impact and Opt-In indicator data for over 10,000 companies, but also Potential EU Taxonomy alignment data to help your firm prepare for future disclosures. For a more detailed product introduction, please reach out to your MSCI representative to set up a comprehensive overview or contact our [ESG client service team](#).

Or if you're short on time, check out our first SFDR in practice webinar, recorded for playback here:

- [MSCI In Practice Webinar: Applying MSCI Solutions to meet Sustainable Finance Disclosure Regulation \(SFDR\) Requirements](#)

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