

What is the EU Sustainable Finance Disclosure Regulation (SFDR)?

SFDR is one of a number of regulatory measures brought on by the EU Sustainable Finance package, an ambitious, global legislative plan which aims to support the transition to a low-carbon, resource-efficient, sustainable economy by:

- ▶ Reorienting capital flows towards sustainable investment to achieve sustainable and inclusive growth
- ▶ Managing financial risks stemming from climate change, resource depletion, environmental degradation and social issues
- ▶ Fostering transparency and long-termism in financial and economic activity
- ▶ Reducing greenwashing



Is compliance mandatory?

The regulation initially came into effect 10 March 2021 with a transition period to full compliance by 2023, by which point all financial market participants will have to comply.

Who does it impact?

- ▶ Investors operating in the European Union
- ▶ Investors outside the EU may be impacted or wish to follow the requirements if they manage European assets

How does it impact Real Estate investors?

The regulation applies at both an entity and product level. The reporting requirements differ for real estate investors, and MSCI is committed to providing support to help clients navigate new regulatory demands.

What are some key data requirements and how can MSCI Real Estate help?

Adverse Impacts

Articles 4 & 7

Objective:

To understand whether any investments are causing harm to the environment.

Report on the following metrics

- ▶ Fossil fuel exposure
- ▶ Energy efficient building metrics

Additional sustainability metrics (choose 1)

- ▶ GHG emissions (Scope 1 & 2, Scope 3 from 2023)
- ▶ Energy consumption intensity
- ▶ Waste production in operations
- ▶ Renewable materials consumption for new construction and major renovations
- ▶ Land artificialisation

MSCI Tools and Services

In development: Portfolio/fund aggregation services including the ability to model missing energy data and compare metrics across asset classes.

MSCI will take receipt of this data for a preview ahead of the initial reference period.

ESG Risks

Articles 3 & 6

Objective:

To understand how the entity is managing their ESG risks.

A requirement to describe how risks are managed.

Specific elements to report will be under the discretion of the manager to identify but could include:

- ▶ Transitional risk – Decarbonisation pathways, Potential carbon tax liability, energy efficiency of assets and associated regulation.
- ▶ Physical risk – Extreme weather, flooding, storms.

MSCI Tools and Services

MSCI Real Estate Climate Value-at-Risk provides forward-looking and return-based valuation assessments to measure climate related risks for assets in an investment portfolio. By calculating both transition risk from changing legislation due to climate action and physical risk from extreme weather impacts, Climate VaR offers a framework for investors that can be used (as part of wider initiatives) to manage their ESG risks.

In development: MSCI's future market-based climate metrics solutions will enable entities to monitor how their sustainability compares to their peers or other market groups.

ESG Impacts

Articles 8 & 9

Objective:

To demonstrate the impact of marketed sustainable products.

A requirement to publish certain characteristics of sustainable products (using a pre-defined template).

Specific elements to report will be under the discretion of the manager to identify but could include:

- ▶ Environmental impacts – carbon intensities, climate risk, energy ratings
- ▶ Social impacts - affordable housing, positive health impacts

MSCI Tools and Services

MSCI Real Estate Climate Value-at-Risk calculates both transition risk from changing legislation due to climate action and physical risk from extreme weather impacts, Climate VaR generates metrics that can be used to systematically build sustainably-focussed financial products.

In development: MSCI's future market-based climate metrics solutions will enable entities to demonstrate outperformance of funds' sustainability characteristics compared to their peers or other market groups.

To further enhance how we can help clients with their climate integration we are updating our Global Data Standards and Data Collection Templates (MSCI DCT) to include sustainability data points and make it easier to aggregate the data you need to meet reporting requirements.



Additional resources

- [SFDR Adverse Impact Metrics for Real Estate](#)
- [EU Sustainable Finance Package](#)
- [Sustainable Finance Solutions](#)

If you want to learn more about [Sustainable Finance](#) or discuss potential solutions, please [contact us](#).

About MSCI Inc.

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