

EU Sustainable Finance Disclosure Regulation (SFDR)

WHAT DOES THIS MEAN FOR ISSUERS?

MSCI Virtual Event

Michelle Lapolla Friedman, Olga Emelianova, Samantha Sue Ping

February 2, 2021

Please note this presentation is provided for informational purposes only and does not constitute legal advice.

Today's Speakers



Michelle Lapolla Friedman
Executive Director, ESG
Product



Olga Emelianova
Executive Director, ESG
Research



Samantha Sue Ping
Executive Director, ESG
Research

Agenda

- 1 Welcome and Introduction
- 2 EU Sustainable Finance and SFDR
- 3 EU SFDR Metrics
- 4 What this means for Issuers
- 5 Q&A



MSCI Overview



50

Years in Business



3,500+

Employees



35

Global Locations



7,800+

Active Clients

Indexes



- MSCI ACWI Index
- MSCI World Index
- MSCI EM Index
- ESG and Climate Indexes
- Factor Indexes
- Thematic Indexes

230k indexes calculated daily

1.3k+ ETFs based on MSCI indexes¹

Analytics



- Risk Management
- Asset Allocation
- Fixed Income Analytics
- Multi-asset Class Factor Models

1 trillion calculations/day

2 million time series

70+ million client positions

ESG & Climate



- ESG Issuer & Fund Ratings
- Screening & Controversies
- ESG Governance Metrics
- Climate Solutions
- Sustainable Impact

1.5k+ ESG & Climate equity and fixed income indices²

14k+ issuer ESG Ratings²

Private Real Estate



- Performance attribution services
- Risk Analytics
- Global market information
- Indexes

In over 32 markets worldwide

Coverage spanning \$2 trillion of private real estate assets

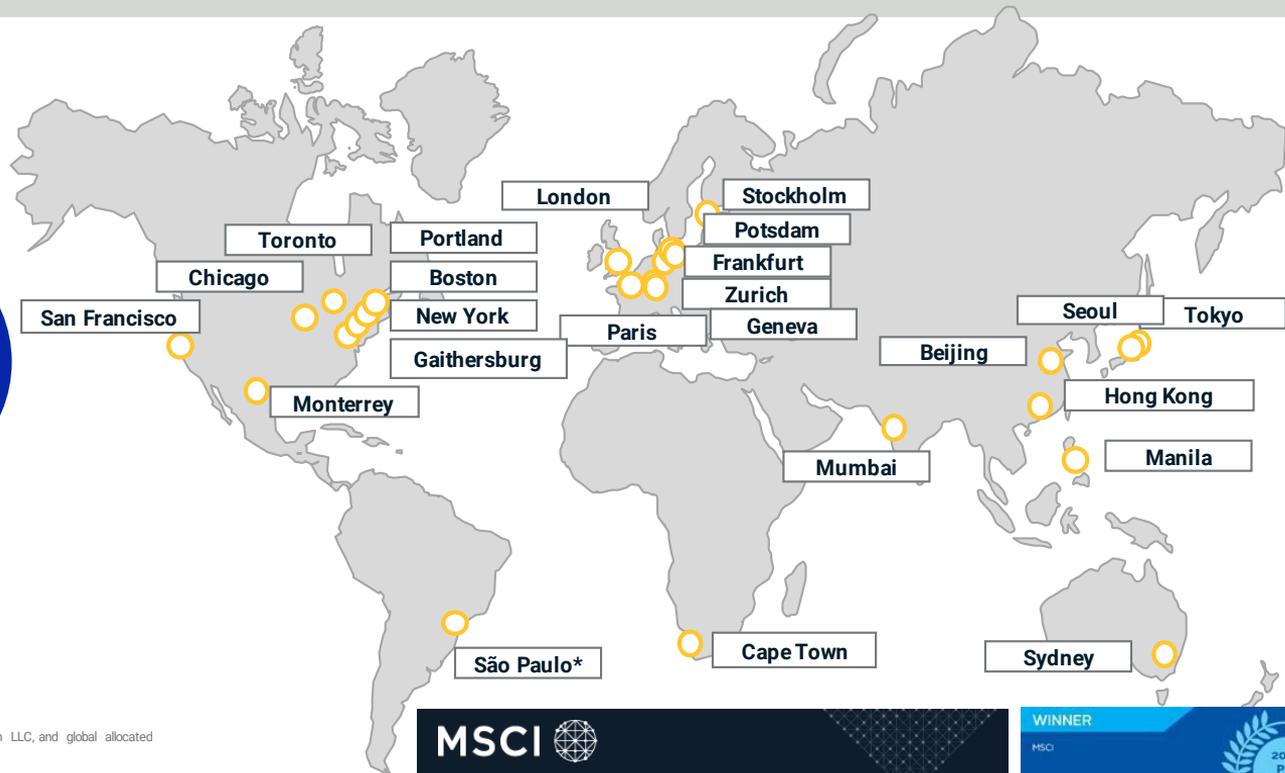
Introducing MSCI ESG Research

First ESG provider to assess companies based on industry financial materiality¹

250+
ESG
analysts²
(~400 FTE)

1,700+
clients

1,500+
ESG equity &
fixed income
indices use MSCI
ESG Research
ratings and data



¹ Through our legacy companies KLD, Innovest, IRRIC, and GMI Ratings. ESG Ratings dating back to 1999.
² Source: MSCI ESG Research LLC as of June 2020. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.
 * Representative office for business development.



Information Classification: **GENERAL**

MSCI

IRI SURVEY 2019

The Independent Research in Responsible Investment Survey

MSCI voted **Best Firm for SRI Research, Corporate Governance and Sustainability Indexes** for the fourth consecutive year

2015
2016
2017
2018/19

WINNER

MSCI

2020 PRI AWARD

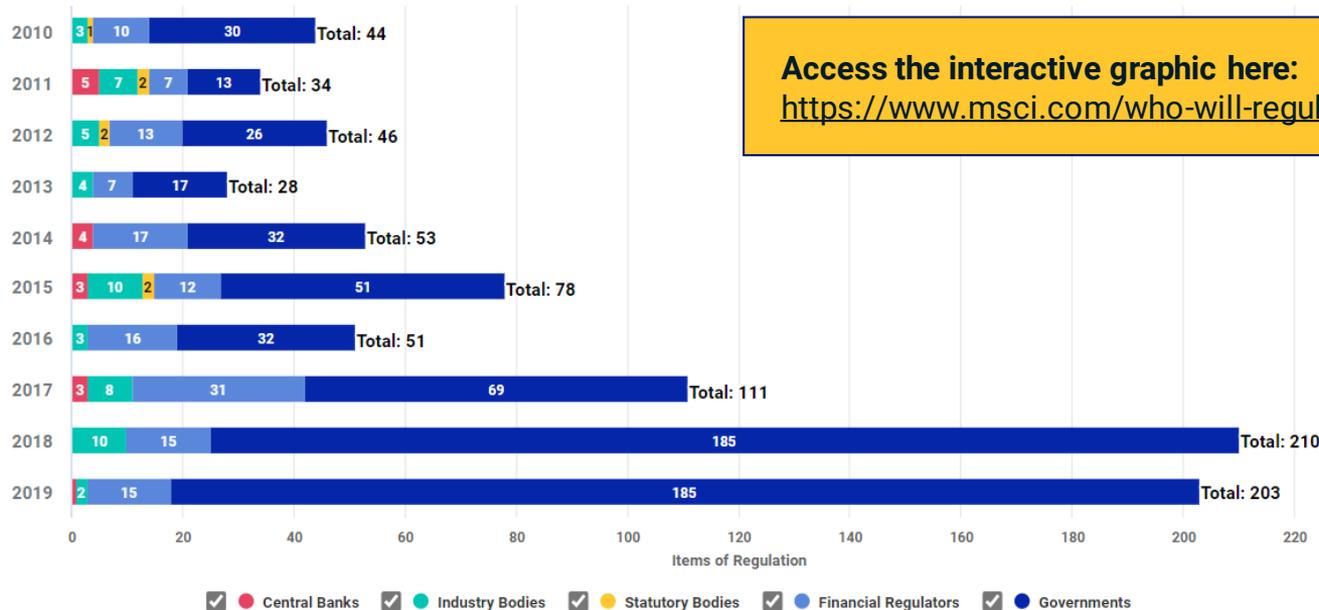
2020 ESG Trends project: What are the big challenges for the new decade?

ESG research report of the Year

EU Sustainable Finance and SFDR

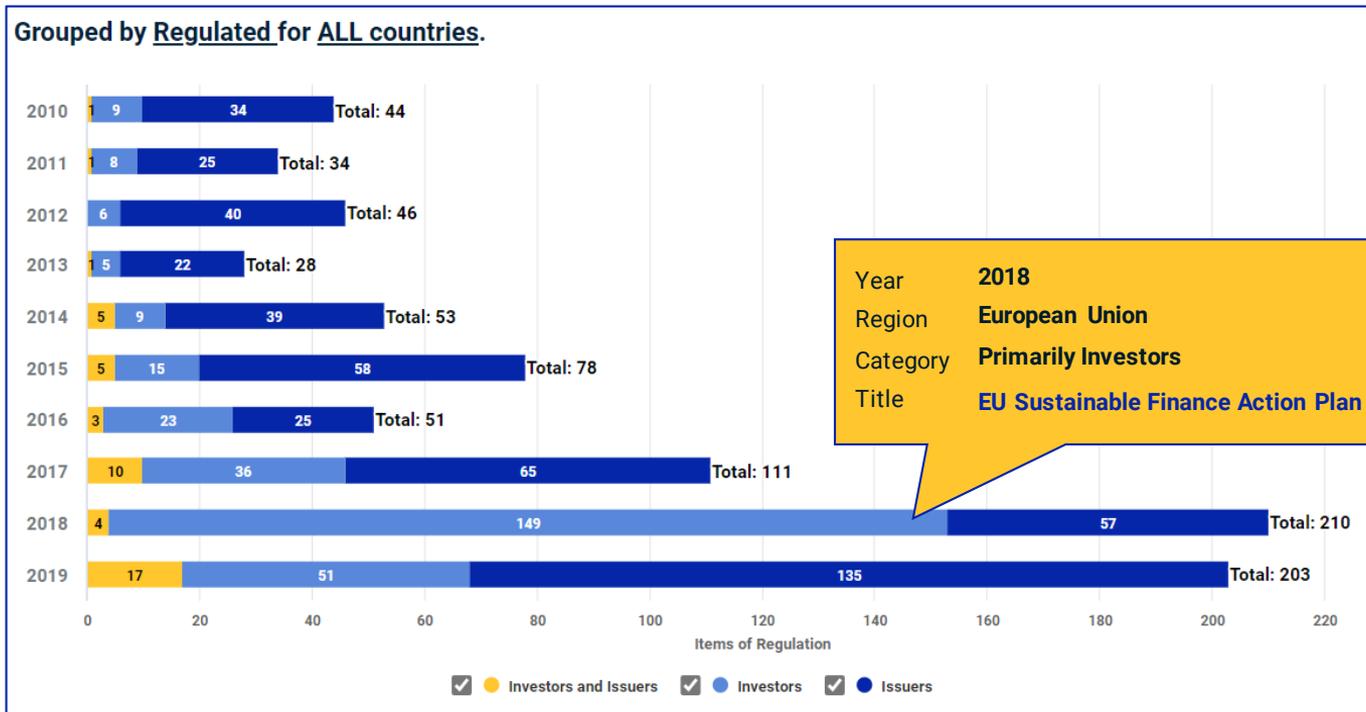
Who is Regulating ESG?

Grouped by Regulators for ALL countries.



Access the interactive graphic here:
<https://www.msci.com/who-will-regulate-esg>

...And Who is Being Regulated?



EU Sustainable Finance Package

- **One of most ambitious legislative plan globally,** which aims to:
 - reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
 - manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
 - foster transparency and long-termism in financial and economic activity.
- **Impact ≠ limited to the EU**
 - Investment managers outside the EU may be impacted or wish to follow the new norms if they manage European assets
 - Other jurisdictions are also looking at putting in place similar measures



Combating the Greenwashing of Funds

ESG: Greenwashing under scrutiny

BY SUSANNA RUST | JULY/AUGUST 2019 (MAGAZINE)



Key points

- Greenwashing is understood as making misleading claims about environmental practices, performance or products
- An aim of the European Commission's sustainable finance action plan is to prevent greenwashing, mainly with regard to
- Language is an issue: ESG and green investments are not equated

How to spot greenwashing

This article is part of
Guide to responsible investing



Sustainable finance, or just plain greenwashing?

9 January 2020

It's plastered everywhere and purportedly built into everything. It's sustainability, the buzzword that has taken hold in every corner of society and sector of business. Within asset management, too, sustainable finance is gaining in significance. More and more high-net-worth clients are becoming interested in investments that can be made in good conscience because they are economically, ecologically and societally sustainable. Banks have recognised this demand and developed investment strategies to meet it. But is every product marked "sustainable finance" worthy of the label?

Sustainable Investing

Opinion: For ESG investors, the newest challenge is separating fact from 'greenwashing'

Published: Oct. 15, 2019 at 9:41 a.m. ET

By Meredith Jones

How much is corporate talk of ESG principles just marketing?



MSCI's ESG Transparency Resources

NOV
2019

Made public the MSCI ESG Ratings of over 2,800 issuers in our [ESG Corporate Ratings search tool](#)

[Launched provisional climate indexes](#) designed to meet the minimum standards for the “EU Climate Transition benchmark” (CTB) and “EU Paris-aligned benchmark” (PAB) in order to help clients evaluate and test them

JAN
2020

Published [the MSCI Principles of Sustainable Investing](#), a framework outlining best practices for ESG integration by investors globally

May
2020

Made public the MSCI ESG Fund Ratings for 36,000 multi-asset class mutual funds and ETFs in our [ESG Fund Ratings search tool](#)

Made public ESG metrics for all MSCI indexes covered by the European Union (EU) Benchmark Regulation (BMR) in our [Index Profile search tool](#)

Nov
2020

Launch of [Sustainable Finance resource page](#) on msci.com

Launch of the [MSCI ESG Industry Materiality Map](#) which aims to offer a window in the MSCI ESG Ratings model



EU SFDR: Action Plan Overview

10 points EU Action Plan on Sustainable Finance

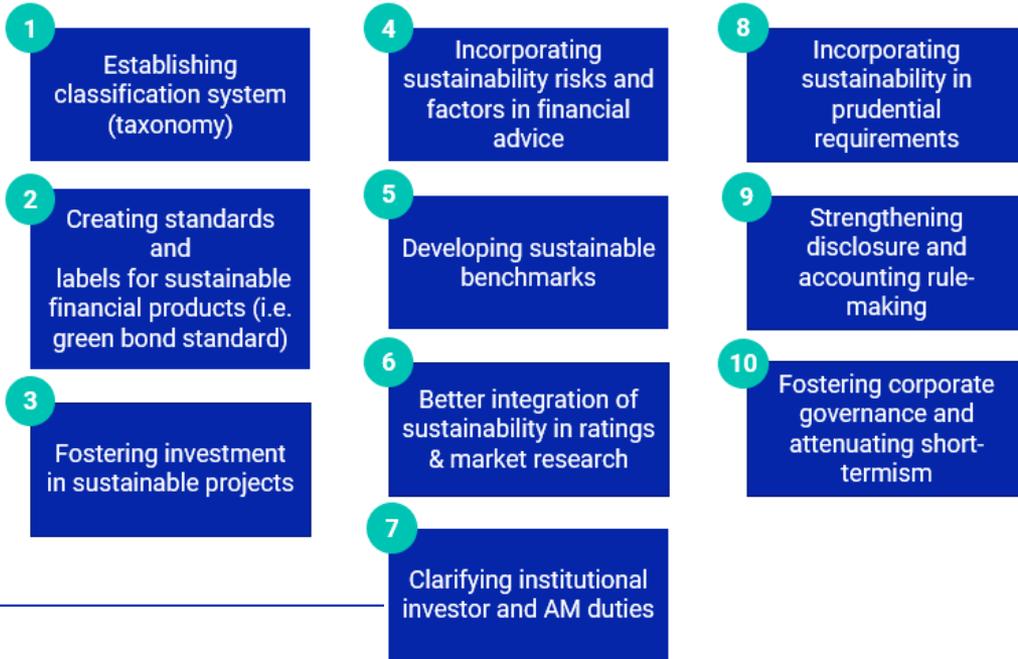


SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

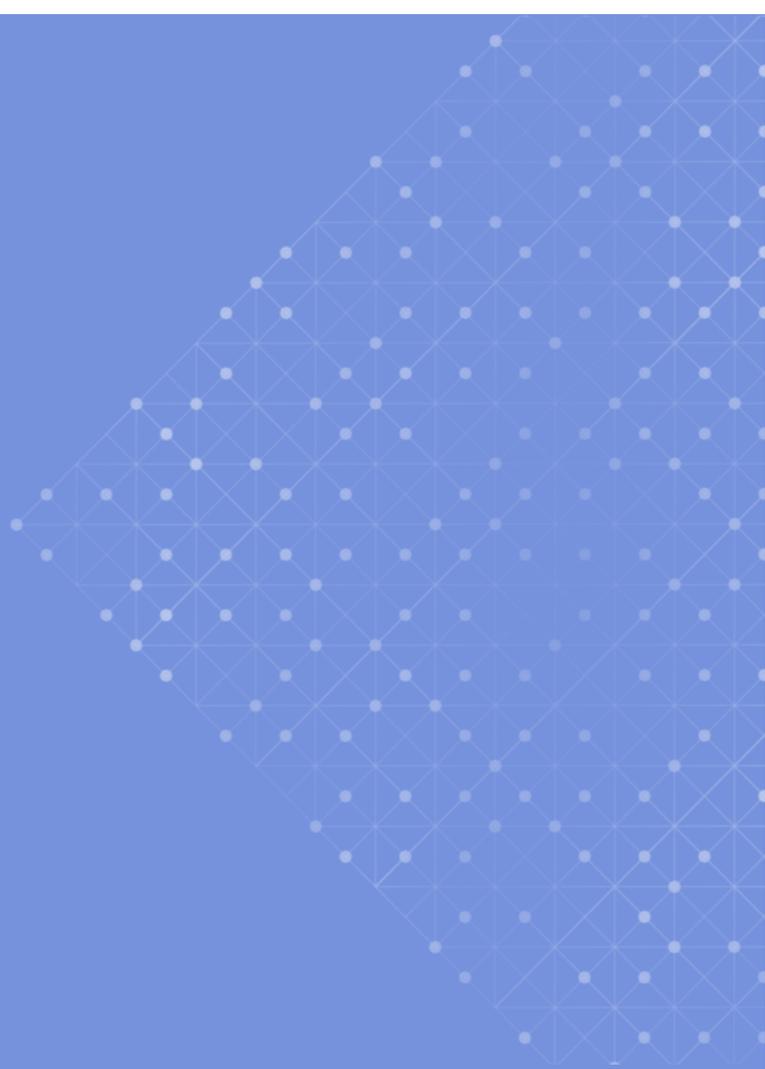
Goals
The EU is harmonizing ESG disclosure standards, requiring financial market participants to **integrate** sustainability risk in the investment process and to **report** on such integration at both the entity and product level.

Timelines
Beginning in March 2021 for principle-based disclosures per the SFDR.

Detailed, prescriptive disclosures (e.g. on adverse impact indicators) likely due in January 2022.



EU SFDR Metrics



EU SFDR: Adverse Impact Disclosures From Draft Regulatory Technical Standards (RTS)

- Proposed disclosure indicators include a set of **Adverse Sustainability Impact Indicators**
 - Principal Adverse Impacts (32 mandatory metrics)
 - Additional 18 E&S Impact Indicators
- Status:**
 - Outcome of consultation on SFDR Level 2 Text has been delayed until January 2021

| Principal Adverse Impact Indicators | |
|--|--|
| <ul style="list-style-type: none"> GHG Emissions, e.g. carbon footprint, solid fossil fuel sector exposure Energy Performance, e.g. total energy consumption from non-renewable sources Biodiversity e.g. ecosystem preservation practices Water, e.g. exposure to high water stress Waste, e.g. hazardous waste ratio | <ul style="list-style-type: none"> Social and employee matters e.g. implementation of ILO Conventions, gender pay gap, excessive CEO pay ratio Human rights e.g. processes for preventing human trafficking, exposure to controversial weapons Anti-corruption and anti-bribery, e.g. convictions/fines for violations |
| Additional Environmental Indicators | Additional Social Indicators |
| Choose at least one additional from each column | |
| <ul style="list-style-type: none"> Emissions, e.g. emissions of air pollutants Water, waste and material, e.g. land degradation Green securities | <ul style="list-style-type: none"> Social and employee matters, e.g. incidents of discrimination, lack of CEO/Chair separation Social securities, e.g. not certified as social |

What Our Clients Have Said About the EU SFDR Draft RTS

August 2020 Client Workshops

66 clients based in Austria, France, Germany, the Netherlands, the Nordics, North America, Spain, Switzerland and the UK

Goals

- Share views on the draft regulatory technical standards
- Enable a forum to discuss views on the biggest challenges in complying with the regulation
- Provide initial assessment of the adverse sustainability impact indicators

We are concerned that many of the adverse impact indicators are **not readily available**, the requirements to disclose on 32+ indicators could be a **burden**, and the **quality of company disclosures** unclear.

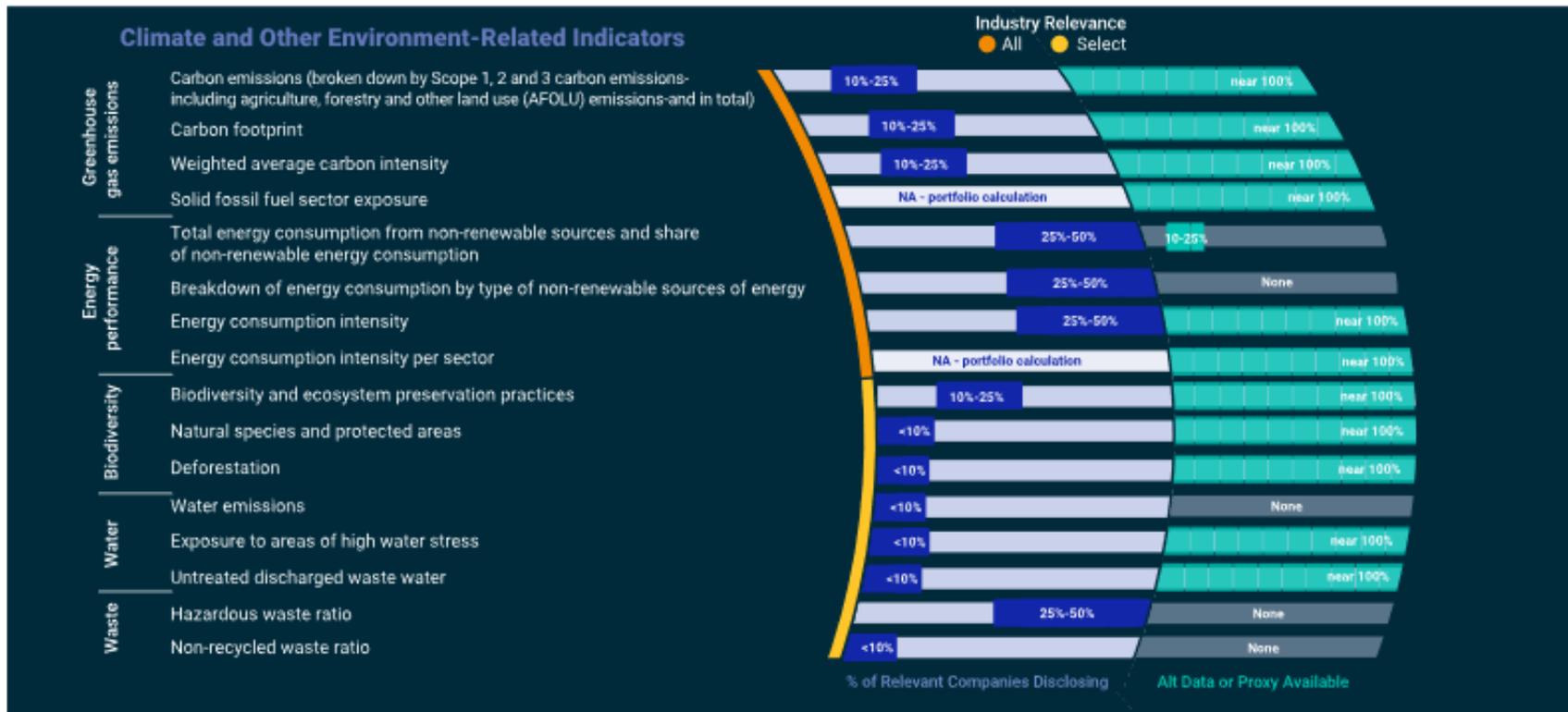
It would be **inefficient and costly** if financial market participants are in fact required to **collect data** directly from companies first rather than relying on third parties.

The availability of **data** addressing the SFDR requirements is the highest priority for us. **Transparent sourcing** for this data will be very important.

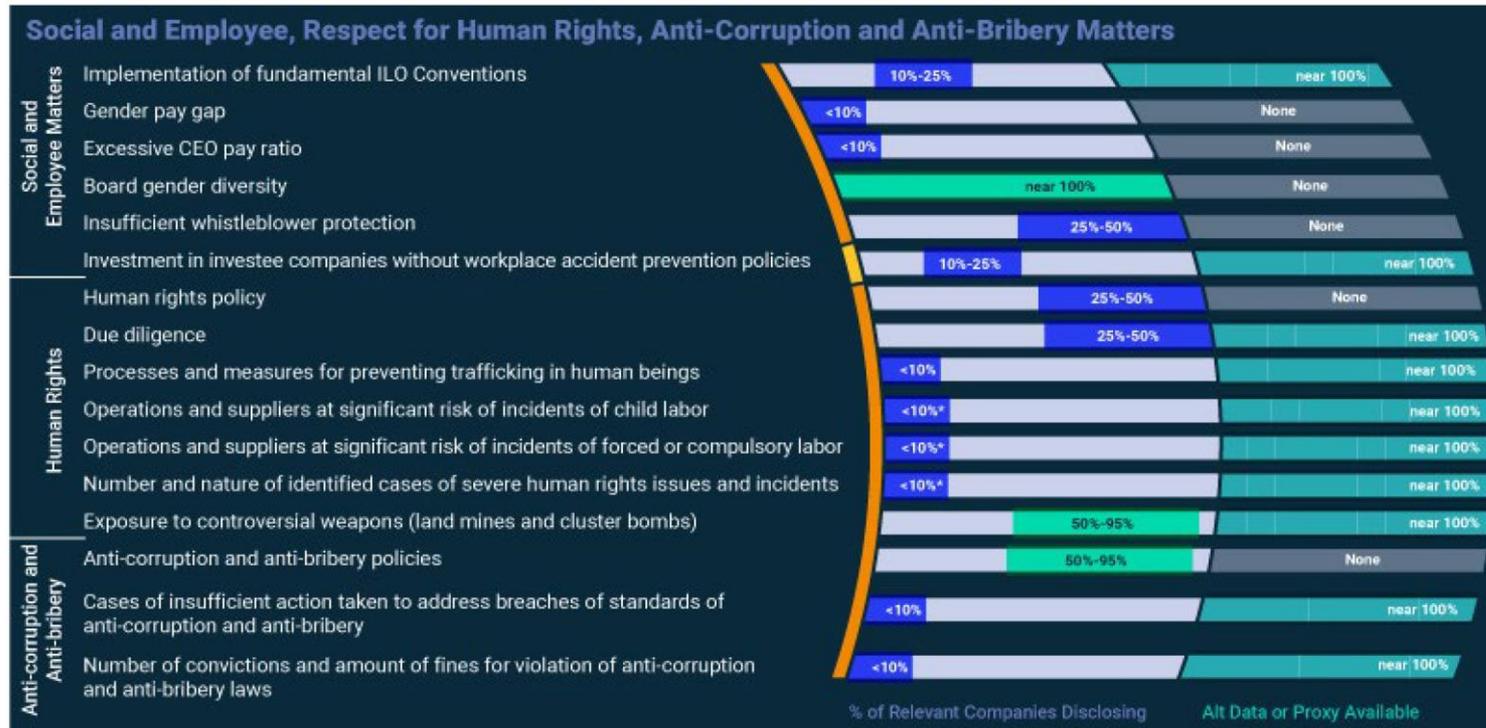
The **aggressive timeline** for compliance is a major concern; seemingly not feasible.



SFDR Draft Principle Adverse Impacts Indicators: Company-Level Data Availability



SFDR Draft Principle Adverse Impacts Indicators: Company-Level Data Availability (Cont'd)

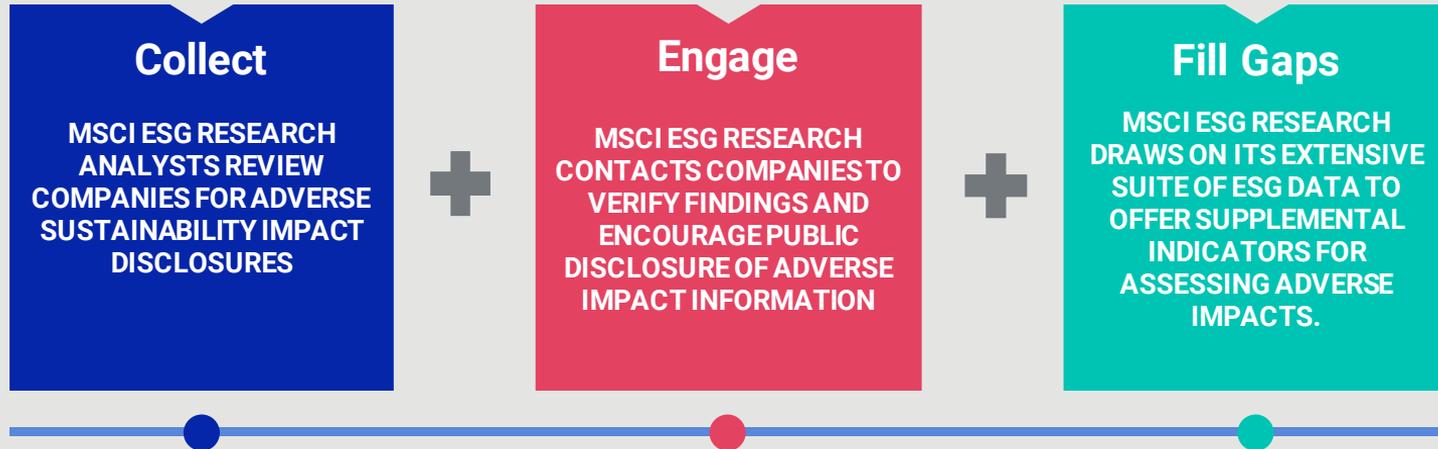


SFDR Draft RTS Guidance on Sourcing Adverse Impact Data

Proposed hierarchy approach



MSCI's Approach



We are accelerating collection of adverse impact data points across a broad set of **global companies**.

We will leverage our extensive company contact database and Issuer Communications Portal for data verification and **to encourage disclosures on behalf of our investor clients**.

We anticipate significant gaps in company disclosure and responsiveness and so will also offer indicators that are **not reliant on company disclosure or communication**.

EU SFDR - What This Means for Issuers

Issuer Communications – Connecting Companies and Investors

Interacting with issuers: a competitive advantage

- **Independence**

- No advisory or consulting

- **Consistency**

- Systematic outreach to issuers
- Standard data review process

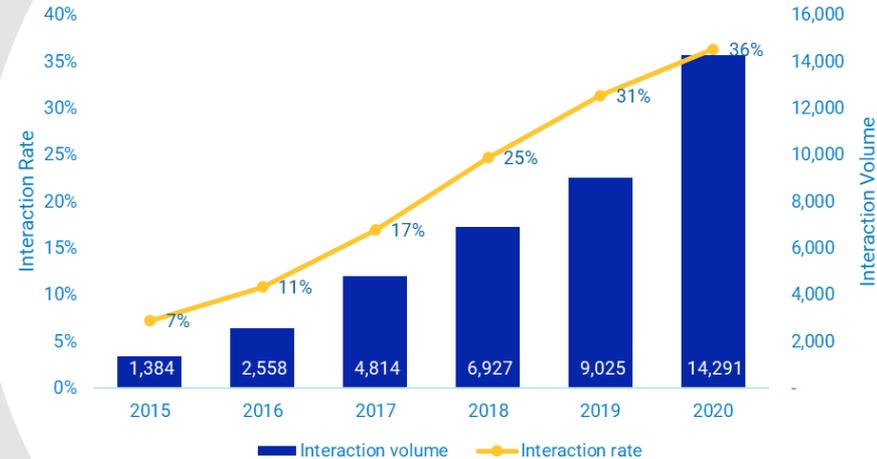
- **Traceability**

- Use of publicly available data
- No confidential information

- **Transparency**

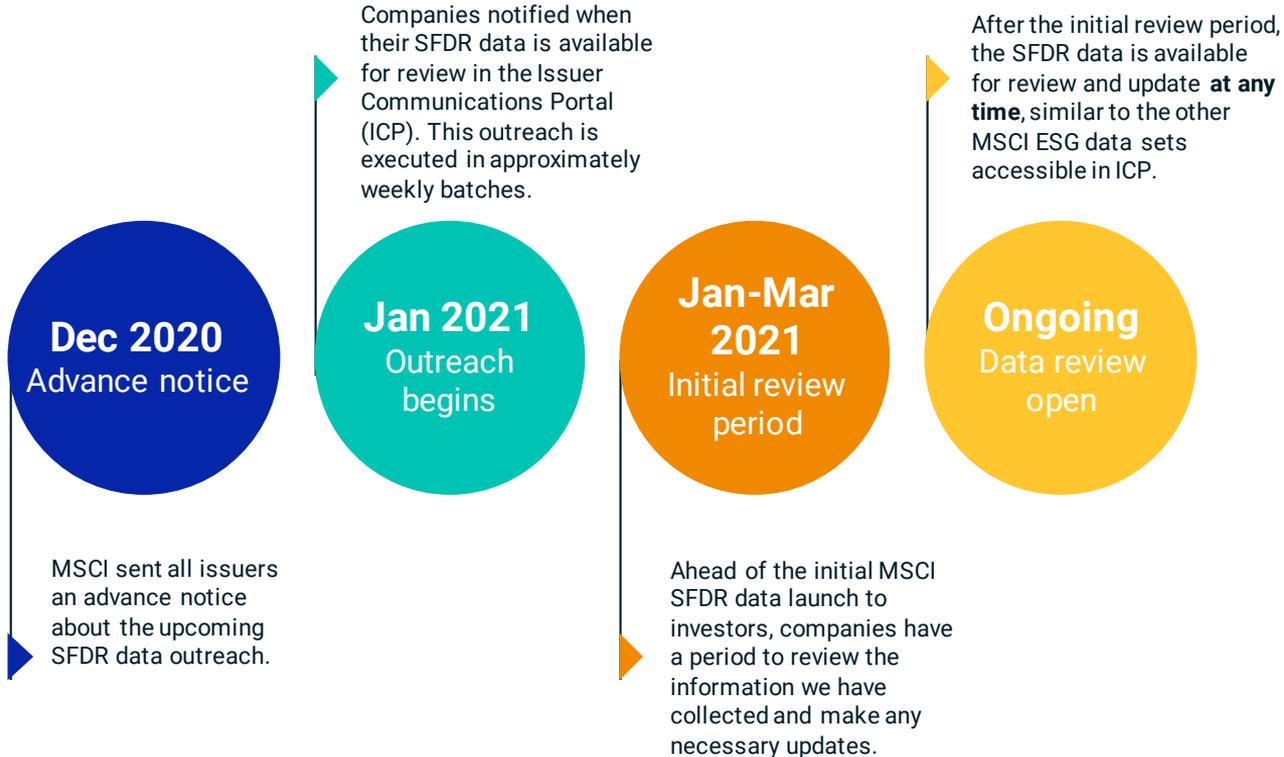
- Issuer access to data and own reports at no cost
- Record of all interactions

**Issuer Interaction Rate –
MSCI ACWI Investable Market Index (IMI)**

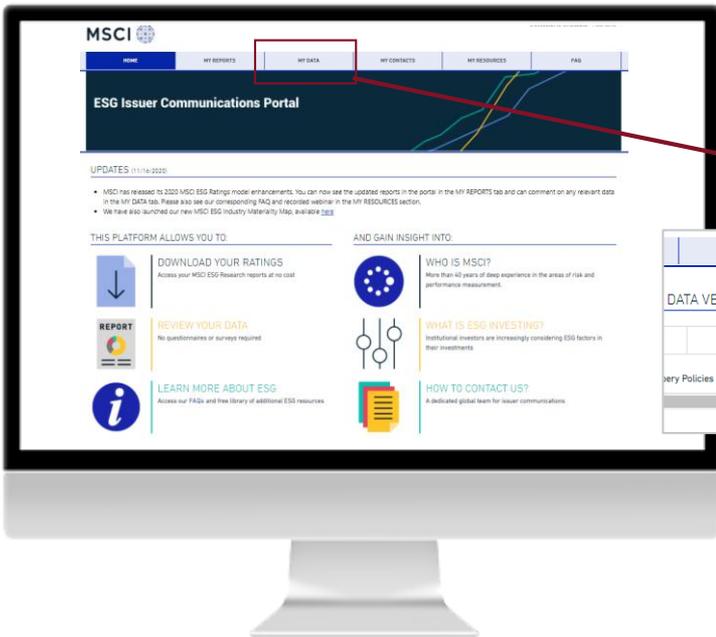


Source: MSCI ESG Research, as of December 31, 2020.
Interaction volume is inclusive of any inbound communication from issuers, e.g. queries and feedback submissions throughout the stated year.
Interaction rate is the % of companies in the MSCI ACWI IMI that have reached out in the given year.

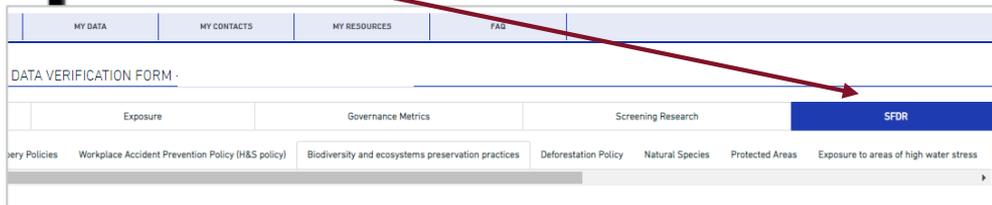
SFDR Data Review Process



SFDR Data in the Issuer Communications Portal (ICP)



NEW!
SFDR data tab in the MY DATA section.



Reminder: How to Comment on Data

HELP GUIDE 1. DATA VERIFICATION FORM

| ESG Ratings | Carbon | ESG Controversies | Exposure | Governance Metrics | Screening Research | SFDR | | | | |
|---|--|--------------------------|---------------------------------|---|---|--|----------------------|-----------------|-----------------|--|
| Irresponsible | Bribery and Corruption Fines and Convictions | Total Energy Consumption | Whistleblower Protection Policy | Anti-Corruption and Anti-Bribery Policies | Workplace Accident Prevention Policy (H&S policy) | Biodiversity and ecosystems preservation practices | Deforestation Policy | Natural Species | Protected Areas | Exposure to areas of high water stress |
| Biodiversity and ecosystems preservation practices - disclosed | | | | | | | | | | |
| Yes | | | | | | | | | | |
| Biodiversity and ecosystems preservation practices - disclosed - Date | | | | | | | | | | |
| 2019-12-31 | | | | | | | | | | |
| Scope of Life Cycle Assessment - Sourcing | | | | | | | | | | |
| Not Disclosed | | | | | | | | | | |
| Scope of Life Cycle Assessment - Direct Operations | | | | | | | | | | |
| Not Disclosed | | | | | | | | | | |
| Scope of Life Cycle Assessment - Downstream Impact from water waste and disposal | | | | | | | | | | |
| No evidence | | | | | | | | | | |
| Scope of preservation programs to protect natural resources | | | | | | | | | | |
| No clear scope or policy | | | | | | | | | | |
| Scope of efforts to minimize disturbances from operations on land and sea-use change | | | | | | | | | | |
| No | | | | | | | | | | |
| Quantitative target to reduce land use | | | | | | | | | | |
| Not Disclosed | | | | | | | | | | |
| Scope of restoration or rehabilitation of disturbed sites | | | | | | | | | | |
| No | | | | | | | | | | |
| Company certifies operations to external standards focused on ecosystem and biodiversity preservation | | | | | | | | | | |
| No evidence of membership or certification related to managing biodiversity and land use risks | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of seafood production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of timber and/or paper production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of palm oil production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of beef and/or dairy production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of leather production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| Extent of supply chain initiatives to address impacts of cotton production | | | | | | | | | | |
| No Evidence of requiring suppliers certified to external standards | | | | | | | | | | |
| <input type="button" value="Submit"/> 4. | | | | | | | | | | |

1. Help Guide, for assistance using the form.
2. Pencil icon, to enter a comment.
3. More info on the specific datapoint.
4. Submit comments when review is complete.

Other Resources for Issuers

Issuer Communications Portal

Growing resource library! FAQs, methodology guides, webinar recordings and more!



RESOURCES

MSCI ESG Ratings 2020 Model Enhancements

This FAQ answers some of the commonly asked questions about the MSCI ESG Ratings 2020 model enhancements.

Download

 [MSCI ESG Ratings 2020 Model Enhancements](#)

Webinar Recording - MSCI ESG Ratings 2020 Model Enhancements for Corporate Issuers

On October 20, 2020, we held a virtual workshop to walk through the 2020 enhancements to the MSCI ESG Ratings methodology.

Download

 [Webinar Recording - MSCI ESG Ratings 2020 Model Enhancements for Corporate Issuers](#)

Contact us: esgissuercomm@msci.com

Solutions for Issuers

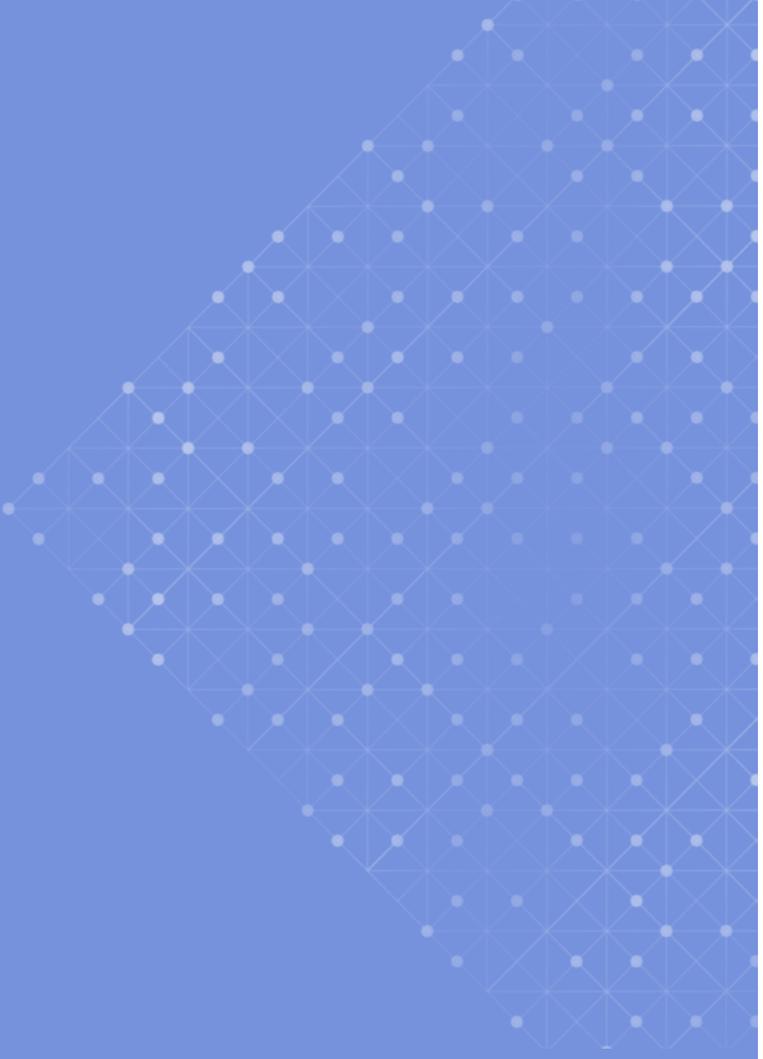
For those needing more in-depth peer benchmarking insights or a license for corporate financing purposes, MSCI ESG Research offers the following commercial solutions to Issuers:

- ✓ Subscription to MSCI ESG Ratings for benchmarking purposes
- ✓ License to use issuer's MSCI ESG Rating to support ESG-linked loans or credit facilities
- ✓ License to use issuer's MSCI ESG Rating to help support debt issuance programs
- ✓ License to use issuer's MSCI ESG Rating to promote securities offerings

For more information, please visit:

<https://www.msci.com/our-solutions/esg-investing/esg-research-for-issuers-and-their-advisors>

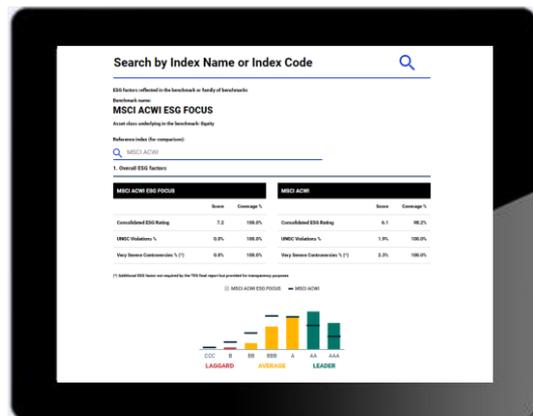
Q&A



Appendix

Challenge: Inconsistent Disclosure Requirements Across EU ESG Policy Initiatives

EU Benchmark Regulation ESG Disclosures



EU SFDR Adverse Sustainability Impact Disclosures

Table 1
Principal adverse impacts statement

Summary

[Name and, where available, LEI] considers principal adverse impacts of its investment decisions on sustainability factors.

This principal adverse impacts statement covers the period from 1 January to 31 December [year n].

[Summary referred to in Article 6(1)(d) in one of the official languages of the home Member State of the financial market participant and, if different, in a language customary in the sphere of international finance]

Details of the assessment of principal adverse sustainability impacts

[Information referred to in Article 7 in the format set out below]

| Adverse sustainability indicator | Metric (expressed in market value) | Impact [year n] | Impact [year n-1] | Explanation |
|---|--|---|-------------------|-------------|
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | |
| Greenhouse gas emissions | 1. Carbon emissions (broken down by scope 1, 2 and 3 carbon emissions - including agriculture, forestry and other land use (AFOLU) emissions - and in total) | Please see point (f) above | | |
| | 2. Carbon footprint | Please see point (a) above | | |
| | 3. Weighted average carbon intensity | Please see point (i) above | | |
| | 4. Solid fossil fuel sector exposure | Share of investments in solid fossil fuel sectors | | |
| Energy performance | 5. Total energy consumption from non-renewable sources and share of non-renewable energy consumption | 1. Total energy consumption of investee companies from non- | | |



EU Taxonomy regulation disclosure elements:

- Sustainable Activities
- Do No Significant Harm
- Minimum Safeguards



- Potential for market confusion
- Costly implementation

Proliferation of Standards

August 19, 2020 01:09 PM

CFA Institute wants feedback on ESG disclosure standards

SOPHIE BAKER

TWEET SHARE EMAIL

REPRINTS PRINT



Getty Images/istockphoto

The CFA Institute wants industry input on its new standard for environmental, social and governance disclosures by money managers.

Iosco at Work on Global ESG Standard

September 8, 2020

Comments (0)

The **International Organization of Securities Commissions** has commenced work on a global ESG disclosure standard akin to international financial accounting standards, FTfm reports.

UK Delays Decision on Adopting EU Sustainable Finance Taxonomy

The delay may complicate the regulatory landscape for sustainable finance as the EU moves toward a standardized classification system.

Big Four Accountants Draft ESG Standards

September 22, 2020

Comments (1)

The Big Four accounting firms have jointly developed a reporting framework for ESG standards, in the latest industry effort to forge ESG consensus, the *Financial Times* reports.

<https://www.pionline.com/esg/cfa-institute-wants-feedback-esg-disclosure-standards>
https://www.ignites.com/c/2875653/357513/iosco-work-global-esg-standard?referrer_module=issueHeadline&module_order=7
https://www.ignites.com/c/2895063/359273/four-accountants-draft-standards?referrer_module=issueHeadline
<https://www.globalelr.com/2020/06/uk-delays-decision-on-adopting-eu-sustainable-finance-taxonomy/>

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