

EU SFDR Solution: Disclosing Principal Adverse Impact Indicators

In an effort to mitigate greenwashing and clarify how to integrate sustainability and environmental, social, and governance (ESG) factors into investments, the European Union (EU) is gradually implementing the [Sustainable Finance Disclosure Regulation \(SFDR\)](#).

One of the more significant impacts of the SFDR is its mandated disclosure of Principal Adverse Impact (PAI) indicators. In accordance with the regulation, all financial market participants must disclose 14 mandatory indicators* and two additional metrics (i.e., from the environmental and social tables) for public equity (PE) investments at an entity level. If inclined, investors can also disclose 33 additional indicators for PE investments at their discretion.

THE CHALLENGE

- Fulfilling disclosure requirements for all mandatory PAI indicators
- Obtaining data for all additional indicators to stay ahead of evolving requirements
- Finding data sources that cover a broad, extensive universe of public companies worldwide
- Streamlining the process of aggregating and reporting PAI indicators up to the product and entity level

THE REGULATION

Phase:

First mandatory disclosure period

Effective date:

July-December 2022

In-scope products:

- Greenhouse gas (GHG) emissions
- Carbon footprint
- Hazardous waste ratio
- Emissions to water
- Board gender diversity, and more

Purpose:

To improve transparency on the sustainability of financial products and mitigate greenwashing by increasing entity- and product-level requirements

THE SOLUTION

Powerful Reporting

View and report on each PAI indicator across all holdings in accordance with EU regulation. Aggregate PAI indicators across your firm's holdings for simplified SFDR disclosure or compile them using portfolio groupings at the country, sector/industry, asset class, or other level for additional insight. Easily compare holdings across companies and sectors with a range of dynamic charts. Use time-series reporting to understand sector, country, and region trends as aligned to current allocations. FactSet reports are built to comply with EU regulations and will be updated as the SFDR continues to evolve.

Robust Coverage

Rely on a partner that provides the information you need exactly when you need it. Leverage detailed coverage of all 14 mandatory PAI indicators as well as 32 of the 33 additional indicators. While other providers map PAI indicators from a preexisting dataset, FactSet directly sources each indicator from data disclosed by companies per the regulation to ensure accuracy. Our PAI dataset will be continually updated as companies issue new ESG disclosures and the SFDR develops new entity- and product-level specifications. In the coming months, FactSet's universe will consist of more than 7,000 public companies worldwide, including constituents from the Russell 1000, MSCI Europe, MSCI ACWI, MSCI World IMI, MSCI ACWI IMI, and other leading indices. Our SFDR coverage will continue to expand throughout 2022 and beyond.

Seamless Integration

Build a compliance workflow that fits your unique and evolving needs. With advanced data connectivity and flexible delivery methods, easily identify the sustainability risks of your investments and disclose in accordance with SFDR requirements.

- **FactSet Workstation:** Rely on sophisticated portfolio analytics, a robust infrastructure, and white-glove client service to report in accordance with SFDR. Access templated aggregate calculations and PAI reporting through seamless integration with FactSet's suite of portfolio products.
- **FactSet Standard DataFeeds:** Integrate SFDR data into applications and portals essential to your reporting workflow. FactSet's data feeds make it easy to produce aggregate calculations and manage reporting within your preferred platform. Arrive at meaningful and contextualized insights through FactSet's data feeds, which are automatically connected to any company identifier, including those for fixed income.
- **FactSet APIs:** Ingest data in a more systematic format with world-class APIs specifically designed to support your customized applications, reports, dashboards, and more.

*The SFDR also requires indicators for Supernational and Real Estate; however, these asset classes are not currently covered by FactSet.

EU SFDR: WHAT YOU NEED TO KNOW

Who is affected by the EU SFDR?

All EU-based financial market participants (FMPs) (i.e., asset managers or firms creating investment products) as well as financial advisors (FAs) (i.e., individuals providing investment advice). FMPs and FAs who are based outside of the EU and sell products to clients in the EU are also affected.

What is the EU SFDR?

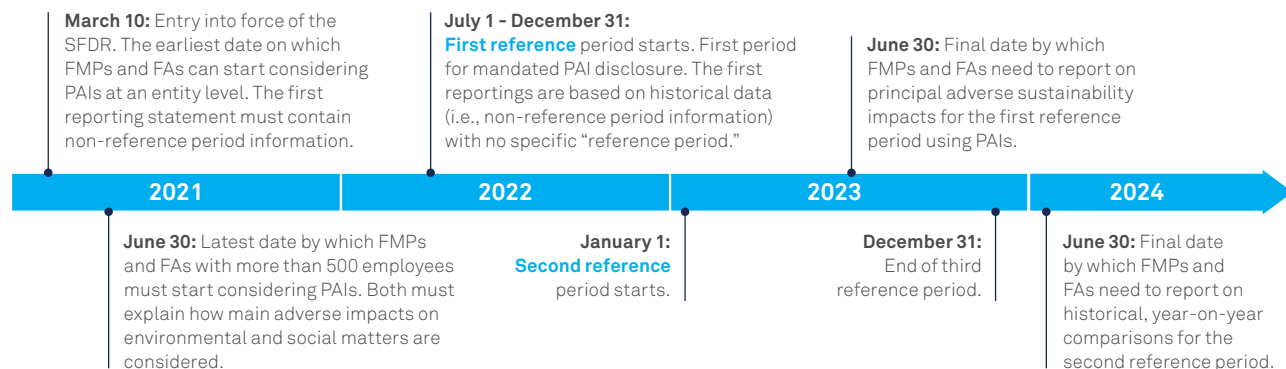
The Sustainable Finance Disclosure Regulation (SFDR) is a new regulation from the European Union (EU) that will require financial services firms to disclose how they address the following key factors:

- Sustainability Risks – Environmental, social, or governance events or conditions, which cause a material negative impact on the value of the investment. Examples include climate change and resource scarcity.
- Principal Adverse Impacts (PAIs) – Negative, material, or potentially material effects on sustainability factors that result from, worsen, or are directly related to investment choices or advice performed by a legal entity. Examples include GHG emissions and carbon footprint.

Why is it important?

The EU hopes to channel more investments toward sustainable investing while also mitigating greenwashing (i.e., when firms make themselves appear more environmentally responsible than they actually are).

When is it happening? SFDR Timeline – Key Dates*



* All dates are subject to change and dependent on the approval of the Regulatory Technical Standards.

What do I need to do?

Assuming there are no additional delays or changes from the EU, your organization needs to disclose its first report between July 1, 2022, and December 31, 2022, but specific information and metrics need to be captured frequently throughout the period.

Asset managers must disclose their policies at both the product and firm level.

How is FactSet helping clients?

FactSet's SFDR solutions are designed to simplify your compliance and improve efficiency across all stages of the investment process. We bring together industry expertise, reliably connected data, portfolio analytics, client reporting, and strategic partnerships to help you address ESG regulations and standards as they evolve.

Talk to a FactSet Specialist about your SFDR requirements and we'll help you figure out the most effective solution: sales@factset.com.