Guidance Document
on the Sustainable Finance Disclosure Regulation (“SFDR”)

The content of this update is intended by Brokers Ireland as an aid to members, to assist them in meeting their obligations under the Sustainable Finance Disclosure Regulation (“SFDR”).

The guidance contained herein is on a general basis, the European Commission has just recently published regulatory technical standards for the regulation and therefore guidance may be subject to change following the application date of the regulatory technical standards. Template wordings may be adapted by Members for their own use and according to the nature and scale of the Member’s particular brokerage. It is not intended to be relied upon as constituting legal advice to Members on how they are to discharge their professional obligations to their clients.

February 2021

Background

The Sustainable Finance Disclosure Regulation (“SFDR”) will come into effect on the **10th of March 2021**. The SFDR was introduced by the European Commission alongside (the “Taxonomy Regulation”) and (the “Low Carbon and Positive Impacts Benchmarks Regulation”) as part of a package of legislative measures arising from the European Commission’s Action Plan on Sustainable Finance.

The SFDR sets out harmonised rules on transparency and aims to include environmental, social and governance (ESG) “sustainability” considerations and risks in the decision-making process of investors and asset managers in a consistent manner across the EU financial services sector. **A sustainable investment product is where a product is sold as promoting environmental or social characteristics**. It is envisaged that greater transparency and sustainability-related information will enable investors to compare financial products and to make informed investment decisions about ESG products.

Who does the Regulation apply to?

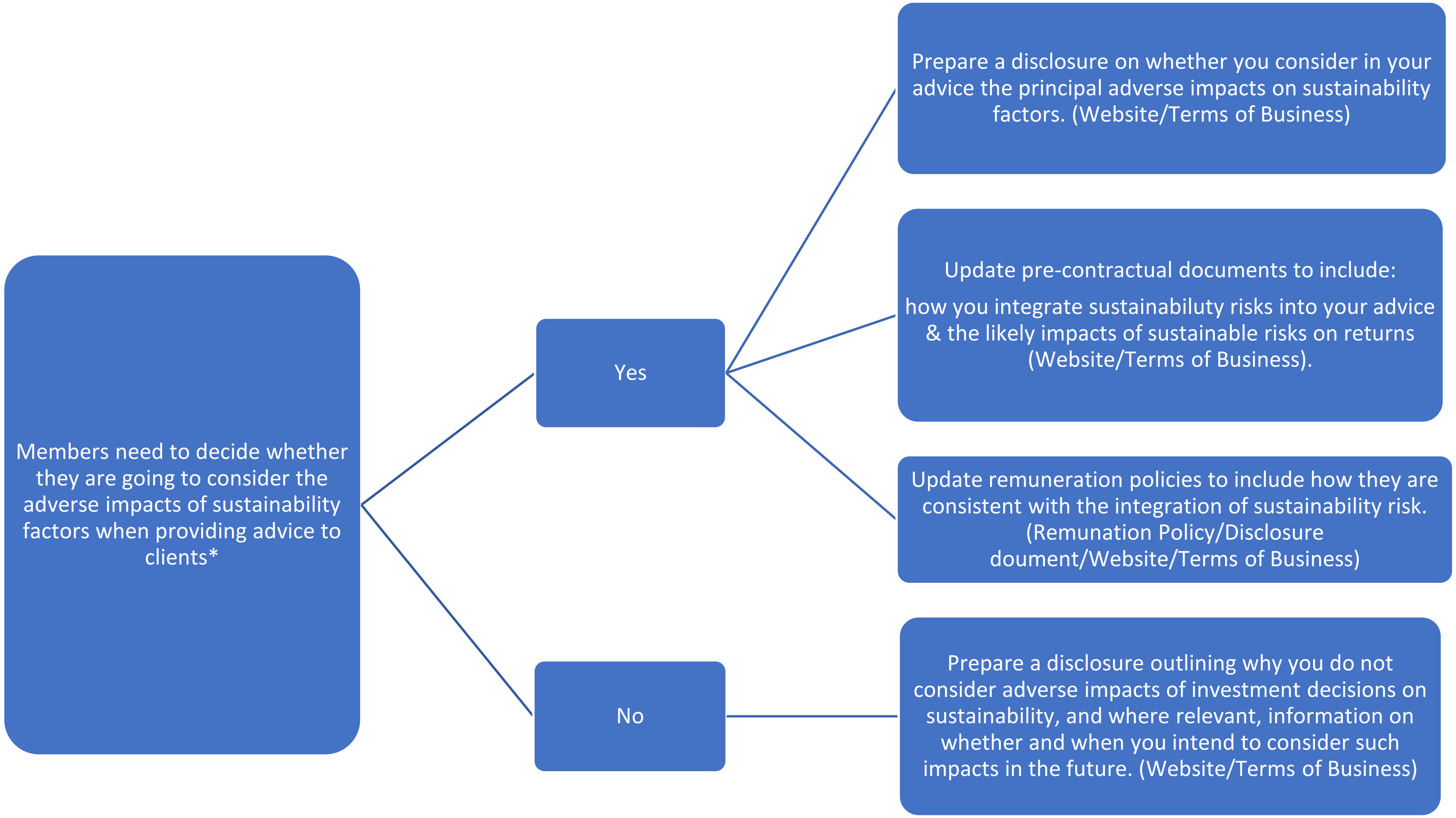
- Insurance intermediaries who provide insurance advice with regard to IBIPs.
- Investment Intermediaries who provide investment advice (through providers such as Davy/BCP etc) to both retail and professional investors.
- The rules apply to all financial products, including IBIPs, portfolio management, pension products and PEPPs, regardless of whether they are designed as “green” products with an ESG profile.

Member States are given the possibility to apply these rules to pension products operating national security schemes (Article 16 of SFDR).

What is required?

The SFDR introduces additional disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. The Regulations will require impacted firms to integrate sustainability into their investment processes and to consider the adverse impacts of their investments on sustainability factors. The requirements apply regardless of whether the client has indicated an ESG preference or not. Financial market participants (“FMPs”) and financial advisers have similar but different obligations under the SFDR - this guidance document is focused on obligations for financial advisors.

What members need to do?



* In making your decision, you should consider that a key focus of the European Commission Action plan is Sustainable Finance and recital 19 of the regulation state "*The consideration of sustainability factors in the investment decision-making and advisory processes can realise benefits beyond financial markets. It can increase the resilience of the real economy and the stability of the financial system. In so doing, it can ultimately impact on the risk-return of financial products.*"

Suggested wording for disclosures for inclusion on the firm's Terms of Business and website.

<u>Firm not considering Sustainability factors.</u>

Sustainability Factors – Investment/IBIPS/Pension Advice

When providing advice, the firm does not consider the adverse impacts of investment decisions on sustainability. "The firm does not intend to consider such impacts in the future" or "The firm will review this approach on an annual basis in (insert selected month)".

<u>Firm considering Sustainability factors.</u>

Sustainability Factors - Investment/IBIPS/Pension Advice

When providing advice, the firm considers the adverse impact of investment decisions on suitability. As part of our research and assessment of products, the firm will examine the Product Providers literature to compare financial products and to make informed investment decisions about ESG products. The firm will at all times act in the client's best interests and keep clients informed accordingly. The consideration of sustainability risks can impact on the returns of financial products.

<u>Note:</u> To ensure clients are fully aware of the firm's approach, the above wording could also be included in the Statement of Suitability.

Remuneration policy

We are remunerated by commission and other payments from product producers. When assessing products, we will consider the different approach taken by product providers in terms of them integrating sustainability risks into their product offering. This will form part of our analysis for choosing a product provider.

Review of disclosures

Members must ensure that any information published in relation to sustainability risks and their remuneration policies are kept up to date and publish any amendments clearly on your websites.