Opening Address

• Welcome, thanks to Moderator and acknowledgement of the Keynote

• Introduction of Speakers
  ➢ Peter Stapleton, Head of Funds & Investment Management, Maples Group
  ➢ Eimear O’Dwyer, Partner, Funds & Investment Management, Maples Group

• The Sustainable Financial Disclosures Regulation (SFDR)
  ➢ What?
  ➢ When?
  ➢ How?

• Masterclass Materials and Additional Resources [www.maples.com/esg]
The EU Sustainable Action Plan and Green Deal
The Climate Challenge and Finance

• The EU has committed to becoming the world’s first climate neutral continent by 2050

• However, that poses challenges for Member States:

“To meet our Paris targets, Europe needs between €175 and €290 billion in additional yearly investment in the next decades. We want a quarter of the EU budget to contribute to climate action as of 2021. Yet, public money will not be enough. This is why the EU has proposed hard law to incentivise private capital to flow to green projects. We hope that Europe’s leadership will inspire others to walk next to us. We are at two minutes to midnight. It is our last chance to join forces.” Valdis Dombrovskis

• To incentivise, and where necessary, compel financial market participants (FMPs) to make private capital available – the EC set out a series of action points on sustainable finance (the "Sustainable Action Plan")
# The Original Action Plan

The Action Plan 2018 stretches across the whole investment chain

<table>
<thead>
<tr>
<th>No.</th>
<th>Key Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Taxonomy</td>
<td>Develop an EU classification system for environmentally sustainable economic activities</td>
</tr>
<tr>
<td>2</td>
<td>Standards and labels</td>
<td>Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market</td>
</tr>
<tr>
<td>3</td>
<td>Fostering investment in sustainable projects</td>
<td>Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.</td>
</tr>
<tr>
<td>4</td>
<td>Incorporating sustainability in financial advice</td>
<td>Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.</td>
</tr>
<tr>
<td>5</td>
<td>Developing sustainability benchmarks</td>
<td>Develop climate benchmarks and ESG disclosures for benchmarks</td>
</tr>
<tr>
<td>6</td>
<td>Sustainability in research and ratings</td>
<td>Explore how credit rating agencies could more explicitly integrate sustainability into their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.</td>
</tr>
<tr>
<td>7</td>
<td>Disclosures by financial market participants</td>
<td>Enhance transparency to end-investors on how financial market participants consider sustainability</td>
</tr>
<tr>
<td>8</td>
<td>Sustainability in prudential requirements</td>
<td>Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)</td>
</tr>
<tr>
<td>9</td>
<td>Strengthening sustainability disclosures by corporates</td>
<td>Enhance climate and sustainability-related information provided by corporations</td>
</tr>
<tr>
<td>10</td>
<td>Fostering sustainable corporate governance &amp; promoting long-termism</td>
<td>Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.</td>
</tr>
</tbody>
</table>
The Regulatory Framework

- These action points have progressed and have now become regulations or advanced legislative proposals:

<table>
<thead>
<tr>
<th>Taxonomy Regulation</th>
<th>A unified classification system for sustainable activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFDR</td>
<td>Consistent disclosure requirements in relation to sustainability</td>
</tr>
<tr>
<td>Benchmarks Regulation</td>
<td>Standardised sustainability benchmarks for green products</td>
</tr>
<tr>
<td>MiFID and IDD</td>
<td>Including sustainability considerations in financial advice</td>
</tr>
<tr>
<td>UCITS AND AIFMD</td>
<td>Integrating sustainability risks and factors into UCITS and AIFMD</td>
</tr>
<tr>
<td>Corporate non-Financial Disclosure</td>
<td>Strengthening ESG data reporting and accounting rule-making</td>
</tr>
<tr>
<td>Green Bonds</td>
<td>A common green bond standard to increase comparability and transparency</td>
</tr>
<tr>
<td>EU Ecolabel</td>
<td>Common EU Ecolabel for sustainable products, including financial products</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>Fostering sustainable corporate governance and collecting evidence of undue short-term pressure from capital markets</td>
</tr>
<tr>
<td>CRR/Solvency II</td>
<td>Incorporating sustainability into prudential requirements</td>
</tr>
<tr>
<td>Credit Ratings</td>
<td>Integrating sustainability in ratings and market research</td>
</tr>
</tbody>
</table>
The Green Deal

• On 11 December 2019, the Commission presented the European Green Deal, a growth strategy adding detail on how Europe can become the first climate neutral continent by 2050

• As part of the Green Deal, the Commission presented on 14 January 2020 the European green deal investment plan, which will mobilise at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy
Where will the Money come from?

Source: EU Commission
Note: *The numbers shown here are net of any overlaps between climate, environmental and Just Transition Mechanism objectives.
Irish Domiciled Funds & the Opportunity

Irish Domiciled Funds, Total Net Assets & No. of Funds

Source: Irish Funds
The Sustainable Finance Disclosures Regulation
Background to Sustainable Finance

• The EU is strongly supporting the transition to a low-carbon, more resource-efficient and sustainable economy and has been at the forefront of efforts to build a financial system that supports sustainable growth

• “Sustainable finance” generally refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions, leading to increased investment in longer-term and sustainable activities

*Based on the European Commission’s definition of ‘sustainable finance’
Sustainable Finance Disclosure Regulation

- Disclosures to enable investors make informed choices
- Harmonised rules on transparency
- Integration of sustainability risks
- Principal adverse sustainability impact
## The Scope of SFDR

### Who is in Scope?

<table>
<thead>
<tr>
<th>Financial Market Participants:</th>
<th>Financial Product:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• an insurance undertaking which makes available an insurance-based investment product (IBIP)</td>
<td>• a segregated portfolio</td>
</tr>
<tr>
<td>• an investment firm which provides portfolio management</td>
<td>• an alternative investment fund (AIF)</td>
</tr>
<tr>
<td>• an institution for occupational retirement provision (IORP)</td>
<td>• an IBIP</td>
</tr>
<tr>
<td>• a manufacturer of a pension product</td>
<td>• a pension product</td>
</tr>
<tr>
<td>• an alternative investment fund manager (AIFM)</td>
<td>• a pension scheme</td>
</tr>
<tr>
<td>• a pan-European personal pension product (PEPP) provider</td>
<td>• a UCITS</td>
</tr>
<tr>
<td>• a manager of a qualifying venture capital fund</td>
<td>• a PEPP</td>
</tr>
<tr>
<td>• a manager of a qualifying social entrepreneurship fund</td>
<td></td>
</tr>
<tr>
<td>• a management company of an undertaking for collective investment in transferable securities (UCITS management company)</td>
<td></td>
</tr>
<tr>
<td>• a credit institution which provides portfolio management</td>
<td></td>
</tr>
</tbody>
</table>

- It is very important to note that separate and independent obligations apply to both:
  - the FMP and
  - the FP
- This will mean approvals for the Manager but also the Board of Funds
Disclosure Obligations per Fund Type

• There are disclosure obligations applicable to all fund types

• Also enhanced disclosure obligations for “ESG-Focused Funds”

<table>
<thead>
<tr>
<th>ESG-Focussed Funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG-labelled investment funds</td>
<td>Investment funds which promote environmental or social characteristics</td>
</tr>
<tr>
<td>Sustainable investment funds</td>
<td>Investment funds with a sustainable investment objective</td>
</tr>
<tr>
<td>Carbon reduction investment funds</td>
<td>Investment funds that aim to reduce carbon emissions</td>
</tr>
</tbody>
</table>
Taxonomy Regulation

• Harmonised classification system for economic activities that qualify as environmentally sustainable for investment purposes
• Applies to all financial products regardless of whether they are marketed as “green” or not
• In order to be considered an “environmentally sustainable investment” a fund must:
  1. Invest in economic activities that contribute substantially to one or more of 6 environmental objectives
  2. Do no significant harm to any of the 6 environmental objectives
  3. Comply with minimum human rights / social safeguards and
  4. Comply with minimum technical screening criteria

Environmental Objectives

1. CLIMATE CHANGE MITIGATION
2. CLIMATE CHANGE ADAPTATION
3. SUSTAINABLE USE OF WATER AND MARINE RESOURCES
4. CIRCULAR ECONOMY
5. POLLUTION PREVENTION
6. HEALTHY ECOSYSTEM
Disclosures for Taxonomy Aligned Sustainable Investments

- For each relevant product, the FMP will be required to state:
  
  - **How and to what extent** they have used the Taxonomy in determining the sustainability of the underlying investments
  
  - **To what environmental objective(s)** the investments contribute
  
  - **The proportion of underlying investments** that are Taxonomy-aligned, expressed as a percentage of the financial product. This disclosure should include details on the respective proportions of *enabling and transition* activities, as defined under the Taxonomy Regulation
  
  - The disclosures must be made as part of existing *pre-contractual and periodic reporting* requirements. These products also carry sustainability disclosure obligations under SFDR
The Timeline and Next Steps
This Was The Proposed Timeline …
Update from the European Commission

• Letter from the European Commission dated 20 October 2020 to EBA, EIOPA and ESMA

• These bodies were charged with developing draft regulatory technical standards (RTS) by 30 December 2020 in advance of SFDR coming into force on 10 March 2021

• Letter acknowledges that the unprecedented economic and market stress caused by Covid-19 necessitated an extension of the deadline for public consultation on the draft RTS

• However, it also states that “in terms of substance, the application of the Regulation is not conditional on the formal adoption and entry into force or application of the regulatory technical standards as it lays down at Level 1 general principles of sustainability-related disclosures in three distinct areas.”
Update from the European Commission

• **Integration of sustainability risks in the investment decision-making process**, FMPs must, in accordance with the applicable sectoral legislation, already consider sustainability risks in their internal processes.

• **SFDR requires transparency**, with no further details necessary in the RTS. As regards FPs that qualify under Articles 8 and 9 of SFDR, in accordance with applicable sectoral legislation, product manufacturers must already describe in the product documentation how the levels of sustainability are achieved. This means that the manufacturers must comply with the disclosure principles set out in Articles 8 and 9 of SFDR.

• **Transparency of adverse sustainability impacts**, numerous financial market participants currently comply with the non-financial reporting requirements under Directive 2013/34/EU or adhere to international standards and might consider using that information. Even without the full RTS, there are no impediments to financial market participants and financial advisers complying with the Level 1 requirements laid down in SFDR.

• What does this means for FMPs and FPs?
## What needs to be done by March 2021?

<table>
<thead>
<tr>
<th>SFDR Level 1 Provision</th>
<th>Applicable as at 10 March 2021</th>
<th>Scope of SFDR requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 3 – Transparency of sustainable risk policies <strong>WEBSITE</strong></td>
<td>✓</td>
<td>Financial market participants shall publish information on policies on the integration of sustainability risks in the investment decision-making process.</td>
</tr>
<tr>
<td>Article 4 – principal adverse sustainability impact (&quot;PASI&quot;) statement <strong>WEBSITE</strong></td>
<td>✓</td>
<td>Where principal adverse impacts of investment decisions are considered a financial market participant shall inter alia, publish on its website; (i) description of the principal adverse sustainability impacts (ii) a statement on its due diligence policies in relation to PASI and (iii) a brief summary of engagement policies. Compliance is on a &quot;comply or explain&quot; basis.</td>
</tr>
<tr>
<td>Article 5 - Remuneration Policies: the integration of sustainability risks <strong>WEBSITE</strong></td>
<td>✓</td>
<td>The remuneration policies of the financial market participant must contain information on how the remuneration policies are consistent with the integration of sustainability risks.</td>
</tr>
</tbody>
</table>
| Article 10 - Transparency on websites **WEBSITE** | ✓ | Financial market participants shall publish and maintain on their websites the following information:-

1. A list of each Article 8 Fund together with the information referenced above in respect of that Article 8 Fund;
2. A list of each Article 9 Fund together with the information referenced above in respect of that Article 9 Fund;
3. information on the methodologies used to assess, measure and monitor the E or S characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the E or S characteristics or the overall sustainable impact of the financial product;

The information should be disclosed so as to be clear, succinct and understandable to investors in a prominent, easily accessible area of the website. |
## What needs to be done by March 2021?

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</thead>
<tbody>
<tr>
<td>Article 6 – The integration of sustainability risks in pre-contractual disclosures</td>
<td>✔️</td>
<td></td>
</tr>
</tbody>
</table>
| PROSPECTUS | | Description of the manner in which sustainability risks are integrated in investment decisions in respect of financial market participants.  
Assessment of likely impact on the returns of the financial products.  
Compliance is on a "comply or explain" basis. |
| Article 8 - Funds which promote E & S characteristics ("Article 8 Fund") | ✔️ | |  
PROSPECTUS | | For Article 8 Funds, the financial market participant must disclose information consistent with:  
How the environmental (E) or social (S) characteristics are met;  
If an index is used, information on whether the index used is consistent with the E or S characteristics; and  
Inclusion of disclosure consistent with Article 6 above. |
| Article 9 – Funds with sustainable objective ("Article 9 Fund") | ✔️ | |  
PROSPECTUS | | For Article 9 Funds, the financial market participant/financial adviser must disclose information consistent with:  
Where an index has been designated as a reference benchmark (a) how that designated index is aligned to the objective; and (b) an why the designated index aligned with that objective differs from a broad market index.  
Where no index has been designated as a reference benchmark an explanation on how the sustainable investment objective is to be obtained.  
For an Article 9 Fund with a reduction in carbon emissions as its objective the financial market participant/financial adviser must include information how low carbon emission exposure in view of achieving the long-term global warming objectives of the Paris Agreement.  
Where relevant, disclosure should include where the index calculation methodology is found. |
What needs to be done by March 2021?

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<tbody>
<tr>
<td>Article 7 – Disclosure of the PASI at financial product level</td>
<td>✗</td>
<td>Article 7 does not apply until <strong>30 December 2022</strong> – i.e. the first full year of application of SFDR.</td>
</tr>
<tr>
<td>Article 11 – Transparency in Periodic Reports</td>
<td>✗</td>
<td>Obligations in 11(1) - 11(3) will not apply until <strong>1 January 2022</strong>, being the first full year after the implementation of the SFDR.</td>
</tr>
<tr>
<td>Article 12 - Review of disclosures</td>
<td>✗</td>
<td>Obligation to keep the website disclosures required by Article 3, Article 5 and Article 10 up to date.</td>
</tr>
<tr>
<td>Article 13 - Marketing communications</td>
<td>✗</td>
<td>Imposing obligations on financial market participants and financial advisers to ensure that their marketing materials do not contradict the information disclosed pursuant to SFDR.</td>
</tr>
</tbody>
</table>

- In practice the delay of the regulatory technical standards may require in scope firms to adopt a two step compliance. Further detail on the two step phased approach for Compliance is available in our recent industry update *Sustainable Financial Disclosures: Key Deadlines for Global Investment Managers*
How will AIFMD, UCITS and MiFID be impacted by the Sustainable Finance Framework?

- Organisational structures
- Identification of conflicts of interest
- Due diligence when investing under AIFMD and UCITS
- Suitability assessment and product governance under MiFID
How we are helping SFDR Compliance

- FMP Policies and Procedures
- FP Policies and Frameworks
- Disclosures in Pre-Contractual Documents
- Board Considerations
- Central Bank of Ireland Approvals
- Global Approvals and Registrations – GRS
- Other Workstreams
- www.maples.com/esg
Sample Client Checklists

• Investment Managers managing or distributing financial products in the EU

  Policies
  • Draft or update your internal policy describing how sustainability risks are considered in the investment process.
  • Amend the internal UCITS, AIFMD or other remuneration policy to ensure consistency with the consideration of sustainability risks

  Products
  • Identify specific products being marketed by your organisation according to key criteria

  Products
  • Website

  Products
  • Prospectus or Offering Document

  Products
  • Other Issues
Questions

Resources (www.maples.com/esg)
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