* **US Sustainable Finance Disclosure Regulation (SFDR) –** an US regulation that aims to improve the transparency and disclosure of environmental, social, and governance (ESG) information by financial institutions. It requires financial firms, including banks, to disclose how they integrate sustainability risks into their investment decision-making processes and how they consider adverse sustainability impacts in their products.

**Requirements under the SFDR**

The SFDR prescribes rules with respect to transparency on sustainability on the part of financial market participants and financial advisers. Financial market participants include, among others, banks, investment firms, pension funds, asset managers and life insurers (insofar as they offer insurance-related investment products). The SFDR also applies to financial advisers with three or more employees that provide investment advice or advice concerning insurance-related investment products.

**Transparency**

Financial market participants must provide transparency on:  
  
 • the consideration of adverse sustainability impacts in the investment policy, at entity level and at product level (Articles 4 and 7 of the SFDR);  
 • the integration of sustainability risks, the sustainability risk policies and the remuneration policies in relation to the integration of sustainability risks (Articles 3, 5 and 6 of the SFDR);  
 • the manner in which a product gives substance to sustainable objectives or characteristics, both pre-contractually and on a periodic basis (Articles 8, 9, 10 and 11 of the SFDR).  
  
 Financial advisers must provide transparency on:  
  
 • the consideration of adverse sustainability impacts in the investment or insurance advice (Article 4);  
 • the integration of sustainability risks, the sustainability risk policies and the remuneration policies in relation to the integration of sustainability risks (Articles 3, 5 and 6 of the SFDR).

**Transparency on considering adverse sustainability impact in investment decisions**

Under the SFDR, financial market participants must place a statement on their website which makes it clear whether they consider the adverse sustainability impact of their investments. If that is the case, they must also explain how their due diligence policy is tailored to that impact. In doing so, they may take the scope, nature and complexity of the activities and products into account.  
  
 The SFDR obliges financial market participants to measure the principal adverse impacts of investment decisions by means of a series of sustainability factors, and to communicate the results to customers. Initially, the adverse impacts will have to be made transparent at company level, but at a later stage also at the level of individual sustainable financial products.  
  
 If market parties do not consider the adverse sustainability impact, they must explain this in a statement on their website, in the manner prescribed by the SFDR. In that case, the financial market participant must also indicate whether and when it intends to consider the adverse impacts. Such a negative statement is only permitted for market parties with fewer than 500 employees.  
  
 Financial advisers, too, must disclose on their website whether they consider the principal adverse sustainability factors in their investment or insurance advice. If these factors are not (yet) considered, the financial adviser must also indicate whether and when it intends to do so.

**Transparency on sustainability risk policies and the integration of these risks in the remuneration policies**

In addition, financial market participants and financial advisers must publish information on their website about their policies on the integration of sustainability risks in their investment decision-making process.  
  
 They must also disclose in their remuneration policies how those policies are consistent with the integration of sustainability risks. This information must also be published on the companies’ websites.

**Transparency on the integration of sustainability risks in pre-contractual disclosures**

Each financial market participant must ensure that the pre-contractual disclosures describe:  
  
 • the manner in which sustainability risks are included in the decision-making process regarding investment decisions, investment advice or insurance advice respectively; and  
 • the probable effect of the sustainability impact on the returns of the financial product, or  
 • if they expect that sustainability risks will not play a part, a clear and concise explanation (comply-or-explain).

**Transparency on sustainability characteristics and/or objectives of sustainable financial products**

Under the SFDR, financial market participants must provide transparency on the sustainability characteristics and objectives of their financial products in pre-contractual disclosures, in product information on the website and on a periodic basis.  
  
 The exact transparency requirements under the SFDR depend on the categorisation of the type of product. The SFDR distinguishes between financial products that promote environmental or social characteristics and financial products that have sustainable investments as their objective. A third category comprises the financial products that are not promoted as sustainable.  
  
 This does not mean that each product with, for instance, sustainable characteristics has the same degree of sustainability. What it does mean is that transparency must be provided for each product that is marketed as sustainable, to whatever degree, on how substance is given to the sustainability characteristics.  
  
 The objectives or characteristics of sustainable financial products are decisive for the characteristics of a product, which makes them important in assessing whether products match clients’ preferences and expectations. If market parties formulate a sustainable objective or characteristic, they will have to account for this (retrospectively) at regular intervals: does the product live up to its promise? This account will have to be included in the designated regular periodic reports.