



ESG

Reporting Guide

For Investment
Management Firms
SFDR and PRI

ESG and impact investing advisory with the goals of risk management and value enhancement

Blue Dot Capital is a sustainable finance consultancy. We partner with investors and investment managers to support the end-to-end development and execution of ESG and impact investing capabilities across asset classes. Our clients and partners include asset managers, alternative investment firms, and wealth management firms.

ESG Reporting Guide For Investment Management Firms

SFDR and PRI

Foreword

There have been a number of reporting guidelines developed for businesses and investors to assess Environmental, Social, and Governance (ESG) performance and impact.

In part one of our two-part series on ESG reporting, we provide comprehensive insights into 2 frameworks that are particularly important for investment management firms:

1. Sustainable Finance Disclosure Regulation (SFDR), a vital component of the EU Action Plan on Sustainable Growth that came into effect on March 10, 2021
2. UN-supported Principles for Responsible Investment (PRI)'s redesigned signatory investor reporting framework

In the second part of our series on ESG reporting, we will detail a range of global ESG reporting standards and frameworks along with an overview of ESG reporting platforms available to investors to execute and systematize their ESG reporting.

Our team monitors global ESG reporting guidelines and regulations to provide actionable insights to our investment management clients to create comprehensive ESG programs to manage risks and improve investor outcomes.

Please feel free to email us at hello@bluedotcapital.co with your feedback and questions.

Sincerely,
Team Blue Dot Capital

Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) aims to address greenwashing, enhance transparency, and promote long-term sustainable investments in the financial services sector. SFDR aims to harmonize sustainability-related disclosures for financial market participants (FMPs) and financial advisers (FAs).

Scope of Disclosure

The SFDR applies to EU-regulated FMPs and FAs.

Financial Market Participants (FMPs)

- Insurance undertakings which make available insurance-based investment products (IBIP)
- Investment firms and credit institutions providing portfolio management
- Institution for occupational retirement provision (IORP)
- Manufacturers of pension products
- Alternative investment fund managers (AIFM)
- Pan-European personal pension product (PEPP) providers
- UCITS management companies
- Venture capital fund managers
- Social entrepreneurship fund managers

Financial Advisers (FAs)

- Insurance intermediaries providing insurance advice with regard to IBIPs
- Insurance undertakings providing insurance advice with regard to IBIPs
- Credit institutions providing investment advice
- Investment firms providing investment advice
- AIFMs providing investment advice
- UCITS management companies providing investment advice

Financial Products

- Managed portfolio
- Alternative investment fund (AIF)
- IBIP
- Pension product
- Pension scheme
- UCITS
- PEPP

Source: SFDR Regulation (2019)



Source: SFDR Regulation (2019)

Key Concepts

SFDR’s disclosure obligations focus on two key concepts: sustainability risks, and Principal Adverse Impacts (PAIs). Sustainability risks are ‘ESG events or conditions that could have a negative material impact on the value of the investment’, whereas adverse impacts are ‘an entity’s negative impact on environmental and social issues.’

PAIs are a set of core environmental and social indicators across the following themes:

- Climate and other environment-related issues
- Social and employee, respect for human rights, anti-corruption, and anti-bribery matters

In February, the European Supervisory Authorities (ESA) submitted the final report on draft Regulatory Technical Standards (RTS) to the European Commission. The RTS provides a template for the Principal Adverse Impacts Statement to report on environmental and social indicators. While the ESAs initially proposed a core set of 32 mandatory indicators, the final draft RTS zeroed in on 18 mandatory indicators to denote PAIs. The table below provides an overview of the required indicators to be disclosed under the statement^(source).

Financial Products	Set of Mandatory Indicators
Investee companies	<ul style="list-style-type: none"> • 9 environmental indicators across the areas of GHG emissions, biodiversity, water, and hazardous waste • 5 social indicators on social and employee matters
Sovereigns and supnationals	<ul style="list-style-type: none"> • 1 environmental indicator related to GHG intensity • 1 social indicator related to investee countries subject to social violations
Real estate assets	<ul style="list-style-type: none"> • 2 environmental indicators related to fossil fuels and energy efficiency

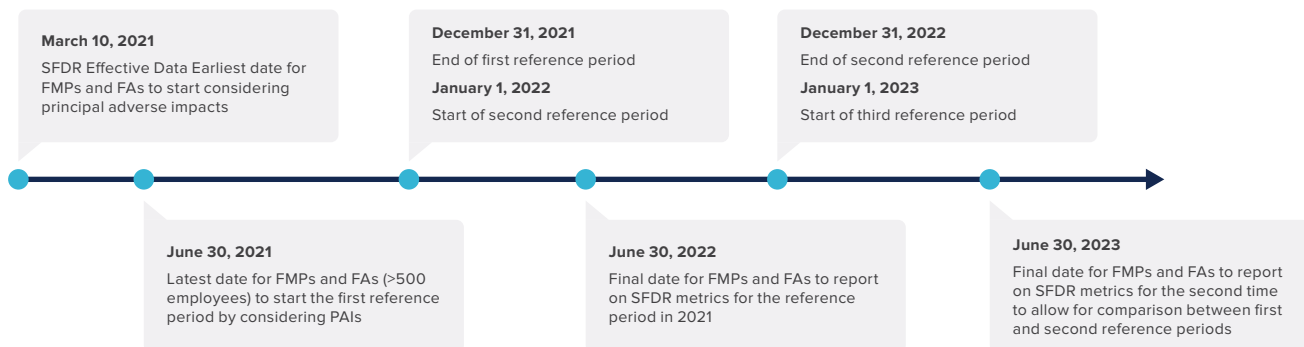
Source: Final Report on draft Regulatory Technical Standards (2021)

Disclosure Obligations

As per the draft RTS, entities that fall under the scope of SFDR must disclose sustainability information on both entity-level and product-level.



Timeline



Notes: The RTS establishes a framework of reporting on PAI by June 30 each year with a previous calendar year's reference period. The ESAs have proposed the draft RTS to be applicable from January 1, 2022.

Source: SFDR Regulation (2019), Final Report on draft Regulatory Technical Standards (2021)

SFDR Compliance Platforms

Organization	Solution	Organization	Solution
 acarda YOUR RESETECH PARTNER	ESG SFDR	 FE fundinfo	SFDR reporting module
 PICTET	ESG platform	 FIN FILES	SFDR/Taxonomy reporting
 SUSTAINALYTICS	PAI Data Solution	 STATE STREET	ESG Risk Analytics
 APEX	Invest Check		

Principles of Responsible Investment | PRI Investor Reporting Framework

PRI signatories, i.e., investment managers, asset owners, and service providers, must report on their responsible investment activities annually. Components of investor reporting framework include:

1. Senior Leadership Statement.
2. Organizational Overview.
3. Investment & Stewardship Policy (ISP) with sub-sections on policy and governance, stewardship, climate change, sustainability outcomes 'core', transparency, and confidence-building measures
4. Asset-class-specific modules on listed equity, fixed income, real estate, hedge funds, SAM (manager selection, appointment, and monitoring), private equity, infrastructure
5. Sustainability outcomes

In 2021, the redesigned PRI investor reporting framework was launched that reflects the current maturity and breadth of ESG integration approaches. Below are a few key elements of the new reporting framework:

- 'Core' and 'plus' indicators cut down by around 50% compared to that of 2020 to make the format simpler, shorter, and more consistent
- Senior leadership statement introduced to raise awareness and accountability of PRI reporting
- Sustainability outcomes that go beyond financially material ESG analysis and incorporation
- Evolution of PRI assessment from E-A+ grading to a five-star grading system^(source)

Investor reporting cycle started on February 1, 2021 and ends on April 29, 2021.



Policy · Integration · Product · Reporting · Communications

We partner with investment managers to create comprehensive ESG and impact investing programs to manage risks and improve investor outcomes.

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