



EU SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

A Cushman & Wakefield Overview



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WHAT IS THE SFDR?

The SFDR forms part of the EU Sustainable Finance Action Plan (SFAP) which forms part of the European Green Deal (which aims for no net GHG emissions by 2050).

The SFAP includes 10 actions focused on:

- Mainstreaming sustainability risk management
- Reorienting capital flows
- Fostering transparency and long-termism within the financial market

The SFDR forms part of the objective to mainstream sustainability risk management.

The aim of the SFDR is to ensure sustainability risks and the consideration of adverse sustainability impacts are integrated into financial participants' policies and product processes.

Other outputs of the EU Sustainable Action Plan include: The EU Taxonomy (this forms part of the EU SFAP focus to reorient capital flows towards sustainable investments) which classifies what activities are environmentally sustainable. It provides detail on what thresholds activities must meet to be recognised as environmentally sustainable. The aim is to reduce greenwashing in the market.

The Corporate Sustainability Reporting Directive (CSRD) will amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD). It will extend sustainability reporting requirements to all large and listed European Union companies (50,000 compared to the current 11,000). This forms part of the SFAP focus on fostering transparency within the financial markets.



The SFDR is relevant to those who manage or market real estate indirectly. It states that specific disclosures must be made to ensure sustainability risks are being integrated into business decision processes. Those who must comply include:

- Financial Participants i.e. real estate fund managers (Alternative Investment Fund Managers), investment firms that provide portfolio management, insurance undertakings or manufacturers of pension products
- Those who provide investment advice i.e. real estate fund managers, insurance intermediaries or undertakings
- Real estate funds (Alternative Investment Funds), a portfolio that is managed on behalf of clients (which includes a financial instrument) or pension products





WHAT DO REAL ESTATE PARTICIPANTS AND FUNDS NEED TO DO?

THEY NEED TO MAKE A SERIES OF SUSTAINABILITY RELATED DISCLOSURES
(list is not exhaustive)

FUND MANAGERS

Website

- Principal Adverse Impacts (PAI) Statement (including a statement on due diligence policies)*
- Sustainability Risk Policies
- Remuneration Policy*

FUND ADVISOR

Website

- Principal Adverse Impacts (PAI) Statement
- Sustainability Risk Policies
- Information on the types of financial products advised on and the associated sustainability risks
- Remuneration Policy*

FUNDS / PRODUCTS

Financial products that are neither 'light green' or 'dark green'

Financial products considered 'light green' as they promote among other characteristics, environmental or social characteristics, or a combination of those characteristics

Financial products considered 'dark green' as have sustainable investment as its objective and are using a designated index as a reference benchmark

Prospectus/ Pre-contractual Disclosure

- The manner in which sustainability risks are integrated into investment decisions*
- The results of an assessment of the likely sustainability risks on the returns of financial products*
- Information on how environmental or social characteristics are met or how a reference benchmark index is consistent with those characteristics
- Information on how the designated index is aligned with the objective, and why that index differs from a broad market index (if no index, information on how the objective is to be reached)

Website

- A description of the environmental or social characteristics or the sustainable investment objective
- Information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments

Periodic Reporting

- The sustainability-related impact of the product

*in these cases participants need to comply or explain why they do not add the disclosure.

TIMELINE

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- 2 FEBRUARY 2021** Draft sustainability indicators in relation to adverse impacts on the climate and other environment-related adverse impacts was published
 - 10 MARCH 2021** Real Estate Fund Managers to apply most of the provisions relating to sustainability related disclosures and all Real Estate Funds marketed within the EU should be SFDR compliant
 - 30 JUNE 2021** All financial participants with more than 500 employees must share a statement on their due diligence policies with regard to sustainability risks (including how they identify risk, their engagement policies, and their alignment to the Paris Agreement)
 - 20 DECEMBER 2021** Sustainability indicators in relation to adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters will be published.
 - 1 JULY 2022** The first reporting year on environment and social related impacts (although reporting on scope 3 will start from 1 January 2023)
 - 30 DECEMBER 2022** All financial products must share information or a statement on how SFDR relevant Indicators on sustainability issues are considered
 - JUNE 2023** Environment-related indicators reported with reference to the previous calendar year. Moving forward, all financial participants are to publish an Impacts Statement by June 30th.

THESE ARE THE REAL ESTATE INDICATORS

BY 1 JULY 2022 REAL ESTATE PARTICIPANTS MUST START MONITORING AGAINST THE FOLLOWING TWO INDICATORS



Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels



Share of investments in energy inefficient real estate assets

BY 1 JULY 2022 REAL ESTATE PARTICIPANTS MUST START MONITORING AT LEAST ONE OF THE FOLLOWING INDICATORS



GHG emissions generated by Real Estate assets (Scope 1, 2 and from 1 January 2023 Scope 3)



Share of raw materials used in new construction and major renovations (compared to total building weight)



Share of non-vegetated surface area roofs compared to the total surface area



Energy consumption intensity (GWh per m²)



Waste production in operations

Cushman & Wakefield is here to support you with your compliance requirements to the SFDR. If you think you need to comply or you know you do and would like support, please get in touch with Lucy Matchett from the Real Estate Strategy & Innovation Service Line (details overleaf).





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