



SFDR Level 2 Delayed to 31 December 2022

December 2021

On 25 November 2021, the Commission wrote to its co-legislators confirming a further six-month delay to the application date of SFDR Level 2 from July 2022 until 1 January 2023. SFDR Level 2, to be based on ESA-adopted regulatory technical standards (**RTS**), will introduce detailed and prescriptive disclosure requirements for green funds in scope of SFDR Articles 8 and 9 and requirements for fund managers' disclosure of the principal adverse impact of investment decisions under SFDR (see [here](#) and [here](#) for further details).

In addition to confirming the delayed application of SFDR Level 2, the Commission's letter also addresses industry questions around proposed transitional arrangements for the publication of principal adverse impact (**PAI**) statements in accordance with SFDR manager-level rules for the disclosure of the PAI of investment decisions.

According to the ESA-adopted RTS (originally due to take effect on 1 January 2022) the first PAI statements, taking account of the quantitative assessment of PAIs using mandatory and optional PAI indicators appended to the RTS, were due for publication on 30 June 2023. Such statements are required to disclose on the quantitative assessment of PAIs, using the PAI indicators, on four separate calculation dates over the course of 2022. Given the delayed application of SFDR Level 2 (first until July 2022 and now until January 2023), industry had requested that the PAI disclosure rules be similarly delayed with the first PAI statement not becoming due before June 2024 (incorporating quantitative assessment of PAIs over the course of 2023).

However, the Commission's recent letter notes that the delayed application date of SFDR Level 2 is considered to negate the necessity for the PAI transitional arrangements set out in the ESA-adopted RTS and, as such, the first PAI statement using the PAI indicators will be required by 30 June 2023 referencing the quantitative assessment of PAIs in the period 1 January to 31 December 2022.

As a result, any fund managers' assessment of PAIs in compliance with SFDR must begin from 1 January next, a full 12 months before SFDR Level 2, including the mandatory and optional PAI indicators, is scheduled to take effect.

Next Steps

The finalisation and adoption by the Commission of the ESA-adopted RTS as SFDR Level 2 is expected in the coming weeks, however fund management companies may now adjust compliance planning to take account of the revised application date of 1 January 2023. Fund management companies should note however, that the delayed application of SFDR Level 2 will not impact the 1 January 2022 deadline:

- for fund management companies opting to disclose PAIs, to begin assessing PAIs using the PAI indicators set out in the ESA-adopted RTS (see [here](#) for further details).

- for compliance with SFDR Taxonomy-related prospectus and annual report disclosures (see [here](#) for further details).
 - for compliance with the SFDR annual report disclosures for funds in scope of SFDR Article 8 and Article 9 (see [here](#) for further details).
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