STUDY

Ready or not...

A study exploring the state of SFDR reporting for investors like you.

worldfavor

Worldfavor is on a mission to make sustainability mainstream. Our global sustainability platform is used by more than 30,000 organizations in 140 countries to easily access, share, and gain insights from sustainability data in one place, enabling sustainable decisions at scale.

Better for your business. Better for our world.

Hi there, 👋

If you're here, you've probably heard about that piece of major legislation affecting financial market participants (FMPs) all over the world: the EU's Sustainable Finance Disclosure Regulation. Or, as it's better known: **the SFDR**. And we that bet you – like so many others out there – are still left grappling with a question mark or two.

The SFDR has been a source of serious confusion for investors... pretty much since the moment it was enacted in 2021. So we decided to do a little digging, tap into our extended network, and send out a survey **exploring the state of SFDR reporting today**. (Spoiler alert: turns out a lot of people are wondering the very same things.)

We heard back from investors across industries, across geographies – from those already in the thick of it and those bracing themselves for the unknown ahead. This survey will show you how other FMPs **perceive SFDR, how they're working with it in practice today, and what challenges and opportunities** they see for the future of reporting.

Do investors **actually** understand what's expected of them when it comes to getting SFDR compliant? We're about to find out.

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Get to know our respondents
– and where you fit in.

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How investors are dealing with
data collection.

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There's tons of light at the
end of the SFDR tunnel.

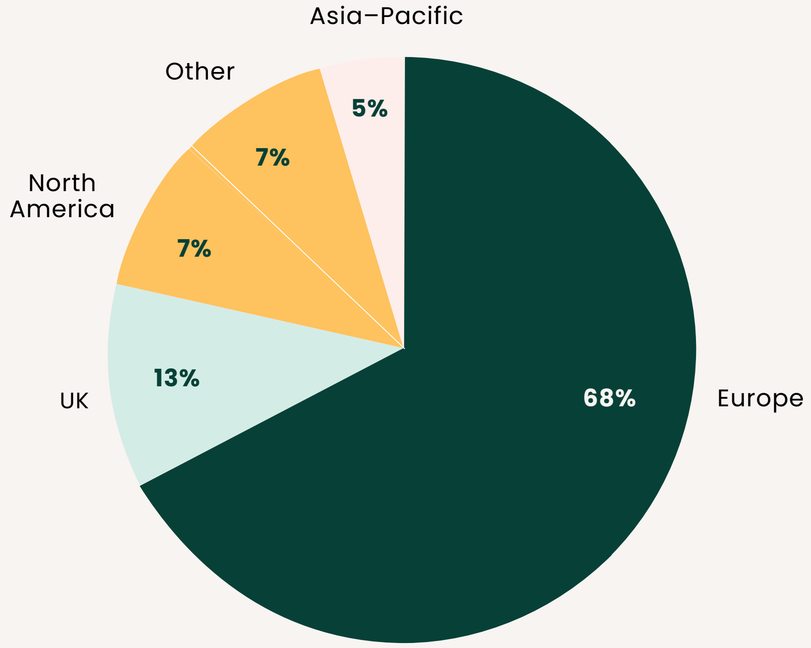
The who of it all

CHAPTER 1

First things first: who took this survey?

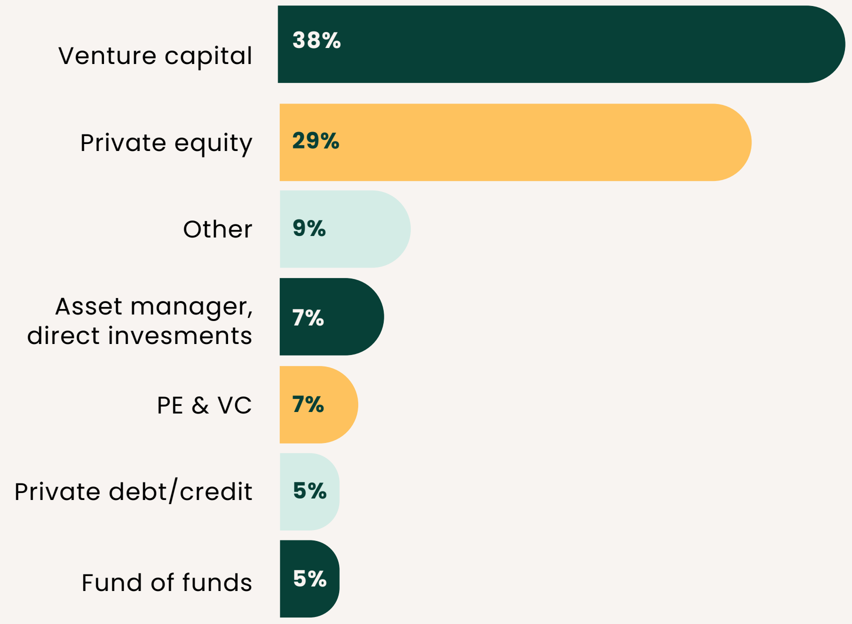
The SFDR applies to financial market participants (FMPs) within the EU who have **at least 500 employees**, including (but not limited to!) investment firms and venture capital funds, asset managers and financial advisors, and even banks and credit institutions offering portfolio management.

Naturally, we hoped to hear from FMPs in a variety of sectors, with different strategies and focus. In this chapter, you'll get to know our survey respondents a little better – and figure out where you fit in.

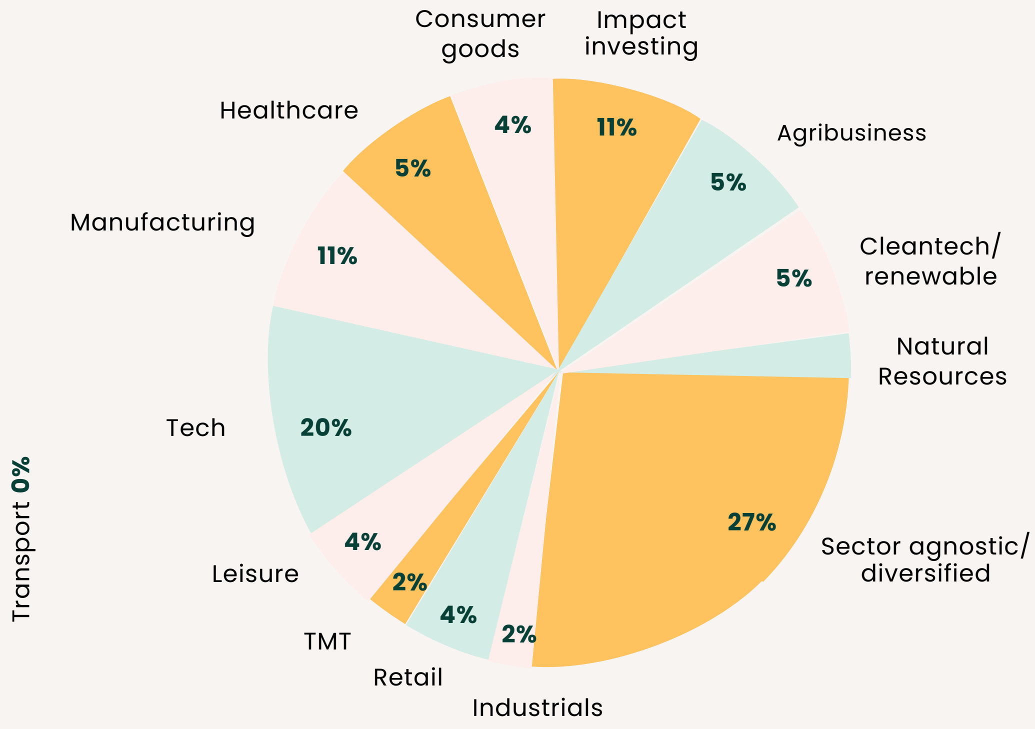


Location of fund

Number of portfolio companies



Investment strategy



Investment sector

Although the SFDR is an EU regulation, funds located outside of the EU but **marketed there** also fall under its disclosure requirements. Still, it's no shock that the majority of our respondents are located in Europe - a whopping **68%**. While the great majority of them are VCs (**38%**) and PEs (**29%**), most reported to be sector agnostic or diversified (although the tech sector was highly represented with **20%**.) Impact investing (**11%**) and manufacturing (**11%**) rounded out our top three.

CHAPTER 2

Positioning your fund for the SFDR

Because the SFDR will have such an extensive impact worldwide, many consider it to be a point of no return for the financial market: it'll only get greener from here. But there isn't a one-size-fits-all solution for holding FMPs accountable, and of course, the SFDR isn't a blanket piece of legislation - it addresses plenty of complexity.

Sending out this survey, we expected to hear back from investors at **all stages of their sustainability journey**. But we saw something else interesting, too.

Articles 6, 8, 9 – easy as 1, 2, 3

How you market your funds each year will determine your reporting requirements. Under the SFDR, you need to classify yourself as an **Article 6, 8, or 9 fund, depending on your level of sustainability**. The aim is to create transparency around your investment strategy, as well as to prevent greenwashing and claims that your financial products are sustainable, when they actually aren't.

If your fund reports under Article 8 or 9, you'll have stricter disclosure obligations to align with than Article 6 funds.

> **Okay, so what's the difference between...?**
>
> **Article 6:** Funds **without** a sustainability scope
>
> **Article 8:** Funds that **promote** environmental or social characteristics
>
> **Article 9:** Funds that have sustainable investment as their objective

Keep reading

The **Worldfavor Sustainability Blog** helps you stay on top of the latest news, trends, and tips in the world of sustainability. From upcoming regulations to the next batch of buzzwords, we'll break it down so you're ready for what's next.

Browse the entire blog here

Quick links

Webinar – exploring the results of this survey!

Webinar – the benefits of using a digital tool

Guide – our how-to's for dealing with data

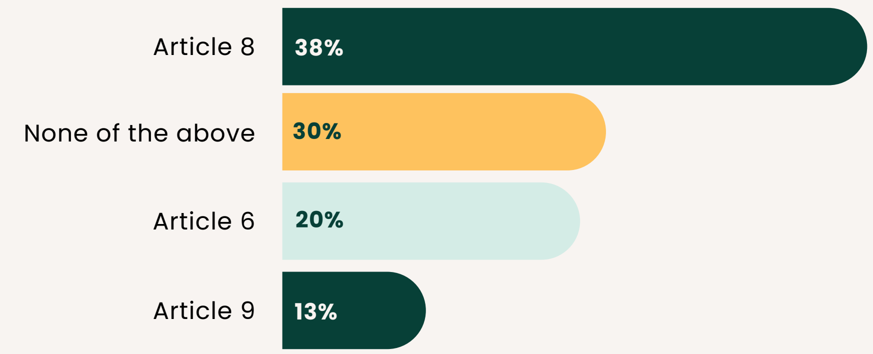
Customer Story – see how StartGreen Capital uses Worldfavor

It's looking pretty green out there

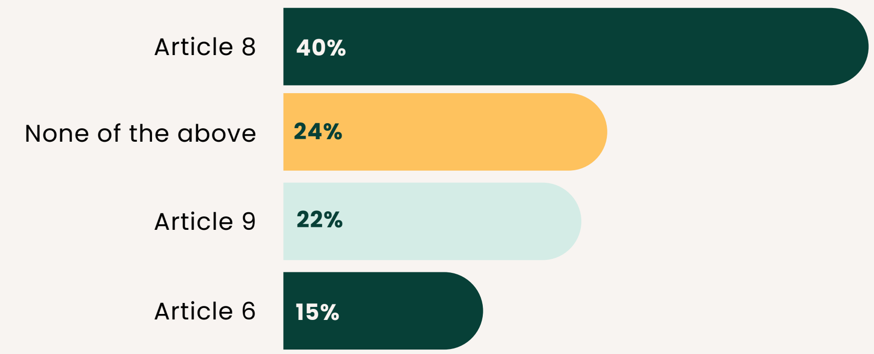
Nearly half our respondents are already working with sustainability in some capacity: For the upcoming reporting period (covering the 2022 fiscal year), **38%** will market their funds under **Article 8**, while **13%** plan to report under **Article 9**. On the other hand, **20%** of respondents will report under **Article 6**, without substantial sustainability characteristics.

But the answers showed something else interesting, too. A significant chunk (**30%** – nearly an entire third!) of respondents answered "**none of the above**," which suggests they won't be reporting under SFDR this year. That number dips down to **24%** for the period covering the 2023/2024 fiscal years, but still – at first, those answers left us scratching our heads a bit.

Why would so many FMPs who aren't required or planning to comply with SFDR still answer a survey dedicated entirely to that very topic?

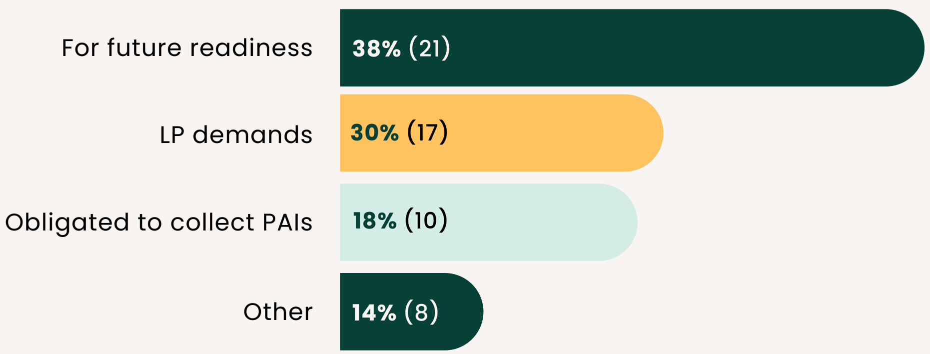


How do you market your funds?



If you are planning a new fundraise for 2023/24, which article will you be aiming for?

The (actually not-so) simple answer?



What is your primary reason for collecting SFDR data?

The SFDR is a new and extremely complicated piece of legislation, and we think the high percentage of respondents answering **"none of the above" on the last page** reflects the high level of curiosity (and arguably, high level of uncertainty) around what it means for the future of sustainability reporting.

When we look at the spread of answers to the left, around half of respondents (**48% in total**) collect data due to some type of requirement, either because they're personally **obligated to collect PAIs** or answering **LP demands**. And yet, **38% percent** of respondents are simply **"preparing for future readiness,"** suggesting these FMPs are already thinking far in advance.

Just like the business world scrambled to make sense of GDPR back in 2018 – SFDR is setting a new baseline for how FMPs will work with data going forward. Whether or not they need to comply, investors can see the SFDR as a **template for what information to request** from their portfolio – particularly as sustainability data becomes necessary to build resilient investments.

If your fund is too small to be in-scope, or located outside of the EU, the SFDR still provides a **valuable benchmark** for how to work with sustainable investments. It asks for the same metrics from all companies, and in standardizing that data – it becomes truly comparable. **In other words: FMPs know that the SFDR is legit.** If you follow its structure, you can rest assured that you're looking into the right things.

The ups and downs of data

CHAPTER 1

So, let's break this down

It's time to make the SFDR a little more bite-sized (and work up your appetite for data). We've already talked about the sweeping reach of the SFDR – the impact it'll have on you and your investments. So this feels like a good moment to remember the **why** behind it all. The SFDR's main purpose is to reorientate capital towards **more sustainable businesses** and to **create transparency** in the financial world. And in this day and age, what makes that possible? Data, of course!

In this chapter, we'll show you how respondents are facing down data collection, adjusting to the new requirements, and making sense of what and how they need to collect.

What data is really required?

FMPs are obligated to disclose information on their sustainability practices **(firm-level)** and their financial products **(product-level)**. They also need to report on the Principal Adverse Impacts (PAIs) for each. These are a list of both **mandatory and voluntary sustainability indicators** – such as GHG emissions, human rights, and waste management – that should be taken into account for your investment policies and decisions. The goal is for all FMPs to take a similar approach when reporting their sustainability information.

Track your PAIs in Worldfavor
Export a pre-populated PAI statement with just one click.

CLICK HERE TO LEARN MORE

What the #$%@! are the PAIs?

The PAIs consist of **14 mandatory and 31 voluntary indicators** focusing on environmental and employee matters, respect for human rights, and anti-corruption and anti-bribery.

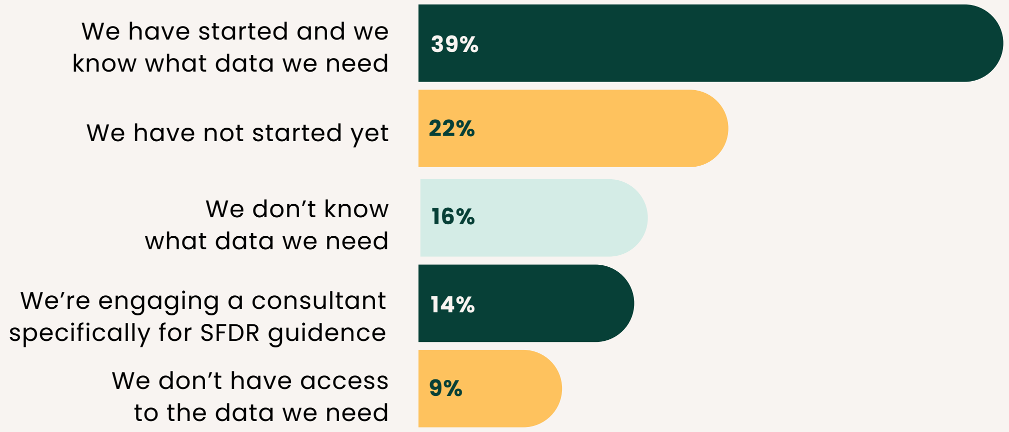
Investors must report on all 14 core indicators, plus choose at least two more (one related to climate and the environment, and one related to social issues and employees).

Check out our blog for the full list.

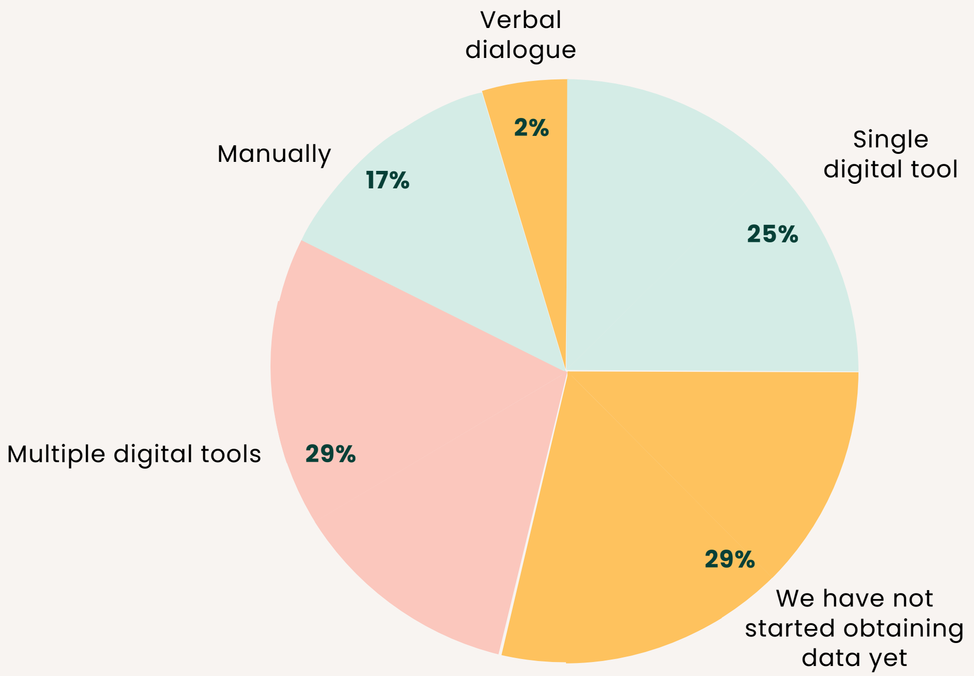
Tick tock, tick tock

Now you might be thinking: how are you going to get your hands on all that data? Well, even if you've just started your sustainability journey – working from spreadsheets while you search for something more sophisticated – the most important thing is to be proactive. You need **time** to get buy-in from internal stakeholders, **time** to get familiar with the SFDR, and **time** to gather the information you need.

Coming into this first mandatory reporting period, your wheels should already be in motion. If you aren't already on top of it, it's almost too late.



How far have you come with data collection?



How do you obtain the data you need?

Luckily, **39%** of our respondents already know what data they need to collect and have started the process of gathering it. But the smooth sailing pretty much ends there: **22%** say they haven't started yet, and **16%** say they don't know what data they need in the first place. (A likely-very-frustrated) **9%** know what they need, but don't have access to it – and **14%** have simply thrown up their hands and brought in an external SFDR consultant (a pretty expensive solution).

When asked **how** they're obtaining the data they need, an equal number of people (**29%**) again either hadn't started or said they're using multiple digital tools to collect – so they're not able to manage and review their data in one single place. Some are even going about data collection the old fashioned way: manually (**16%**) or through verbal dialogue (**2%**).

And yet: **25%** of respondents have landed on one tool to rule them all (and we have a hunch about which one they mean).

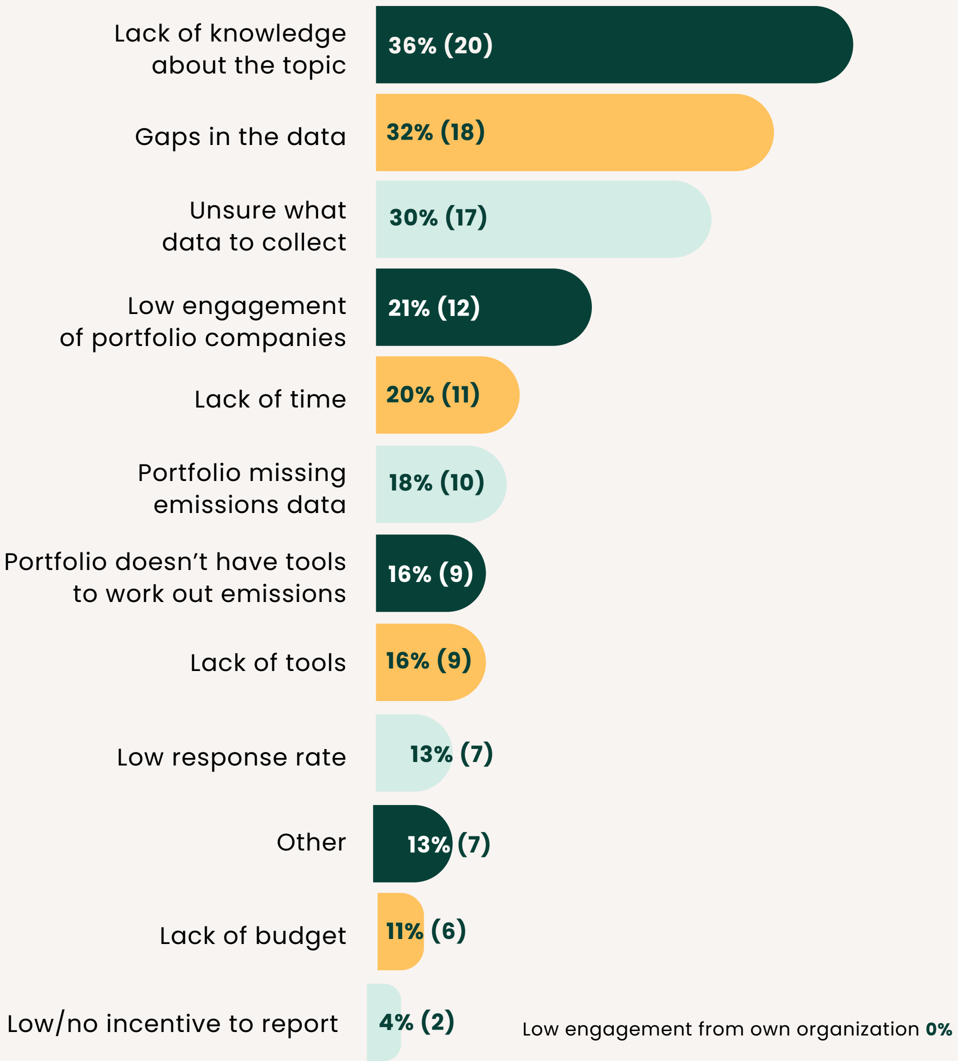
CHAPTER 2

The flip side of reporting

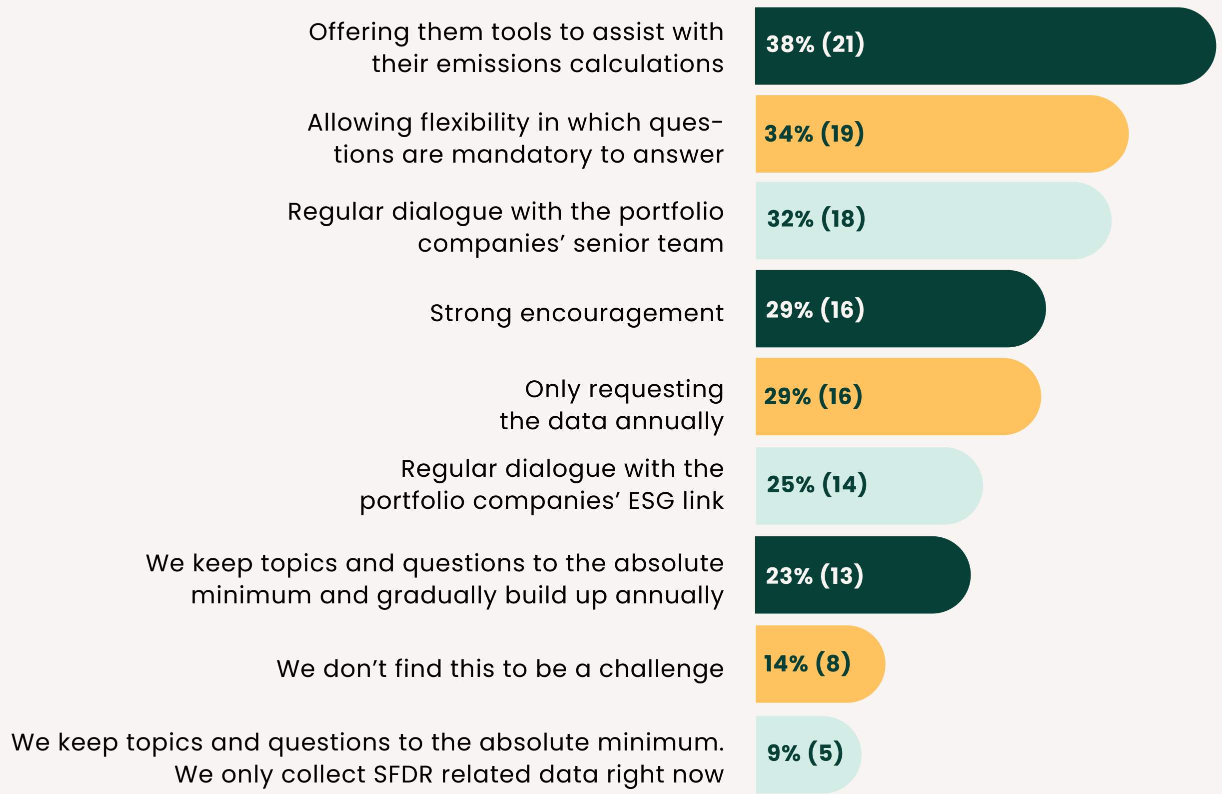
Let’s face it: asking your portfolio to provide the data you need for your SFDR report…is kind of a big request. As important as sustainability data is, it’s still a new phenomenon, and as this study has shown: **not everyone is at the same point in their sustainability journey**. Some companies are smaller, lack the right resources, or could be collecting the data you’ve requested for the very first time.

In this chapter, you’ll get a peek at how other FMPs are handling these challenges – and why they’re so hard in the first place.

What are your main challenges with collection? (Choose up to 3)



What are you doing to prevent burdening portfolio companies? (Choose up to 3)



Again, we see lack of knowledge, gaps in data, and confusion over what to even collect topping the charts when it comes to challenges faced by investors. But we also see **huge efforts** to open up new channels of dialogue with portfolio companies, and to provide them with the guidance, support, and tools needed to succeed. The SFDR is a regulation aimed at investors, not their portfolio companies. So finding ways to empower your portfolio is essential – **it only benefits you**.

The good news

CHAPTER 1

Headed towards what's next

We've gone on and on about why you should be gathering data to report right now (seriously, **right now!**), already preparing for the road ahead. With a deeper understanding of sustainability and its **potential risks on your portfolio**, you know how important it is to set a bullet-proof data collection strategy. So now it's time to take that first big step forward.

In this chapter, you'll hear from FMPs – in their own words – about what opportunities they see for the future of sustainability reporting, plus hear more about the cutting-edge tool right at your fingertips.

What are your hopes for the future of reporting?

A smooth and efficient process

Data is clear and easy to collect (integrated in workflow) and doesn't take a lot of time and money

More clarity in regulations

More clarity on how data calculations should be made

Lower pricing

EASY TO FILL OUT DATA FORMS!

More concise data requests

Data reporting annually rather than quarterly, as per directive

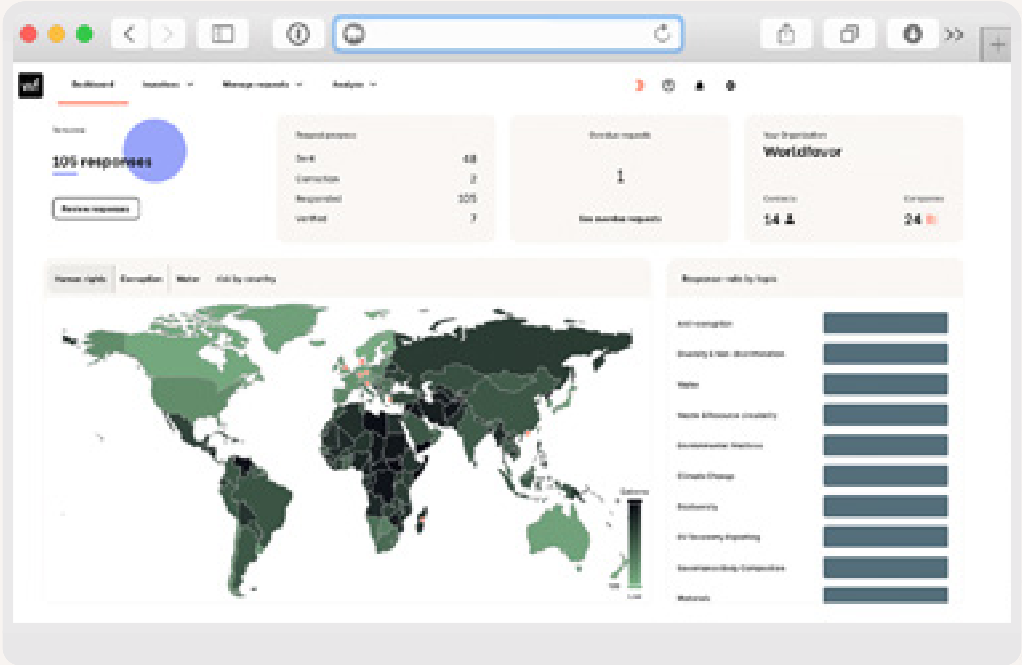
Guidance on what data is required – depending on company size or development stage

Understanding why it's important

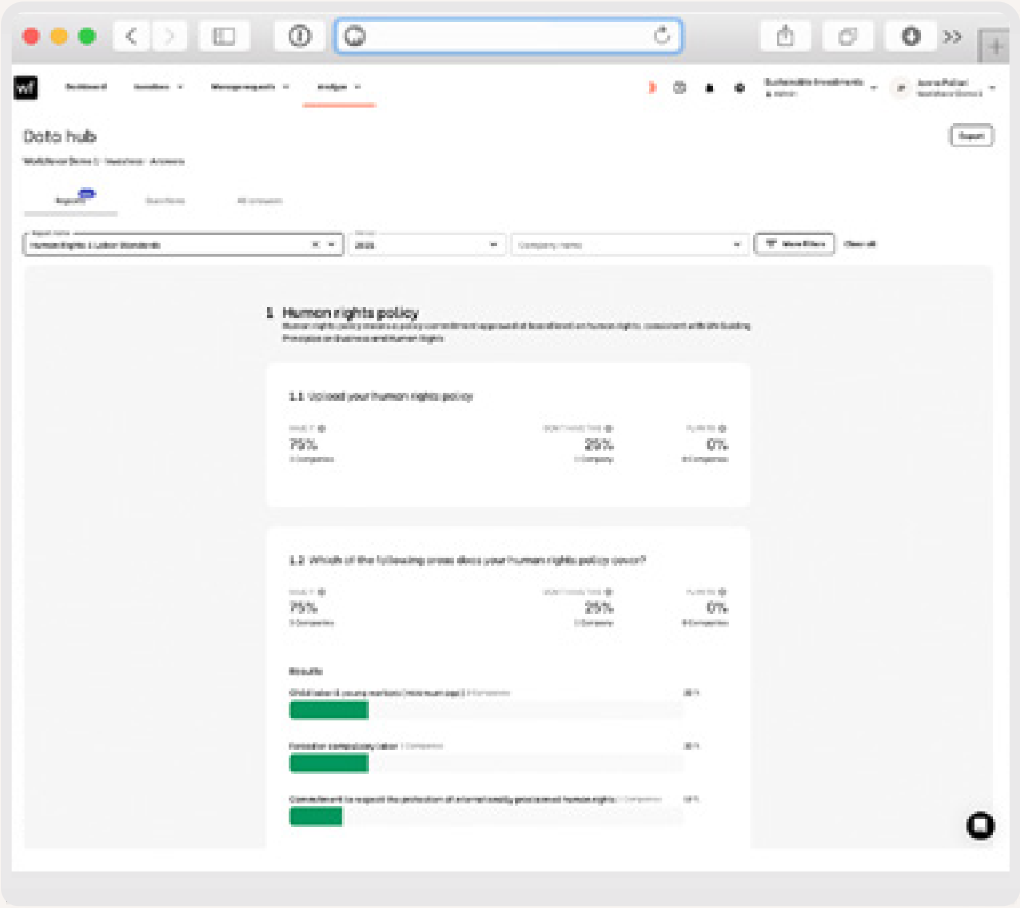
I don't believe the metrics and related indicators are universally synced. Also, there are multiple or varying sources.

Online class of how to do it

Alignment across all sectors. Transparency



A peek inside our Sustainable Investments solution.



Keep track of ESG dta from all your portfolio comanies.

Speaking of "a smooth and efficient process..."

We're here to make everything a little easier. (Actually, a lot easier.) Worldfavor allows investors to future-proof their portfolio and create positive, long-term impact. Our Sustainable Investments solution simplifies the journey for you and your portfolio companies, empowering seamless integration, monitoring, and reporting.

Let's chat!

Book a demo to hear more about how Worldfavor can help you collect, analyze, and report on your portfolio's sustainability data.

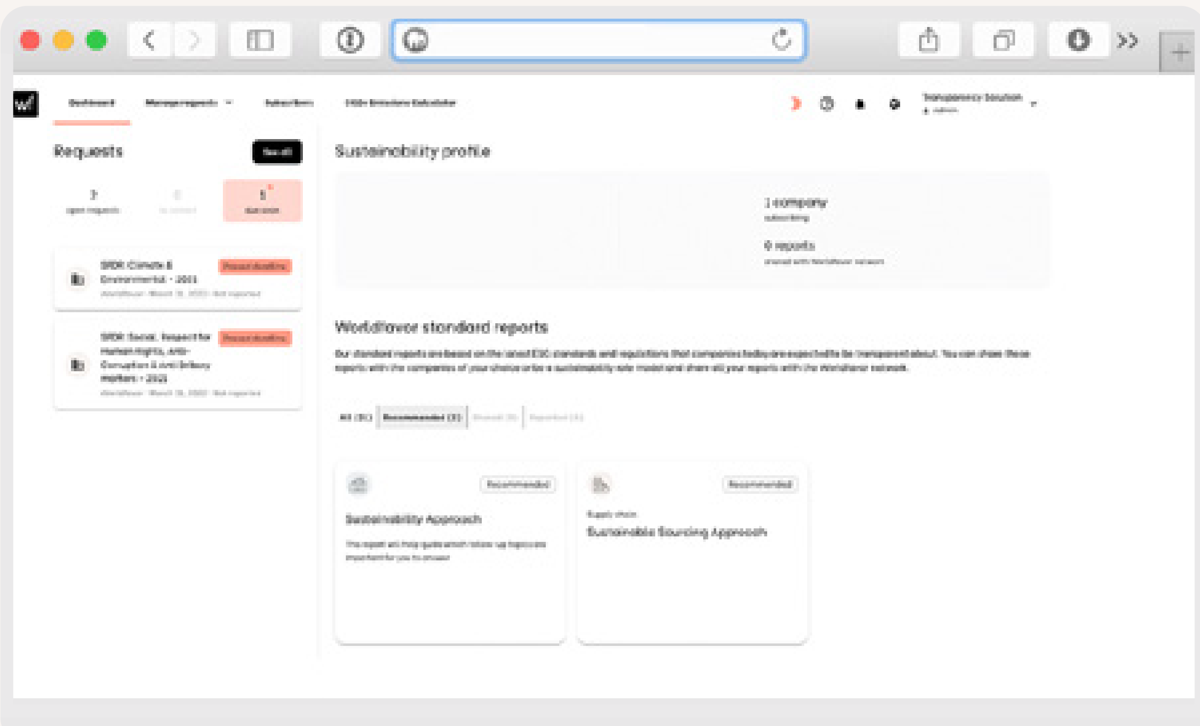
CLICK HERE

Share your SFDR report with a click of a button

Enable a scalable process to create positive impact year after year. Track the regulations and frameworks you need to comply with directly in the platform (like the SFDR and GHG Protocol) and communicate your results with any stakeholder.

Broad or narrow scope – we've got your back

No need for consultants! Our in-house sustainability experts make sure you're always up to date and tracking the right data. With our bank of learning material and hands-on support, you can do all your analysis and reporting in one place.



Each of your portfolio companies receives their own dashboard – for free!

Simplify the process for portfolio companies. Here's what they get:

- Free use and reporting in Worldfavor
- Guidance on how and what sustainability data to report
- Access to our CO2e Emission Calculator – providing direction for anyone to measure their climate impact
- Able to reuse data for other stakeholders, minimizing the admin and reporting load

CHAPTER 2

So, what's next for investors?

When it comes to SFDR reporting – and the sustainability scene in general – things are evolving at a breakneck pace. When SFDR initially came into force in 2021, FMPs had a choice whether or not to comply. But as the law entered its **level 2 phase** in January 2023, you're now faced with several new disclosure requirements – and this time, they're mandatory.

In this final chapter, we'll let you know what dates to mark in your calendar – and send you off in the right direction to report under the SFDR.

SFDR reporting timeline

30 June 2021
FMPs* must publish and maintain a Principal Adverse Impact (PAI) statement on their website.

1 January 2022
First reference period starts; effective from 1 January 2022 to 31 December 2022. FMPs must collect relevant data to align with the disclosure obligations, such as the PAIs.

1 January 2023
Second reference period starts; effective from 1 January 2023 to 31 December 2023. FMPs must comply with SFDR Level 2.

30 June 2023
Final date on which FMPs need to report on their performance on the previous reference period, through the PAI Statement and other disclosures under SFDR regulatory technical standards.

30 June 2024
Final date by which FMPs need to report for the second time. In addition, from this date onwards they must start comparing the first and second reference periods.

We're here for you!

Now that SFDR has entered its level 2 phase, the pressure on FMPs is higher than ever before. It can probably feel like too many dates to keep track of, but if you learn the SFDR cycle, those annual reporting periods won't pop up and surprise you.

Here's how the SFDR cycle turns:

January 1st each year:
The reference period begins (and lasts until the final day of the year.)

June 30th each year:
It's SFDR reporting time! This is the final date for you to report on your performance over the previous reference period.

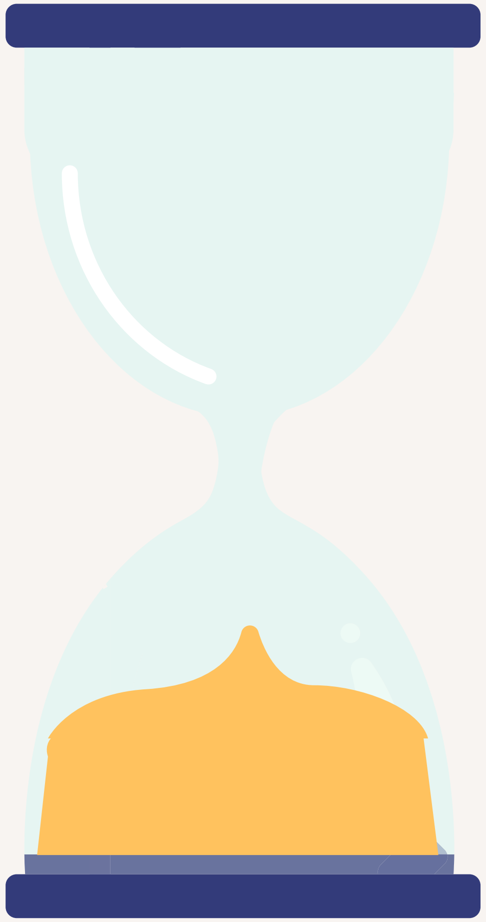
Remember: every half year, something is happening. And with the right tools in your hands – and a little support along the way – your journey towards more sustainable, resilient investments is looking pretty bright.

Want even more hands-on help?

Check out our SFDR knowledge bank, where we've gathered all our best blogs, guides, and other free resources.

Bookmark it now

Thanks for flipping through!



Here's how we did it:

This study was created by Worldfavor between **January and February 2023**, with the purpose of exploring the current state of SFDR reporting for investors. **56 respondents** participated in our study, which consisted of **13 multiple choice and open-ended survey questions.** The survey was conducted using SurveyMonkey, sent out via email, and shared on Worldfavor's social media channels, such as LinkedIn, Instagram, and Twitter. If you have any questions regarding the study, send us a message!

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