

Hamburg, 3 March 2021

**SUSTAINABLE FINANCE DISCLOSURE REGULATION TO ENTER INTO FORCE ON 10 MARCH**

- ◆ First major milestone in European ESG regulation
- ◆ Publication of sustainability information mandatory for websites, sales prospectuses and reports
- ◆ Regulation to enter into force incrementally
- ◆ Important Level 2 Rules not to be added until early 2022
- ◆ Successive introduction means extra costs for market players due to necessary adjustments

A few days from now, on 10 March 2021, the introduction of the Sustainable Finance Disclosure Regulation (OffV) will be the first major milestone of the EU's ESG regulation to enter into force. The acronym ESG refers to the three dimensions of sustainability: environmental (E), social (S) and governance (G). Starting that day, all financial market players, including AIF management companies, will have to implement the requirements of the Regulation. The Regulation mandates more transparency in regard to sustainability. Generally speaking, AIFM companies will have to disclose the sustainability of their products in three instances: on their homepages, in their pre-contractual information and in their periodic reports.

Michael Schneider, Managing Director at INTREAL, commented: "The objective of the Sustainable Finance Disclosure Regulation is to ensure transparency about the sustainability of a given investment for the investor. The idea is to brief investors ahead of their investment decision about the consequences of that investment for climate, social aspects and corporate governance. However, the costs that AIFM companies face in this context are enormous. They are compelled to adjust their websites, sales prospectuses and investor information as well as their reports."

**Providing ESG Information on the Corporate and Product Levels**

What exactly does the Regulation specify? Starting on 10 March 2021, all financial market players have to elaborate the ways in which they handle sustainability risks, both on the corporate and on the product level. One place where transparency on the subject must be provided is a company's homepage. Here, every AIFM company must provide information on the strategies that the company has chosen to integrate sustainability risks into its investment decision processes. The information must specify, for instance, how sustainability risks are measured and weighted.

Moreover, it must include disclosures on sustainability in the pre-contractual information—essentially the key investor information and the sales prospectus—and in the periodic annual and semi-annual reports. Whenever the environmental or social merits of a financial product are advertised, these will have to be specified exactly, along with an explanation how these merits are to be achieved. Advertising a reduction in carbon emissions, for instance, necessitates a transparent account of how the sought reduction will contribute to the climate targets set by the Paris Agreement.

However, several key aspects of the Sustainable Finance Disclosure Regulation remain fraught with uncertainty. The EU has failed to meet its own time line for the legislative process. On 10 March, only the text of the regulation itself will enter into force (Level 1). The implementing provisions (Level 2) were originally meant

to have been finalised and passed by the end of 2020. Since they remain unavailable even now, they will probably not have to be applied before the start of 2022.

Hannah Dellemann, the ESG Officer at INTREAL, commented: "On 10 March 2021, only the first part of the regulation will enter into force. Everything that market players do until then to meet the current regulation standard will have to be adjusted later on. It is now assumed that all of the disclosed information will have to be revised in whole or in part to meet the requirements that have yet to be finalised in the Level 2 rules. On the product level, this means specifically for Article 8 (Strategy) and Article 9 (Impact) that the Sustainable Finance Disclosure Regulation has yet to finalise the requirements that will need to be met in future. Similarly, the ESG disclosures of prospectuses and investor information will have to be revised again at a later point." This implies considerable extra efforts on the part of AIFM companies.

Hannah Dellemann summed things up: "For the market players, the incremental enactment means primarily having to do the work twice over, a situation which could have been avoided by sensibly timing the process flows for the regulatory requirements. The actual market players are now the ones who have to bear the collateral damage thus caused."

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### **About INTREAL**

As a third-party AIFM, INTREAL concentrates exclusively on the business of launching and managing regulated real estate funds on behalf of third parties under the German Capital Investment Act (KAGB). The platform lets clients take advantage of all the options of a real estate AIFM without having to set up one in their own right. Options include the launching of open-ended and closed-end property funds or the outsourcing of AIFM back offices to INTREAL. Employing 341 staff, the INTREAL Group offers long-term real estate know-how along with detailed and highly professional fund management expertise.

INTREAL collaborates with quite a number of third-party fund partners to administrate 195 investment funds with a combined investment volume of c. 38.5 billion euros (all figures as of quarter-end Q4 / year-end 2020).