

How Sustainable Are Your Investments?

Checklist to get SFDR Article 2(17) right



Checklist: How to Assess and Report on the Sustainability of your Portfolio

According to Article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR), applicable in the European Union

Check all the boxes to ensure accuracy and regulatory compliance.

STEP 1: Contribution to Environmental or Social Objectives

- Build the criteria that your firm will use to determine if a company contributes to sustainable objectives.**

Below is a list of methods that can help you measure contribution in line with your firm's investment criteria:

- List all sustainability objectives that your firm wants to address. This can be built off of existing frameworks such as the [TCFD](#), [SDGs](#), [SASB](#), [SFDR PAIs](#), and the [EU Taxonomy](#), or additional issues that are important to your stakeholders.
- Understand how companies can help solve the issues related to each objective through their products and services. *This does not need to be highly technical, for example wind energy can help solve climate change, and vaccines can help solve health care.*



Example: Measure companies based on revenue from sustainable products and services, such as vaccines contributing to health care objectives

- Measure companies' contributions to the larger objectives. *For climate change the EU Taxonomy can be used; however, most asset managers will need an additional measurement approach for other objectives, such as revenue from sustainable products and services.*
- Identify other markers of sustainability such as climate-related targets that your firm would like to include as contributing factors.
- Screen for companies that meet the thresholds previously outlined.

STEP 2: Do no Significant Harm to other objectives

- Confirm that the investee company does not significantly harm other objectives**

Here the regulation states that [mandatory PAIs must be used](#).

- Review [list of mandatory PAIs](#), divided between quantitative and exposure indicators. You will need to determine a threshold for performance that constitutes significant harm for the quantitative PAIs and if companies have any exposure to the other mandatory PAIs.



Example: A renewable energy company which has no women on the board, but has pledged to increase board diversity may be evaluated further to determine if the company significantly harms other objectives.

- We recommend assessing companies against thresholds and exposures and flagging all companies near or beyond the threshold for further review. This is inline with the suggestions from the ESAs April 2023 consultation to review the RTS.
- Review additional stakeholder and firm compliance screens to determine if additional industry or exposure screens are needed to block investments.

STEP 3: Good Governance

Confirm that the investee company follows good governance practices

The regulation lists four governance issues to address:

- Management Structures (Shareholder Rights & Insider Dealing),
 - Employee Relations (Working Conditions & Diversity),
 - Remuneration of Staff (Employee Wages & Management Compensation)
 - Tax Compliance.
- Determine the data and information you have available to monitor companies on these issues. For example are there news monitoring programs or controversies datasets that would cover these topics.
 - Once secured, set up ongoing monitoring of the investable universe on these topics and flag any issues that require further review.

STEP 4 (Optional): Benchmarking

- Decide if your fund will designate a benchmark to track sustainable investments.
- Understand the sustainable investment criteria that your benchmark is using to adequately compare.

Check all of the boxes to **align with regulators' expectations** and lead the way towards a more sustainable world.

If you haven't been able to check all the boxes, reach out to see how Clarity AI does the work for you, saving you time and effort with our leading Sustainable Investment tool.

Do you have any questions? Reach out to learn more or to schedule a demo

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