

# Article 8 Checklist for Financial Products

 December 2023

In this document, we will show you the steps to launching a financial product under SFDR’s Article 8 or to “upgrading” your existing product.

According to the Sustainable Finance Disclosure Regulation (SFDR), financial products claiming to **promote** environmental or social characteristics (sometimes referred to as “light green” products) need to be transparent about how exactly they promote these topics. It’s under the Article 8 that SFDR establishes how exactly such environmental and social characteristics of financial products **need to be disclosed** in the pre-contractual information.

We, at Datia, notice that one of the main reasons keeping financial products from making such claims is the uncertainty about SFDR’s Article 8 requirements.

Datia’s team distilled these requirements and created a checklist for you who are considering taking the leap to start complying with SFDR’s Article 8 and meet the growing demand in the market for financial products promoting sustainable practices.

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## Annex I

Refers to the Annex I of the RTS (“Template principal adverse sustainability impacts statement”)

## Annex II

Refers to the Annex II of the RTS (“Template pre-contractual disclosure for the financial products referred to in Article 8...”)

## Annex III

Refers to the Annex III of the RTS (“Template pre-contractual disclosure for the financial products referred to in Article 9...”)

## Annex IV

Refers to the Annex IV of the RTS (“Template periodic disclosure for the financial products referred to in Article 8...”)

## Annex V

Refers to the Annex V of the RTS (“Template periodic disclosure for the financial products referred to in Article 9...”)

## Article 6

Products not promoting environmental or social characteristics nor targeting sustainable investments, but potentially integrating sustainability risks into the investment process (“mainstream”)

## Article 8

Products that promote environmental or social characteristics (“light green”)

## Article 9

Products that have sustainable investment as their objective (“dark green”)

## ESAs

Refers to the three European Supervisory Authorities (EBA, EIOPA and ESMA)

## ESMA

European Securities and Markets Authority

## PAI

Principal Adverse Impacts

## Pre-contractual Documents

Documents that share information about financial products prior to an investor taking a decision to invest

## Periodic Reporting

Reports, generally issued on an annual basis, concerning the performance of specific financial products

## RTS

Regulatory Technical Standards. In this checklist, we added links to the valid RTS as in December 2023 (approved in February 2023). But starting in December 2023, the European Commission is already reviewing a new draft of the RTS. Datia’s team will update this checklist if and when a new RTS is approved.

## SFDR

Sustainable Finance Disclosure Regulation

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# Preparation and strategic decisions

## Introduction

In order to comply with SFDR's Article 8, you need a robust understanding of the SFDR framework as well as the disclosures required in the Annexes II and IV in the RTS. The original intent of Article 8 disclosure is to ensure transparency from the financial industry on the promotion of environmental or social characteristics by financial products. As opposed to Sustainable Investments (another concept under SFDR), there is no official requirements for what constitutes the promotion of environmental or social characteristics. Does this sound tricky? To make it clearer, we listed some steps you should take to approach the challenge.

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> Get familiarized with the pre-contractual and periodic reporting templates	The templates give guidance as to what is expected, so make sure you start by reading them	<a href="#">The pre-contractual and periodic templates for Article 8 are under Annexes II and IV of the RTS</a>
<input type="checkbox"/> Review best-practices on actual implementation and reporting	The pre-contractual documents are public, so you can identify industry peers that could serve as benchmark for you and analyse how they are writing their pre-contractual documents for their Article 8 products	-
<input type="checkbox"/> Define what environmental and social characteristics entails in the context of your product	This information will be central for the focus of the product and to fulfill Article 8 disclosure requirements. It's important to have a clear definition of criteria for companies and instruments to qualify for these characteristics. Make sure to disclose these criteria in a transparent way	<a href="#">Refer to the Annex II of RTS for guidance</a>
<input type="checkbox"/> Decide on sustainability indicators to measure the attainment of environmental or social characteristics	The regulator expects the above definition to be backed by real information and data, which should be used to assess each instrument within the portfolio. Clearly define which indicators and data points matter to your portfolio. You can choose from a variety of indicators	-
<input type="checkbox"/> Define which (if any) Principal Adverse Impact indicators to consider	Are there any PAIs especially relevant to monitor for your investment strategy and portfolio? Define these and make sure you have the tools necessary to do so	<a href="#">See the list of PAIs in the Annex I, Tables 1 and 2 and 3 of the RTS</a>

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# Pre-contractual and periodic reporting

## Introduction

After taking strategic decisions, it is time to roll up your sleeves and fill in the pre-contractual of your Article 8 financial product. SFDR's Article 8 requires that financial products fill in their pre-contractual considering a specific template. The template is shown on the Annex II of RTS and contains a series of questions about how your financial product promotes environmental or social characteristics. At least one a year, you also need to publish a periodic report following the template presented in the Annex IV of the RTS. Below we will guide through this documentation process.

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> Based on the outcome of the pre-work, populate the pre-contractual with the information about your financial product	The disclosure requirement in the Article 8 and the pre-contractual template will be heavily defined by your own processes, policies and definitions. Make sure to communicate them in your pre-contractual in a transparent way	-
<input type="checkbox"/> Establish processes for continuous monitoring of sustainability aspects in the investment process	The information disclosed in the pre-contractual information is binding, so you cannot limit your work to disclosing on it. You also need to walk the talk	-
<input type="checkbox"/> Get acquainted with processes of acquiring sustainability data and monitoring it over time	After defining all criteria and data points, you will need to be able to acquire and monitor them in order to comply with what you wrote in the pre-contractual document of your product. To do so, you will need an efficient process to manage all the data points	<a href="#">Article "Our list of 5 technical solutions that will improve your work with sustainability data"</a>
<input type="checkbox"/> Gather information and report on a periodic basis, on the periodic reports of your product	It's time to show the results of your work over the year, and which outcomes it has lead to. Populate the periodic report information connected to the criteria, PAIs, definitions and processes you have implemented	-

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# Sustainable Investments in detail

## Introduction

Financial products under Article 8 need to decide if they will have a minimum proportion of sustainable investments - this is actually the first question of the pre-contractual. If you decide for not having a minimum proportion of sustainable investments, your financial product will still be following Article 8 guidelines, as long as it currently established a definition and measurement process for environmental and social characteristics.

But if you decide that, yes, your product will have a minimum proportion of sustainable investments, then brace yourself for yet another challenge. You will need to create a methodology for sustainable investments and, disclose, in the pre-contractual document, what minimum proportion of sustainable investment you are committing to.

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> Decide if your financial product will have a minimum percentage of sustainable investments	-	<a href="#">Refer to the first question in the Annex II of the RTS</a>

## If your decision is “NO” (your financial product will NOT have a minimum percentage of sustainable investments)

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> In the pre-contractual, select the option “It promotes E/S characteristics, but will not make any sustainable investments”	-	<a href="#">Refer to the first question in the Annex II of the RTS</a>

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# Sustainable Investments in detail

If your decision is “YES” (your financial product will have a minimum percentage of sustainable investments)

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> Familiarize yourself with SFDR’s concept of sustainable investments	Note that SFDR does not offer a mandatory definition of sustainable investments. Instead, it is up to the asset manager to decide on a methodology following minimum guidelines	<a href="#">SFDR defines Sustainable Investments in its Article 2</a>
<input type="checkbox"/> Define a methodology for assessing your proportion of sustainable investments	-	<a href="#">Refer to “Mastering Sustainable Investments: A complete guide to create your methodology”</a>
<input type="checkbox"/> Make an initial screening of your portfolio against the methodology you created	At this point, you already need access to sustainability data of the companies you invest it in order to base your initial assessment of sustainable investments	-
<input type="checkbox"/> Commit to a minimum percentage of sustainable investments in your pre-contractual	The information written in the pre-contractual document is binding, therefore it might be wise to have gone through the previous step of assessing your portfolio prior to committing	<a href="#">This information should be reported in the first question in the Annex II of the RTS</a>
<input type="checkbox"/> Report the achieved proportion of sustainable investments on your periodic reporting	The periodic reporting is usually published on a yearly basis and you will need a snapshot of your portfolio in the period as well as sustainability data of the companies	<a href="#">This information should be reported in the first question in the Annex IV of the RTS</a>

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# Principal Adverse Impact in detail (entity level)

## Introduction

Principal Adverse Impact indicators are metrics that signal the negative impact of your investments on the environment, society, employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The pre-contractual template asks asset managers to decide if the financial product considers Principal Adverse Impact indicators in the investment strategy. Then, as a consequence, the SFDR requires financial market participants who consider PAIs to disclose them at entity level on their website\*.

Note that if you are part of an entity with more than 500 employees, your company needs to publish a PAI statement on the entity level regardless of the decision made for each of your financial products about PAIs.

\* Refer to the [European Commission's Consultation Document on the Implementation of SFDR](#) (page 8)

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> Decide if your organization will consider Principal Adverse Impact indicators in your investment strategy	-	<a href="#">This decision should be answered in the 3rd question in the Annex II of the RTS</a>

## If your decision is “NO” (your organization will NOT consider PAI indicators)

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> State, on your pre-contractual and on your website, that you do not consider Principal Adverse Impact indicators in your investment strategy. Therefore, you do not need to publish a PAI statement moving forward	Visit websites of other asset managers to benchmark how your peers in the industry are explaining their decision to not consider PAIs	-

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# Principal Adverse Impact in detail (entity level)

If your decision is “YES” (your organization will consider PAI indicators)

CHECKLIST	COMMENTS	REFERENCES
<input type="checkbox"/> State, on your website, that you will consider Principal Adverse Impact indicators in your investment strategy, as well as how you are considering them	Visit the websites of other asset managers to learn about how your industry peers are describing their use of PAI indicators	-
<input type="checkbox"/> Select at least two additional PAIs	Besides the mandatory PAIs, SFDR requires least one additional “environmental” and at least one additional “social” indicator	<a href="#">Check the additional PAIs in Annex I, Table 2 &amp; 3, of the RTS</a>
<input type="checkbox"/> Start collecting traceable data on global companies to ensure high coverage of the portfolio	-	<a href="#">Check out Datia’s webinar about sustainability data</a>
<input type="checkbox"/> Verify underlying data (whether it is reported, estimated, etc.)	The ESAs consider a good practice to disclose the proportion reported data, data obtained by carrying out additional research, operating with third party data providers or external experts, or making reasonable assumptions	<a href="#">ESMA’s document “Concept of estimates across the EU Sustainable Finance framework”</a>
<input type="checkbox"/> Calculate PAIs on a quarterly and yearly basis by applying regulatory formulas, for both mandatory and additional PAIs	-	<a href="#">Calculations are explained on Annex I of the RTS (“Template principal adverse sustainability impacts statement”)</a>
<input type="checkbox"/> Publish your entity’s PAI statement on your website (on an entity level) no later than June 30th, every year	The PAI statement is expected to be published with aggregated data of all your portfolios, including those of products under Article 6	-

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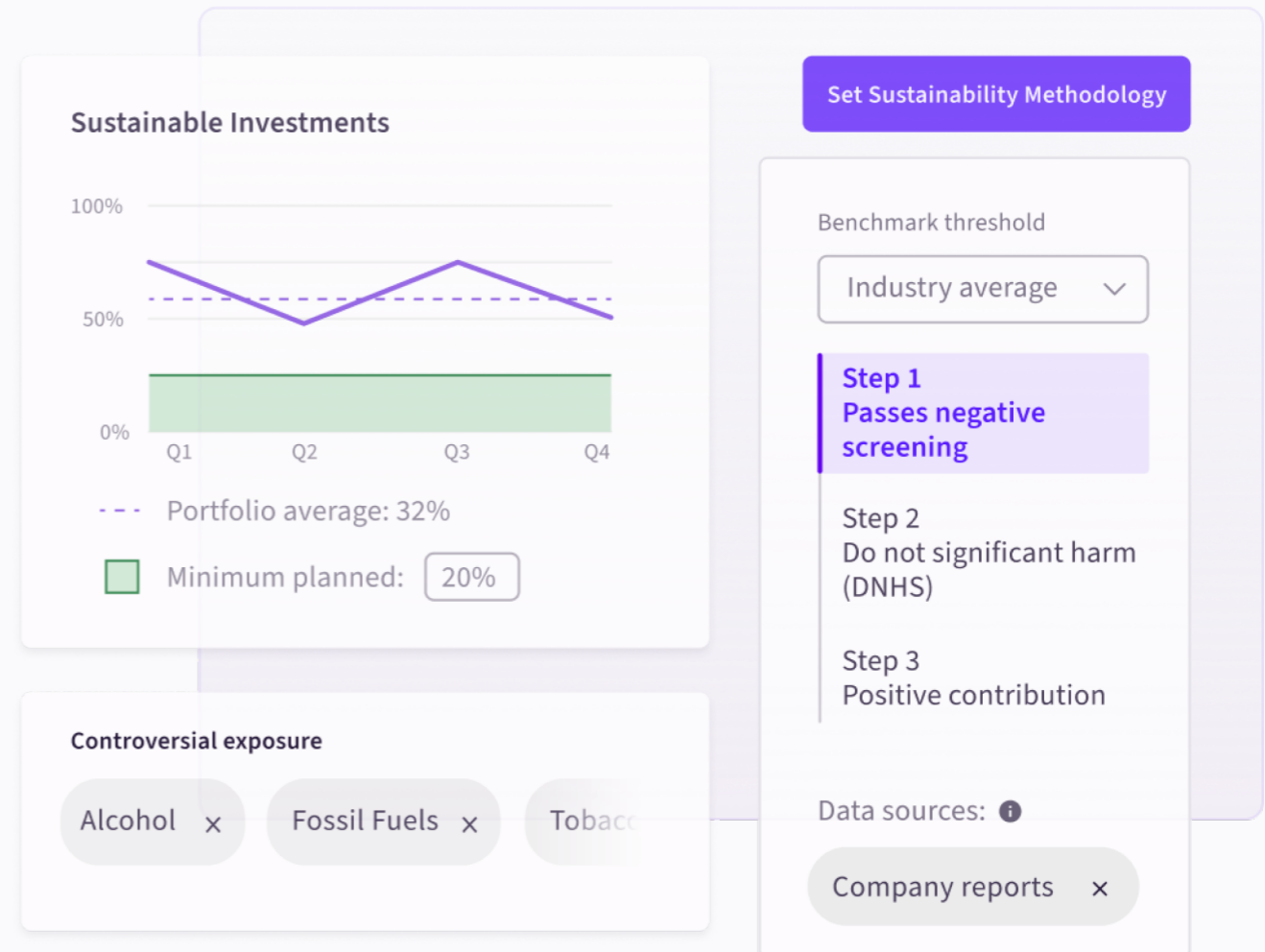
# How Datia can help

## Sustainable Investments methodology and assessment

Datia enables Financial Market Participants of any size to quickly assess what percentage of their portfolio are sustainable investments according to their own methodology while relying on transparent data.

Here's how:

- Follow a step-by-step guide to create a sustainable investment methodology, according to SFDR's requirements
- Select KPIs such as PAI indicators, SDGs contributions, controversial business involvements, etc. For each KPIs, set minimum thresholds to be met by your investments
- Datia's software automatically calculates what percentage of the portfolio meets your defined methodology
- Understand in detail why each company was classified as "sustainable" or "not sustainable"
- Reclassify each company as "sustainable" or "not sustainable" according to your insights



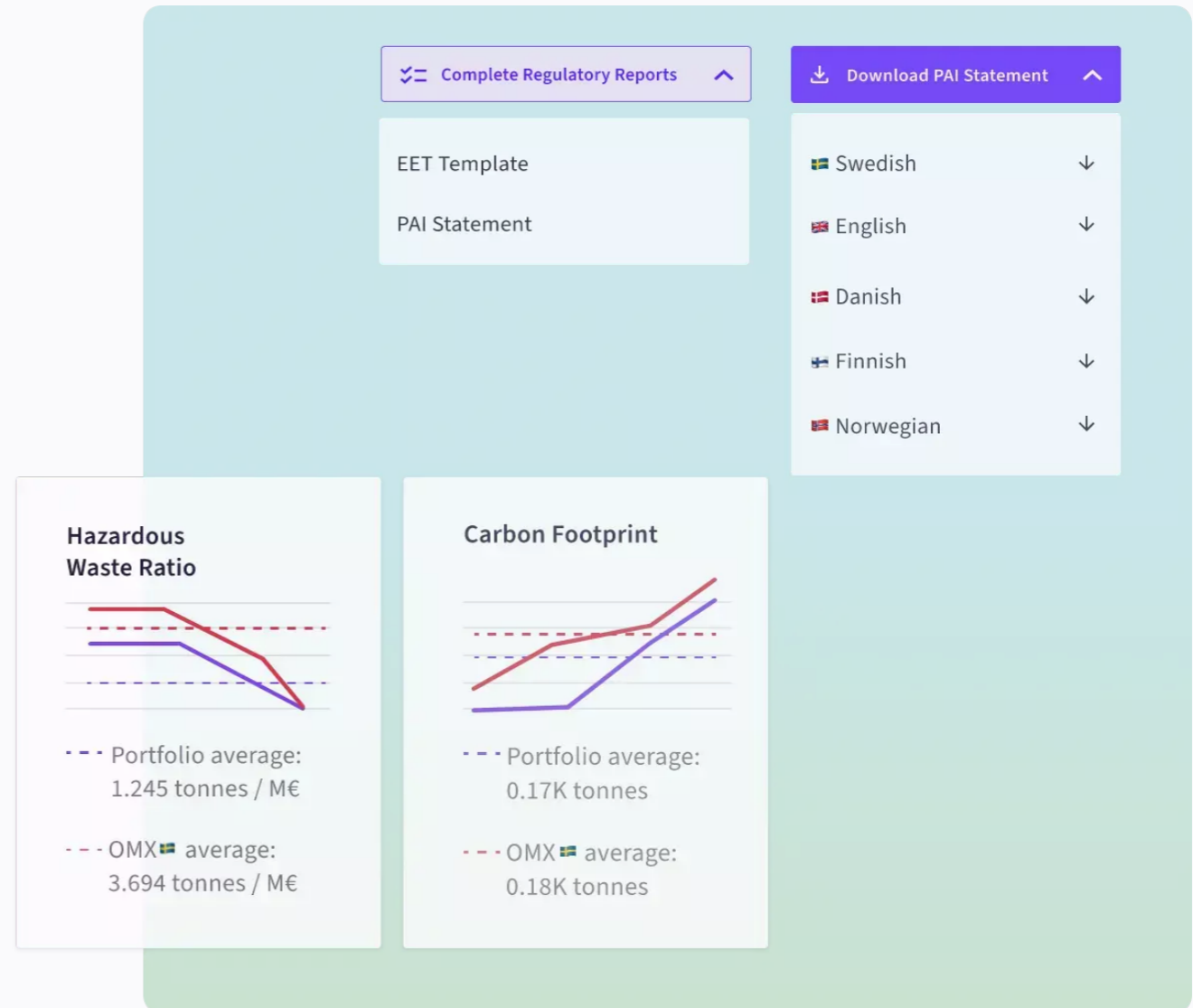
# How Datia can help

## Principle Adverse Impact (PAI) indicators and statement

Datia enables Financial Market Participants of any size to incorporate PAI indicators in their investment strategies, and to craft complete PAI statements.

Here's what Datia offers:

- PAI indicators from 36,000+ companies, 210,000+ funds, and 210+ sovereign nations (or use your own data)
- Transparent and traceable data (origin, reporting periods, and links to the sources)
- Automatic calculations based on portfolio snapshots, and following the latest Regulatory Technical Standards
- PAI statement ready to download in pdf or editable format, and in multiple languages
- PAI indicators automatically inserted into EET files of your financial products



# About Datia

## We are trusted by some of the most reputable institutions in Europe

Datia is a climate fintech company on a mission to empower investors' transition to sustainable finance, serving asset managers, asset owners, management companies, wealth advisors and tech platforms.

Headquartered in Stockholm, Sweden, Datia has a customer network with over €200+ Billion Asset Under Management (AUM) and works with some of the most reputable investors in the Nordics.

Do you want to find out more? Schedule a meeting with our team of experts.

[Get started](#)

