
European Sustainable Finance Disclosure Regulation

Data Content Guide

Morningstar Data Content

01 December 2022

Data Content Details

Version: 1.0

Description: SFDR Dataset

Last Reviewed: 01 December 2022

Background

In March 2018, the European Union launched the Sustainable Finance Action Plan, or SFAP, which encompasses 10 main action points and regulations. One regulation was the Sustainable Finance Disclosure Regulation, or SFDR, that sets out sustainability disclosure requirements for financial market participants, financial advisors, and financial products. Financial product disclosure included two levels of disclosure requirements. Level 1 from 10 March 2021 and Level 2 from January 2023. The regulatory standards for SFDR product-level disclosure advice published on 22 Oct 2021.

Definition of the Dataset

A dataset composed of data Morningstar collects from the SFDR annexes embedded within the prospectus and annual reports for funds that are identified by the manufacturer as Article 8 or Article 9 products.

Content

SFDR data are composed of multiple data points. The broad categories of these data points are:

- Article 8 and Article 9 statuses
- Minimum and actual sustainable investments
- Taxonomy activities
- Environmental and social objective disclosures
- Principle adverse impact indicators
- Minimum transitional and enabling activities
- Sustainability indicators and performance
- Taxonomy periodic comparisons
- Index/benchmark references and performance

SFDR data will also be reported via the European ESG template, or EET. However, this will be stored as a separate set of data points as it has a different source from the prospectus and annual report data.

Inputs/Sources/Timing

The SFDR Level 2 data is sourced from the precontractual disclosures (prospectuses) and from periodic disclosures (annual reports). The prospectuses are intended to lay out the funds' environmental, social, and governance plans, and the annual reports will show the actual outcome of these plans.

Depending on the Article 8 or Article 9 status of a fund, a different annex will be used as there are some differences between the disclosures for the different statuses.

Therefore, in total there will be four annexes available. Prospectus and annual report for Article 8 funds, and prospectus and annual report for Article 9 funds.

The prospectus SFDR Level 2 data disclosures were required as per the regulation to be published by 1 Jan 2023.

The annual report SFDR Level 2 data disclosures were required as per the regulation to be published from 2023. The exact dates when they will be released will be based on the fund's fiscal year-end.

The frequency of the prospectuses being published will depend on the local regulatory requirements. If the local regulator has a process that states they are to be published annually, this will remain. Alternatively, we only expect updated prospectuses to be published when there is a material change to the fund.

The annual reports will be updated annually.

Assumptions

That the data provided in the regulatory documents is correct and in line with the guidelines laid out by the regulation.

Limitations/Exceptions

Morningstar will collect prospectus and annual report documents in English, and if there is no English version available, then local language based upon domicile will be collected.

Morningstar will only extract the SFDR Level 2 data from the annexes embedded within the prospectus and annual reports.

Morningstar will only collect SFDR stand-alone annexes from the links provided within the EET.

Markets

Funds domiciled in major EU markets that Morningstar proactively covers plus UK open-end funds sold into those major EU markets.

Universes

This dataset applies to open-end funds, exchange-traded funds, and closed-end funds that are disclosed as Article 8 or Article 9 products.

Data Content History

Version: 1.0 2 Nov 2022 Original publication

Glossary

EET	The European ESG Template is created by Financial Data Exchange, or FinDatEx, with a view to facilitate the exchange of ESG data between market participants.
SFDR	The EU Sustainable Finance Disclosure Regulation was introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing, and to increase transparency around sustainability claims made by financial market participants.
Taxonomy	The EU taxonomy classification system of environmentally sustainable activities and large EU corporations will disclose information that indicates how aligned the company's revenue, operating expenditure, and capital expenditure are to the EU goal of being net zero by 2050.
PAI	The principal adverse impact form is part of the SFDR. These PAI indicators are essentially a set of environmental, social, and governance indicators and metrics, ranging from carbon emissions, water emissions, biodiversity impacts, social violations, and gender parity on the board.
Article 8	An indication whether, according to the EU SFDR, the financial product promotes environmental or social characteristics.
Article 9	An indication whether, according to the EU SFDR, the financial product has sustainable investment objectives.
SFAP	The Sustainable Finance Action Plan is the EU's strategy for sustainable finance and is part of the implementation plan of the Paris Agreement and the UN 2030 Agenda for Sustainable Development.
Morningstar Document Library	The Morningstar Document Library is a comprehensive resource for investment documents.

Frequently Asked Questions

What is SFDR Level 2 data?

In March 2018, the EU launched the Sustainable Finance Action Plan, or SFAP, with a view to utilize regulation to help close the funding gap required for Europe to hit its target of a 50% reduction in greenhouse gas emissions by 2030 and get to net zero by 2050. The SFAP encompasses 10 main action points and regulations.

One such regulation was the Sustainable Finance Disclosure Regulation, or SFDR, that sets out sustainability disclosure requirements for financial market participants, financial advisors, and financial products. Financial product disclosure was formed of two levels of disclosure requirements. Level 1 from 10 March 2021 and Level 2 from January 2023.

How can I find the final report on draft regulatory standards for SFDR Level 2 data?

You can refer directly to the [European Securities and Markets Authority website](#) for details on the sustainable finance regulation.

The regulatory standards for SFDR product-level disclosure advice published on 22 Oct 2021. SFDR technical standards were adopted by the European Commission on 3 April 2022.

Is it mandatory to report the SFDR Level 2 data?

Yes.

What is the scope of SFDR Level 2 data?

This dataset applies to all managed investments that disclose they are Article 8 or Article 9 products.

Will the SFDR Level 2 data exist in any other sources other than prospectuses and annual reports?

Yes, several of the SFDR Level 2 data points will be available in the European ESG Template, or EET. These data points will be created separately from the SFDR dataset. Morningstar also calculates data points, such as taxonomy alignment and principal adverse impacts, that may appear in the annexes. However, these will exist in their own datasets to indicate their differing sources and methodologies.

Will Morningstar collect the SFDR annexes as stand-alone documents?

Yes, the SFDR stand-alone annexes will be collected via the link in the EET. If the links provided do not reference stand-alone annexes, then the document is not collected.

What is the difference between SFDR Level 1 and SFDR Level 2 data?

SFDR Level 1 data simply identified the Article 8 or Article 9 status through the interpretation of language submitted within the prospectus. SFDR Level 2 data is provided in a structured template within the annex that discloses more-detailed sustainability information and clearer identification of Article 8 or Article 9 statuses and clearly defines intentionality around ESG practices (prospectus) versus actuality (annual report).

What data will be collected from the SFDR Level 2 annexes?

All data in the prospectus template in Annex II and Annex III and all data in the annual report template covered in Annex IV and Annex V. Morningstar will not collect the "Top 15 Investments." Morningstar already has data on the Top 15 investments at a point in time but not over a reference period. Morningstar will also not collect "Economic Sectors."

When will Morningstar begin to collect the SFDR Level 2 data?

Morningstar will have all data points pertaining to SFDR Level 2 data ready for data collection by mid-December 2022. The regulation states that providers of Article 8 or Article 9 funds must update their prospectus documents by 1 Jan 2023.

Why would SFDR data not be populated?

The SFDR annexes for Level 2 data states questions/requirements that should be answered but is not prescriptive in how or in what format the data supporting those answers should be presented. While all questions within the SFDR annex are considered mandatory, providers may interpret the type and format of the data differently. Morningstar believes it has developed its data-point types to meet the expected format of the SFDR Level 2 annexes. There could also be instances where it is not possible to populate a specific Morningstar corresponding field, as the data provider may have satisfied the question/requirement in responses elsewhere in the annex.

As an example, a question posed in the regulation is "What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by this financial product?" The regulation does not explicitly state what is to be used here. From discussions we have had within the industry, we know these could be populated with PAIs as indicators, categories, or even exclusionary frameworks therefore we developed our data points in line with what we believe the expected content to be.

Will Morningstar modify any SFDR Level 2 data provided?

No. Morningstar will copy the data as provided in the relevant annex.

What validation does Morningstar conduct on the SFDR data provided?

Given the content of the SFDR annexes, there is limited validation that Morningstar can apply. The annexes are predominantly text based, and disclosures are made by the product providers. Morningstar is unable to validate that these disclosures are accurate.

The validation checks Morningstar can carry out are that content is as expected, numerical fields are where numerical fields should be, text where text should be, and so on. Morningstar will check that percentage values do not exceed upper or lower limitations and that data points with options are provided within the permissible values of the SFDR level 2 annexes.

What markets/regions/universes are considered in scope for SFDR Level 2 data?

Morningstar will collect documents in English, and if the document is not in English, then the local language based upon the domicile of the fund. Markets covered will be funds domiciled in major EU markets that Morningstar proactively covers plus UK open-end funds sold into those major EU markets. The universes will be, open-end Funds, exchange-traded funds, and closed-end funds.

Why do different data points have different reference dates?

The data sourced from the prospectuses will use as reference date the effective date of the prospectus from which the data was extracted. The data for the annual reports will use the effective date of the annual report from which the data was extracted.

Will Morningstar store SFDR Level 2 annexes as documents in Morningstar document library?

Yes. Morningstar already has robust methods for collecting prospectuses and annual reports, and there will be no change in how we collect and store these document types. If the SFDR Level 2 stand-alone annexes are linked in the EET, then Morningstar will collect and store the document.

How often are the source documents updated?

The regulation does not provide a specific frequency recommendation for reporting requirements for updated SFDR Level 2 data. However, most guidance for prospectuses within Europe indicate that a prospectus is expected to contain up-to-date information, and any material changes to the profile of the fund should result in an updated prospectus. Morningstar has robust processes for regular document collection that ensure latest available documents are collected once published. Annual reports are updated and collected yearly by Morningstar.

Can you provide details on how to populate the SFDR Level 2 annexes?

No. For guidance on the SFDR disclosures, you should refer to the regulation and the technical standards provided by the regulator.

Who do we contact if we see issues with the SFDR Level 2 data displayed in Morningstar products and solutions?

You should raise a request via the standard support channels.