

Sustainable Finance Disclosure Regulations

4 March 2021

What Brokers need to know



What are we going to cover?

- **Focus on ESG - Leading to Client Interest**
 - From Niche to Mainstream & Regulatory Timeframe
- **New Disclosure Regulations - 10th March**
 - To whom does it apply & What are the requirements
- **New Ireland's ESG Programme**
 - Our ESG Policy – Website
 - New Pre-contract disclosure (all funds)
 - New Pre-contract disclosure (light and green funds)
 - New Adverse Impact Statement - Website
- **What does this mean for Brokers?**
 - Website/Terms of Business
 - Building ESG into Advice
 - New Ireland's fund managers
- **More to Come - Further changes?**
- **Recap** - Compliance/Readiness Checklist & Link to Resources

Focus on ESG

Client Interest

Increased Focus on ESG?

- **Political Mainstream**
 - US Election
 - European Green Deal
- **Media Hot topic**
 - Huge amount of coverage
- **Regulatory Focus**
 - Lots of impending regulatory requirements
- **Increased focus by market providers**
 - Insurance companies
 - Stockbrokers
- **Leading to client interest**
 - Trustees
 - Brokers
 - Retail Customers?

Client View?

What is ESG ?

Let us look at the component parts:

Environmental – how companies' activities impact on the living world and climate change.

Social – how companies operate in their communities including matters such as treatment of employees, working conditions and health and safety.

Governance – how companies operate with reference to board diversity, anti-corruption, executive pay and relationships with regulators.

What does ESG mean to investors today?

We recently commissioned a piece of research to try and understand how the investor views ESG:

Perceptions of ESG *

1 in 5

Awareness of ESG is extremely low, with less than 1 in 5 having any knowledge of it

62%

62% of those surveyed had never heard of the term 'ESG'

93%

93% of those familiar with ESG state they are important factors when making an investment decision



Governance and Social factors areas deemed more important than Environmental factors by those surveyed

53%

53% of respondents highlighted Governance as the most important of the three

50+%

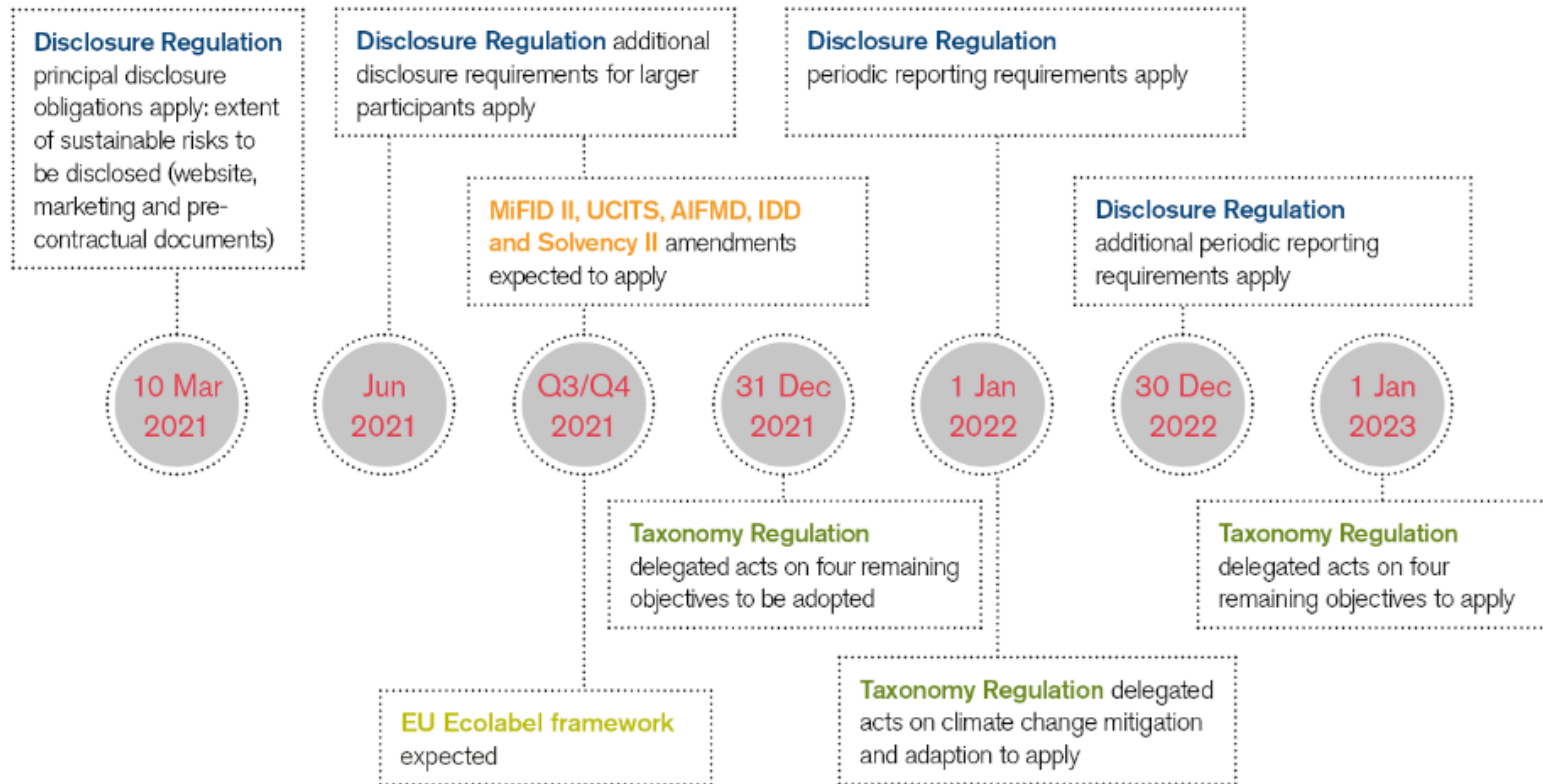
50+% of people surveyed would expect ESG investments to have higher fees (driven by younger respondents)



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Regulatory Timeline



New Disclosure Regulations

10th March 2021

To Whom Does it Apply

- **Financial Market Participants**
 - an insurance undertaking which makes available an IBIP;
 - an investment firm which provides portfolio management,
 - an IORP;
 - a manufacturer of a pension product;
 - an AIFM;
 - a PEPP provider;
 - a manager of a qualifying venture capital fund;
 - a manager of a qualifying social entrepreneurship fund;
 - a UCITS management company;
 - a credit institution which provides portfolio management;

To Whom Does it Apply

- **Financial Brokers & Advisors**

- an insurance intermediary which provides insurance advice with regard to IBIPs;
- an insurance undertaking which provides insurance advice with regard to IBIPs;
- a credit institution which provides investment advice;
- an investment firm which provides investment advice;
- an AIFM which provides investment advice; or
- a UCITS management company;

What are the requirements?

- **Key Requirements**
 - **ESG Policy**
 - Create and publish information on the website
 - **Remuneration policy**
 - Integrate sustainability risks and publish information on the website
 - **Pre contractual disclosure**
 - How sustainability risks are integrated into investment decisions
 - What are the likely impacts of sustainability risks
 - **Additional disclosures on ESG fund**
 - Classifying ESG funds as light or dark green
 - Explaining how they achieve this
 - **Principal adverse sustainability impact statement**
 - Publish on the website an analysis of the exposure to sustainability risks, summed up at the overall level

New Ireland's ESG Readiness









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New Ireland's ESG Policy

- **Asset owner**
 - Work with our managers to incorporate ESG
 - We partner with some of the best managers in the World
 - Global organisations with the resources to bring to bear

Investment Manager	2019 UN PRI Score	Number of PRI membership years
	A+	9 years
	A+	8 years
	A+	10 years
	A+	13 years
	A+	14 years
	A+	10 years

New Ireland's ESG Policy

- **Core Beliefs**

- ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process;
 - Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities;
 - A sustainable investment approach that considers ESG risks and opportunities is in the best interests of our customers.
 - We will continue to keep its approach under review in support of that ambition;
-
- Our Policy will be available on the ESG section of the New Ireland website

Pre Contractual Disclosures

- **Disclosures required at a product level**
- **This is required whether it is an ESG fund or not**
 - Whether we integrate sustainability
 - How we do this
 - What are the likely impacts
- **How are New Ireland delivering this**
 - Multiple funds available in life assurance and pension products
 - High level disclosure in the product brochure explaining how we work with our managers to ensure that sustainability risks are included
 - High level information on the likely impact in the fund fact sheet
 - Difficult to accurately assess impact on future unknowns
 - Explain at a high level how the fund could be impacted by a sustainability event

Light and Dark Green Funds

- **Light Green or Article 8 funds**

- Products that promote E and S characteristics
- Products with some kind of sustainability focus but do not necessarily invest in “sustainable investments”
- Examples may relate to exclusions, screening, best in class, positive tilt, or certain thematic investing, etc.

- **Dark Green or Article 9 funds**

- Products that have a “sustainable investment” objective
- Products focussed on sustainability themed investing or impact investing that meet the criteria of a “sustainable investment
- ‘Do no significant harm’ to any other “sustainable investment” objectives

Light and Dark Green Funds

- One of the primary legislative purposes is to limit greenwashing
- New Ireland taking a conservative view on promoting funds with ESG considerations
- **Additional disclosures required for these funds**
 - Included in the fund flyers/standalone document
 - These disclosures are prescriptive from Jan 2022 so likely to evolve between now and then
 - Likely to be difference in approaches between providers

Adverse Impact

- **Requirements to disclose on our overall assets rather than at fund level**
 - information on how we identify the impacts;
 - a description impacts and actions taken or planned;
 - summaries of engagement policies
 - adherence to codes and standards for due diligence and reporting
- **Additional disclosures required in January next year**
 - **Very prescriptive and very detailed**
- **We do consider principle adverse impacts**
 - We are working with an external software and research provider to develop a really sophisticated analysis of asset under management
 - Very challenging for the industry - some information still not available
 - Data will ultimately enable us to provide the disclosure and inform the actions we can take
- **We will work with our managers over time to limit these impacts**

Recap - What have we covered so far?

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What does this means for Brokers?

Website and how you incorporate this in advice

Building it in to your advice

- Sustainability risks considered as part of your advice
- In recommending products and funds, assess
 - Performance of the fund
 - Risks
 - Market risk
 - Currency risk
 - Concentration risk
 - Asset class risk
 - Sectoral risk
 - Geographical risk
 - Sustainability risk
 - Passive or Active
 - Passive is about engagement
 - Active is about direction of travel
 - Manager Skill
 - Passive, low tracking error
 - Active, consistent outperformance
 - Do they have good ESG credentials

Building it in to your advice



- **Client requirements**

- Attitude to Risk
- Financial goals
- Ability to bear loss
- Don't need to incorporate ESG preferences into fact finds yet but if the client specifically requests an ESG solution you should build it into the recommendation

Guidance from Brokers Ireland

Firms that are considering impacts of sustainability when providing investment advice

Website Disclosure	Pre-Contractual Disclosures
<p>Prepare a disclosure on whether you consider, as part of your investment advice, the principal adverse impact of sustainability factors.</p> <p>Prepare disclosure on how remuneration arrangements are consistent with the integration of sustainability risks</p>	<p>Update your pre-contractual documents to include description of how you integrate sustainability risks into your advice and the likely impact of returns</p>
<p>➤ Remember</p> <p>Useful guidance provided by brokers Ireland.</p> <p>Regulation does allow for proportionality ‘size and scale’ (Article 4)</p> <p>You can refer to ESG policies and Adverse Impact Statements of the Product Provider.</p>	<p>➤ Remember</p> <p>Useful guidance provided by brokers Ireland.</p> <p>You can refer to the pre-contractual disclosures of the Product Provider including, where applicable, additional disclosures that have been produced for Light and Green Funds.</p>

Further Changes?

IDD, Solvency II & MiFID II

What are the requirements?

- Likely to come into force at the end of the year or early 2022
- Must include customer's preference for sustainable investing in fact find
- Incorporate into financial advice & portfolio recommendations
- Additional risk management and prudential requirements for insurers
- Our survey found that when asked if they want ESG the answer is yes

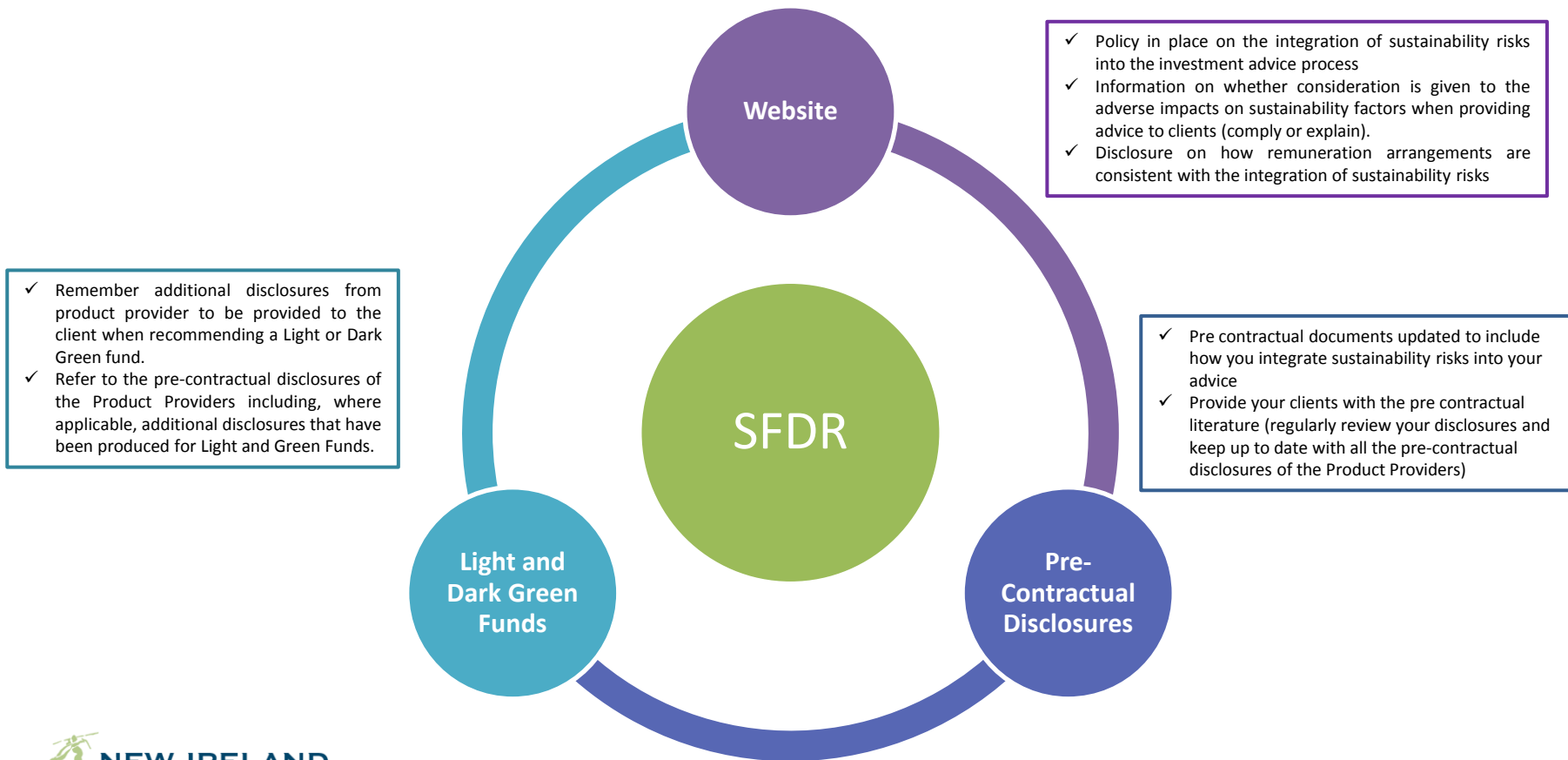
Recap Checklist & Resources



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Recap/Compliance Checklist



Our Managers – Partnering with the Best

A cornerstone of New Ireland's investment offering is working with some of the world's largest investment managers. This allows us to provide a great deal of choice when it comes to what we can offer. If your clients require the integration of ESG, Ethical or Socially Responsible investing into their investment portfolio, New Ireland's investment proposition can help to meet those needs.

Under the Principles for Responsible Investing (PRI), a number of our key investment managers are A+ rated, the highest rating on the UNPRI scale and have been members of PRI for quite some time:

Investment Manager	2019 UN PRI Score	Number of PRI membership years
	A+	9 years
	A+	8 years
	A+	10 years
	A+	13 years
	A+	14 years
	A+	10 years

Useful Links



Sustainable Finance Disclosure Regulation (“SFDR”):

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

Brokers Ireland Guidance Document on SFDR:

<https://brokersireland.ie/wp-content/uploads/2021/02/Member-Guidance-SDFR.pdf>

New Ireland Fund Centre:

<https://fundcentre.newireland.ie>

Principles for responsible Investment (PRI)

<https://www.unpri.org/pri/about-the-pri>



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