



# DIFFERENCES BETWEEN SFDR AND THE LUXFLAG LABEL


*The distinction of financial products amongst Article 6, 8 or 9 products within the meaning of the Sustainable Finance Disclosure Regulation (hereinafter "SFDR") has resulted in a misconception in the market that the aforementioned categorization is equivalent to a labelling scheme. Below are the key differences between the LuxFLAG Label and the SFDR.*

THEMATIC DIFFERENCE	SFDR	LUXFLAG LABEL 
<b>OBJECTIVE(S)</b>	To reduce information asymmetries in the market and induce standardization with regards to the types of non-financial information to be disclosed, as well as the manner in which they should be disclosed	To assess the compliance of a product with pre-defined eligibility criteria that are informed by the legal framework on sustainable finance. These criteria are set out by LuxFLAG and act as minimum safeguards, i.e. a minimum standard that a product shall meet or even choose to go beyond that.
<b>SCOPE OF VIEW</b>	It imposes reporting obligations to financial market participants relating to: the integration of sustainability risks, the non-financial objectives of the product, the consideration of principal adverse impacts.	It incorporates a scope of review that is much broader compared to the SFDR scope. This review is conducted against pre-defined eligibility criteria that vary depending on the type of label and cover a wide spectrum of thematic areas, such as governance and sustainable investment strategies.

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<b>SUBJECT OF REVIEW</b>	<p>The SFDR stands for a self-disclosure scheme subject to financial supervision. In this regard, the underlying National Competent Authority will verify to what extent a product subject to the SFDR meets the legal requirements and hence complies with the law.</p>	<p>The assessment of compliance with the label eligibility criteria is conducted by LuxFLAG and is subject to the review of specially designed Label Eligibility Committees, as well as the LuxFLAG Board of Directors.</p>
<b>NATURE</b>	<p>Obligatory (for those products that are subject to the SFDR)</p>	<p>Voluntary</p>
<b>USE</b>	<p>It is a means to enhance transparency in the market in relation to the non-financial characteristics and practices of financial products. Being a self-disclosure scheme and due to the lack of minimum safeguards, it does not guarantee the non-financial characteristics of a given product.</p>	<p>It can be used as a tool in the market to identify sustainable investment products.</p>

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<b>TARGET GROUP</b>	It captures a wide range of products referring to both sophisticated and retail investors. The granularity of information to be disclosed does not always make this information reachable to retail investors.	The use of the Label by a product makes the latter more reachable to retail investors; hence, catering for retail investor needs.
<b>OUTCOME OF REVIEW</b>	The scope of information to be disclosed is at the discretion of the product itself, while being subject to the regulator's verification. If the regulator deems that certain information is overstated or misrepresented, they may require the submission of additional information.	The Label may either be granted or not. LuxFLAG seeks to engage with applicant and/or labelled products, while also achieving progression and positive impact on labelled products over time.
<b>FUNCTION</b>	Depending on the disclosures that a product makes, it will be categorized as an Article 6, 8 or 9 product under the SFDR.	It seeks compliance with minimum criteria that vary depending on the LuxFLAG Label. Upon the verification of this compliance, a product may use the LuxFLAG Label. LuxFLAG offers a wide range of label products that aim to respond to the particularities of different investment products.

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# QUESTIONS? CONTACT US



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