Sustainable Finance Disclosure Regulation (SFDR) glossary

by Bank of Ireland Investment Markets

Bank of Ireland Life

We have created a high-level glossary in this PDF to explain some common terms that appear in our **Sustainable Finance Disclosure** material. Hopefully this makes reading these various documents a little easier for you. Any text in bold, will also bring you to explanations of those words in this glossary.

Click on a letter below to navigate to that section

A D E F G I N O P R S T U

A

Term	Explanation
Active ownership/ engagement	Active ownership means using rights as a shareholder to improve corporate behaviour and make investments more sustainable. The two main ways to do this are by engaging with companies or through voting at shareholder meetings to influence corporate behaviour.
Aggregated metrics	Aggregated metrics means the combined value of all data for the selected statistic.
Article 6 Fund	A **financial product** that has no integration of sustainability. These products can include stocks that are excluded from Environmental, Social or Governance (ESG) funds, such as tobacco and coal producers, and should be clearly labelled as non-sustainable.
Article 8 Fund (light green fund)	A financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of both but this is not the main focus of the fund.
Article 9 Fund (dark green fund)	A **financial product** that promotes investment in economic activity that contributes to an environmental objective. The main focus of the fund is on sustainability. The fund manager may be required to track an EU climate transition benchmark.
Asset allocation	Asset allocation describes the share of investments of a financial product in specific assets.

D

Decarbonisation	Decarbonisation is the term used for removal or reduction of carbon dioxide (CO_2) output into the atmosphere.
Derivatives	Derivatives are financial contracts between parties. The underlying value of the contract is based on (or derived from) an underlying asset, group of assets, or benchmark.
Due diligence	In a financial context, due diligence means an investigation or audit of a potential investment conducted by a prospective buyer.

E

Enabling activities	Enabling activities directly enable other activities to make a substantial contribution to an **environmental objective.**
Environmental objective	An activity that positively makes changes to the environment. For example: ▸ Climate change mitigation. ▸ Climate change adaptation. ▸ The sustainable use and protection of water and marine resources. ▸ The transition to a circular economy. ▸ Pollution prevention and control. ▸ The protection and restoration of biodiversity and ecosystems.
Environmental, Social & Governance (ESG)	**Environmental -** The environmental impact of a company. Factors such as carbon emissions, energy efficiency, recycling practices, water pollution and supply chain sustainability. **Social -** The social impact of a company in terms of their relationships with employees, customers, suppliers, and stakeholders. Factors such as equity, inclusion and diversity metrics measure how the company promotes social good within its operations. **Governance -** The governance around policies that balance a company's financial goals with its social and environmental responsibility. This includes executive pay and political contributions, tax strategy and diversity on the board of directors.
Environmental, Social & Governance (ESG) data	This is information on a business and its impact on its surroundings. For example, the impact of a business on its environment can be understood through its carbon emissions, the use of renewable energy sources or water stress levels that the company is producing. This can be sourced internally or through third-party providers.
ESG indicators	ESG indicators measure performance on environmental, social, and governance topics such as **greenhouse gas emissions**, water consumption, waste or diversity.
ESG scores	ESG scores are measures investors can use to gauge a company's performance on ESG issues and its exposure to ESG-related risks.
EU Taxonomy	The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It helps direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives. The taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate.

F

Financial market participants	These are the organisations that do business in a financial market, from banks and other lenders to individual investors.
Financial product	One of the following: ▸ an investment portfolio; ▸ an alternative investment fund (AIF); ▸ an insurance-based investment product (IBIP) (as sold by our business); ▸ a pension product; ▸ a pension scheme; ▸ an **undertaking for collective investment in transferable securities (UCIT);** or ▸ a pan-European personal pension product (PEPP)

G

Greenhouse gas emissions (GHG)	The release (or emission) of certain gases into the earth's atmosphere can create a "greenhouse effect", where heat becomes trapped and global temperatures rise. While emissions can result from natural causes, they are primarily the result of human activities, especially the burning of fossil fuels for energy and transportation.

I

Investee company	A single business or group of businesses that a fund has invested in.
Investment strategy	An investment strategy guides investment decisions using factors such as investment objectives and risk tolerance.

N

Neutral assets	Assets such as cash and government bonds are deemed neutral under **Sustainable Financial Disclosure Regulation.** These are excluded when calculating the percentage of a financial product that promotes ESG characteristics.
Non-discretionary portfolio	A non-discretionary portfolio is where the investor rather than a fund manager decides on what trades to make.

O

OECD Guidelines for Multinational Enterprises	The Organization for Economic Cooperation and Development (OCED) Guidelines reflect the expectation from governments to businesses on how to act responsibly.

P

Periodic disclosure	Every year, all Article 8 and Article 9 funds must complete an annual mandatory disclosure template covering the extent to which ESG criteria, as outlined in the **precontractual product disclosure**, have been met in the previous financial period.
Pre-contractual product disclosures	A mandatory pre-contractual disclosure for **Article 8** and **Article 9** funds. This template requires detailed information about the investment strategy and asset allocation of the fund, whether principal adverse impacts on sustainability are taken into account, and, where an index has been designated as a **reference benchmark**, information regarding the alignment of the fund with that benchmark.
Principal adverse impacts (PAI)	The Principal Adverse Impacts are an assortment of 14 mandatory corporate indicators that measure the most significant negative impacts of investment decisions on **sustainability factors** relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
Proxy voting	A proxy vote refers to a vote cast by a single person or firm on behalf of a corporation's shareholder who may not be able to attend a shareholder meeting, or who may not choose to vote on a particular issue.

R

Reference benchmarks	Reference benchmarks are indices to measure whether the **financial product** attains the environmental or social characteristics that they promote.

S

Social objective	For example an activity that tackles inequality or that fosters social cohesion, social integration and labour relations; or human capital or economically or socially disadvantaged communities.
Sustainability factors	These can include environmental, social and employee matters, respect for human rights, anti-corruption and antibribery matters.
Sustainable Finance Disclosure Regulation (SFDR)	SFDR aims to improve the clarity and comparability of sustainability disclosures provided by **financial market participants'** in their investment policies and products.
Sustainability indicators	Sustainability indicators measure how the environmental or social characteristics promoted by the **financial product** are achieved.
Sustainable investment/ investing	Sustainable investing is an investment in an economic activity that contributes to an environmental or social objective. This is provided that the investment does not significantly harm any **environmental** or **social objective** and that the company follows good governance practices

S

Sustainability related disclosures (or website disclosures)	A mandatory pre-contractual disclosure template for **Article 8** and **Article 9** funds. This requires the financial market participant and financial advisor to publish and maintain on their website a statement or specific information on the way in which **principal adverse impacts** (PAI) on sustainability factors have been considered in their investment decisions/advices.
Sustainability risk	An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material adverse impact on the value of the investment.
Stewardship	See **active ownership/engagement**

T

Transitional activities	Transitional activities are activities for which low-carbon alternatives are not yet available and among others have **greenhouse gas** emission levels corresponding to the best performance.

U

Undertakings for the Collective Investment in Transferable Securities (UCITs)	UCITS are investment vehicles that pool investors' money and invest in financial instruments such as stocks, bonds and other securities. Governed by EU regulation that allows UCITS to be bought and sold across the EU.
United Nations Global Compact	The United Nations Global Compact is a strategic initiative that supports global companies that are committed to responsible business practices in the areas of human rights, labour, the environment, and corruption.
United Nations (UN) Guiding Principles on Business and Human Rights	The UN Guiding Principles clarify what is expected of business enterprises with regard to human rights and outline the process through which companies can identify their negative human rights impacts and demonstrate that their policies and procedures are adequate to address them.

To find out more about our approach to **Sustainable Investing** and our **ESG Fund Range**:

Fund Centre

Sustainable Investing Hub