ESG fund regulations

Various markets have begun to regulate the way fund managers approach ESG and impact issues. These regulations aim to prevent so-called “greenwashing” (ie unsubstantiated claims that an investment product has ESG credentials). Given massive market demand for ESG investments and widespread confusion about terminology, there is a material risk of mis-selling without regulation.

The European Union (EU) is the most advanced in regulating ESG / impact management in the private equity and venture capital industries. Among other regulations, the Sustainable Finance Disclosure Regulation (SFDR) is probably the most important for fund managers. Although an EU regulation, SFDR applies extra-territorially to some funds and fund managers domiciled or investing in emerging markets.

Meanwhile, the United Kingdom is introducing a comparable Sustainability Disclosure Requirements (SDR) regime. SDR is not yet as advanced as SFDR, so it is unclear if it will apply extraterritorially.

BII and Akin Gump (an international law firm) published Sustainable Finance Disclosure Regulation for fund managers in emerging markets in April 2022. As SFDR and SDR evolve, we plan to update this guidance.