

To: Corporate Reporting - Investments & Sustainable Finance WG, Distribution PG, PRIIPs PG
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Subject: ESAs Joint Opinion on the Assessment of the Sustainable Finance Disclosure Regulation

Summary


On 18 June, the European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a joint [Opinion](#) on the assessment of the Sustainable Finance Disclosure Regulation (SFDR), including recommendations on ways to introduce categories for financial products ([FLASH-24-285](#)).

The ESAs have decided to deliver the Opinion on their own initiative. The Opinion is published in the context of a comprehensive review of the SFDR framework by the European Commission (EC), which includes the SFDR regulation (level 1) and its Delegated Regulation (level 2). The ESAs encourage the EC to undertake consumer testing when developing policy options to have a stronger evidence basis for changing the regulatory framework and therefore ensure more successful outcomes.

The ESAs call for a coherent sustainable finance framework that caters for both green transition and enhanced consumer protection, considering the lessons learned from the functioning of the SFDR, and building on the objectives of the Retail Investor Strategy to enhance retail investors' confidence and participation in financing the economy. To this end, the ESAs have made the following recommendations to the EC:

- Consider introducing a **product classification system, based on sustainability categories and/or a sustainability indicator** as follows, to help consumers navigate sustainable products:

<i>Sustainability categories for financial products</i>		
<i>'Sustainable' category</i>	<i>'Transition' category</i>	<i>Non-categorised products</i>
For products that invest in economic activities/assets that are already environmentally and/or socially sustainable	For products that invest in economic activities/assets that are not yet sustainable, but which improve their sustainability over time to become environmentally or socially sustainable	Products that have sustainability features but do not qualify for the sustainability categories should disclose on their sustainability features in regulatory documents, and face restrictions on using ESG/sustainability-related terms in naming and marketing
Clear and objective minimum criteria	Mix of EU Taxonomy KPIs, transition plans, decarbonisation trajectories	
Comply with a minimum 'sustainability threshold'; for environmentally sustainable products, such a threshold should be based on investments in EU Taxonomy-aligned economic activities and could evolve over time	Consider initial ambitious but realistic share of investments, which can grow over time to reflect the progressive improvement of environmental performance	Products that do not have sustainability features at all should include a disclaimer, and should not be allowed to use ESG/sustainability-related terms in naming and marketing
<i>Sustainability indicator for financial products</i>		
<i>Option 1</i>	<i>Option 2</i>	<i>Examples for grading</i>

<p>One narrow indicator measuring climate change mitigation based on financed emissions, which is translated into a contribution to climate change presented in nutri-score like system (non-categorised products are excluded)</p>	<p>One broader indicator giving the best grade where the expected impact on the environment or society is significant, based on a decarbonisation target or a social improvement expected from the investment strategy</p>	 <p>The diagram shows a color-coded scale from A (green) to E (red). Below it, two rows are shown: 'Sustainable category' and 'Transition category', each with a corresponding A B C D E scale.</p>
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- Consider revisiting the **coexistence of the two parallel concepts of 'sustainable investment' defined in the SFDR and 'Taxonomy-aligned investment' defined in the EU Taxonomy**. The key parameters of 'sustainable investment' under art. 2(17) of the SFDR are principle based, giving financial market participants flexibility but also leading to differences in application. To ensure a more uniform application, the ESAs suggest making the key parameters under art. 2(17) of the SFDR prescriptive. Moreover, the EC should prioritise completing the EU Taxonomy and extend it to social sustainability.
- Consider **improvements in sustainability disclosures**, taking into account different distribution channels (e.g. digital ones) and ensuring consistency of information provided. The EC should prioritise only essential information for retail investors, while professional investors may benefit from more detailed information.
- Consider **including other products in the SFDR scope to ensure harmonised disclosures**, such as multi-option products (MOPs) operating under non-discretionary management.
- Consider **key adverse impact indicators for all financial products**, based on a cost-benefit analysis justifying the introduction of such requirement.
- Consider introducing a **framework to assess the sustainability features of government bonds**, based on general criteria which address the specificities of this asset class.

Next steps

The EC is assessing stakeholders' responses to improve the European framework for sustainable finance. It is expected that a review of the SFDR will be launched by the next EC.