



EC consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)

4 October 2023

Objective: *On each of the key discussion points in this presentation, members are kindly asked to express their initial view to steer the secretariat for the first draft response.*

Consultation overview

- The EC consultation consists of an online **questionnaire covering 4 topics**:
 - Current requirements of the SFDR (1)
 - Interaction with other sustainable finance legislation (2)
 - Potential changes to the disclosure requirements for financial market participants (3)
 - Potential establishment of a categorisation system for financial products (4)

Points 1 and 2 cover today SFDR, **exploring how SFDR is working in practice and potential implementation issues**.

Points 3 and 4 look to the future, **assessing possible options to address existing SFDR shortcomings**.

In next slides, the Secretariat presents the most relevant questions for members' discussion; the full questionnaire is available at https://finance.ec.europa.eu/regulation-and-supervision/consultations/finance-2023-sfdr-implementation_en

Feedback from recent meeting with DG FISMA

- On **21 September** the Secretariat held a **meeting with FISMA C4** to discuss the consultation's expected outcome and future applications. Minutes are available [here](#).
- Key takeaways:
 - **Improvements to level 2** (Regulatory Technical Standards) can be made in the short term through the review of the social PAIs; **changes to level 1** in the medium or long term will be assessed by the next Commission.
 - For **SFDR arts. 8 and 9 funds**, FISMA is aware that some stakeholders prefer to retain the current imperfect system, while others prefer to develop a new proper labelling system. Both options are on the table for FISMA, which doesn't have a timeline for this decision.

1. Current requirements of the SFDR (pp. 4-14)

Costs of disclosure under SFDR requirements

	1	2	3	4	5	Don't know
The costs of disclosure under the SFDR framework are proportionate to the benefits it generates (informing end investors, channelling capital to sustainable investments)						

%	Product-level disclosures	Entity-level disclosures	Don't know
Estimated percentage of costs			

EUR	Estimated one off costs	Estimated recurring annual costs	Don't know
Internal costs			
Thereof personnel costs			
Thereof IT costs			
External costs			
Thereof data providers			
Thereof advisory services			
Total costs of SFDR disclosure requirements			

Questions for members:

- Disclosure costs under the SFDR framework are proportionate to the benefits it generates?
- Can you split the total costs between product- and entity-level disclosures?
- Can you estimate one-off and recurring annual costs for compliance with SFDR?

1. Current requirements of the SFDR (pp. 4-14)

Fulfilling objectives of SFDR framework

	1	2	3	4	5	Don't know
Increasing transparency towards end investors with regard to the integration of sustainability risks						
Increasing transparency towards end investors with regard to the consideration of adverse sustainability impacts						
Strengthening protection of end investors and making it easier for them to benefit from and compare among a wide range of financial products and services, including those with sustainability claims						
Channelling capital towards investments considered sustainable, including transitional investments ('investments considered sustainable' should be understood in a broad sense, not limited to the definition of sustainable investment set out in Article 2(17) of SFDR)						
Ensuring that ESG considerations are integrated into the investment and advisory process in a consistent manner across the different financial services sectors						
Ensuring that remuneration policies of financial market participants and financial advisors are consistent with the integration of sustainability risks and, where relevant, sustainable investment targets and designed to contribute to long-term sustainable Growth						

Question for members: The SFDR disclosure framework is effective in achieving the above-described objectives? (1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with CSRD – ESRS

"Both the SFDR and the Corporate Sustainability Reporting Directive (CSRD) introduce entity level disclosure requirements with a double-materiality approach. The CSRD sets out sustainability reporting requirements mainly for all large and all listed undertakings with limited liability (except listed micro-enterprises), while the SFDR introduces sustainability disclosure requirements at entity level for financial market participants and financial advisers as regards the consideration of sustainability related factors in their investment decision-making process. Moreover, in order for financial market participants and financial advisers to meet their product and entity level disclosure obligations under the SFDR, they will rely to a significant extent, on the information reported according to the CSRD and its European Sustainability Reporting Standards (ESRS)."

Question for members: SFDR disclosures are consistent with CSRD requirements, particularly the ESRS? Is there room to streamline the entity level disclosure requirements of the SFDR and the CSRD? (1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with Benchmarks Regulation (1/2)

"The Benchmarks Regulation introduces two categories of climate benchmarks – the EU climate transition benchmark (EU CTB) and the EU Paris-aligned benchmark (EU PAB) - and requires benchmark administrators to disclose on ESG related matters for all benchmarks (except interest rate and foreign exchange benchmarks). The SFDR makes reference to the CTB and PAB in connection with financial products that have the reduction of carbon emissions as their objective. Both legal frameworks are closely linked as products disclosing under the SFDR can for example passively track a CTB or a PAB or use one of them as a reference benchmark in an active investment strategy. More broadly, passive products rely on the design choices made by the benchmark administrators."

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with Benchmarks Regulation (2/2)

	1	2	3	4	5	Don't know
The criteria set for the ESG benchmarks and the criteria defined for sustainability product categories should be closely aligned						
Other						

	1	2	3	4	5	Don't know
The questions & answers published by the Commission in April 2023 specifying that the SFDR deems products passively tracking CTB and PAB to be making 'sustainable investments' as defined in the SFDR provide sufficient clarity to market participants						
The approach to DNSH and good governance in the SFDR is consistent with the environmental, social and governance exclusions under the PAB/CTB						
The ESG information provided by benchmark administrators is sufficient and is aligned with the information required by the SFDR for products tracking or referencing these benchmarks						

Question for members: Do you agree with the above presented statements (right table) about PAB and CTB? If new ESG Benchmarks were developed at EU level, in addition to the existing PAB and CTB, how should their criteria interact with a new product categorisation system?

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with EU Taxonomy

"Both the SFDR and the Taxonomy Regulation introduce key concepts to the sustainable finance framework. Notably, they introduce definitions of 'sustainable investment' (SFDR) and 'environmentally sustainable' economic activities (Taxonomy). Both definitions require, inter alia, a contribution to a sustainable objective and a do no significant harm (DNSH) test. But while these definitions are similar, there are differences between them which could create practical challenges for market participants. The Commission recently adopted a FAQ clarifying that investments in Taxonomy-aligned 'environmentally sustainable' economic activities can automatically qualify as 'sustainable investments' in those activities under the SFDR"

Question for members: The Commission's recent FAQ does offer sufficient clarity to market participants on how to treat Taxonomy-aligned investment in the SFDR product level disclosures? (1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with IDD

Questions for members:

- A. Product disclosures required in the SFDR and its Delegated Regulation (e.g. proportion of sustainable investments or taxonomy aligned investments; information about principal adverse impacts) are sufficiently useful and comparable to allow distributors to determine if a product can fit investors' sustainability preferences under MiFID2 and IDD?
- B. If a categorisation system for financial products is established, sustainability preferences under MiFID 2 and IDD should refer to those possible sustainability product categories?
- C. MiFID and IDD require financial advisors to consider sustainability preferences of clients when providing services to them. On top of this obligation, the following disclosure requirements for financial advisors of the SFDR are useful?

	1	2	3	4	5	Don't know
Article 3, entity level disclosures about the integration of sustainability risks policies in investment or insurance advice						
Article 4, entity level disclosures about consideration of principal adverse impacts						
Article 5, entity level disclosures about remuneration policies in relation to the integration of sustainability risks						
Article 6, product level pre-contractual disclosures about the integration of sustainability risks in investment or insurance advice						
Article 12, requirement to keep information disclosed according to Articles 3 and 5 up to date						

2. Interaction with other sustainable finance legislation (pp. 15-18, 42)

SFDR interaction with PRIIPs

"PRIIPs requires market participants to provide retail investors with key information documents (KIDs). As part of the retail investment strategy, the Commission has recently proposed to include a new sustainability section in the KID to make sustainability-related information of investment products more visible, comparable and understandable for retail investors. Section 4 of this questionnaire includes questions related to PRIIPs, to seek stakeholders' views as regards potential impacts on the content of the KID if a product categorisation system was established."

Questions for members: If a product categorization system was established under the SFDR, the category that a particular product falls in should be included in the PRIIPS KID? (Yes, No, Don't know; please explain)

3. Potential changes to the disclosure requirements for financial market participants (pp. 19-29)

Changes to entity level disclosures

"Several pieces of EU legislation require entity level disclosures, whether through transparency requirements on sustainability for businesses (for example the CSRD) or disclosure requirements regarding own ESG exposures (such as the Capital Requirements Regulation (CRR) and its Delegated Regulation)."

Questions for members:

- A. Among the specific entity level principal adverse impact indicators required by the SFDR Delegated Regulation adopted pursuant to Article 4 (tables 1, 2 and 3 of Annex I), which indicators do you find the most and least useful? *(please explain)*
- B. Is the SFDR the right place to include entity level disclosures? *(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)*
- C. Is there room for streamlining sustainability-related entity level requirements across different pieces of legislation? *(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)*

3. Potential changes to the disclosure requirements for financial market participants (pp. 19-29)

Changes to product level disclosures

"The SFDR includes product level disclosure requirements (Articles 6, 7, 8, 9, 10 and 11) that mainly concern risk and adverse impact related information, as well as information about the sustainability performance of a given financial product. The regulation determines which information should be included in precontractual and periodic documentation and on websites."

Question for members:

- A. The EU should impose uniform disclosure requirements for **all** financial products offered in the EU, regardless of their sustainability-related claims or any other consideration? (1 = not at all, 2 = to a limited extent, 3 = to some extent, 4 = to a large extent, 5 = to a very large extent)
- B. If you agree with question A, disclosures on a limited number of principal adverse impact indicators should be required for all financial products offered in the EU? (please specify)
- C. Uniform disclosure requirements for **some** financial products would be a more appropriate approach, regardless of their sustainability-related claims? (1 = not at all, 2 = to a limited extent, 3 = to some extent, 4 = to a large extent, 5 = to a very large extent)
- D. If you agree with question C, what would be the criterion/criteria that would trigger the reporting obligations? (please specify)
- E. In **general**, is it appropriate to have product related information spread across three places, i.e. in precontractual disclosures, in periodic documentation and on websites? (1 = not at all, 2 = to a limited extent, 3 = to some extent, 4 = to a large extent, 5 = to a very large extent)
- F. More **specifically**, is the current breakdown of information between precontractual, periodic documentation and website disclosures appropriate and user friendly? (1 = not at all, 2 = to a limited extent, 3 = to some extent, 4 = to a large extent, 5 = to a very large extent)

4. Potential establishment of a categorisation system for financial products (pp. 30-44)

EU level product categorization system? If so, which option?

"The fact that Articles 8 and 9 of the SFDR are being used as de facto product labels, together with the proliferation of national ESG/sustainability labels, suggests that there is a market demand for such tools in order to communicate the ESG/sustainability performance of financial products. However, there are persistent concerns that the current market use of the SFDR as a labelling scheme might lead to risks of greenwashing (the Commission services seek respondents' views on this in section 1. This is partly because the existing concepts and definitions in the regulation were not conceived for that purpose. Instead, the intention behind them was to encompass as wide a range of products as possible, so that any sustainability claims had to be substantiated. In addition, a proliferation of national labels risks fragmenting the European market and thereby undermining the development of the capital markets union. The Commission services therefore seek views on the merits of developing a more precise EU-level product categorisation system based on precise criteria".

4. Potential establishment of a categorisation system for financial products (pp. 30-44)

EU level product categorization system? If so, which option?

Option 1 "Transparency tool"	Option 2 "Improve Art 8 & 9"	Option 3 "New labelling tool"
<p>There is no need for product categories. Pure disclosure requirements of sustainability information are sufficient (hence current Arts. 8 and 9 can be retained without changes) = questionnaire question 4.1.1, last statement</p>	<p>Converting Arts. 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment, do no significant harm, etc. = questionnaire approach 2, if a categorization system was established</p>	<p>Splitting categories in a different way than according to existing concepts used in Arts. 8 and 9, e.g. focusing on the product's type of investment strategy (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to existing concepts = questionnaire approach 1, if a categorization system was established</p>

Question for members: Should an EU product categorization system be introduced? If so, which option for developing the system should be chosen?

Next steps

■ Insurance Europe timeline

- *4 October:* initial discussion with members
- *11 October:* 1st draft response shared by the secretariat
- *25 October:* deadline for 1st draft comments
- *1 November:* 2nd draft response shared by the secretariat
- *15 November:* deadline for 2nd draft comments
- *22 November:* 3rd draft response shared by the secretariat
- *6 December:* deadline for 3rd draft comments
- *13 December:* deadline for fatal flaw review
- *15 December:* end of EC consultation

■ EC events

- *10 October, 9:30-12:00* 'The Sustainable Finance Disclosure Regulation (SFDR) - What next?' online event at https://finance.ec.europa.eu/events/sustainable-finance-disclosure-regulation-sfdr-what-next-2023-10-10_en
- Following online event, in person workshops for in-depth discussion of more complex issues