

## SFDR level 1 review – SFAF

- **On current requirements of the SFDR and interaction with other sustainable finance legislation (section 1 and section 2 of the consultation):**

The SFDR regulation strengthens transparency through sustainability-related disclosures and encourages financial market participants and financial advisors to integrate sustainability risks and set up sustainable investment targets.

However, **the costs of disclosures under the SFDR** framework are particularly challenging and take on for some financial market participants. This situation tends to make some of them use this disclosure framework as a labelling marketing tool.

One other obstacle to good implementation of the regulation is **lack of clarity in the definitions of concepts:**

This consultation on SFDR level 1 is the opportunity to harmonize the definition of different concepts and principles:

- Two “do no significant harm” (DNSH) principles are coexisting; one in the SFDR regulation and one other in the Taxonomy regulation ;
- The definition of the “promotion of environmental or social characteristics” is very extensive (wide margin of interpretation) and can include many different categories of products; and
- The “Sustainable Investment” concept on which SFDR notions are built up upon is too general.

Moreover, those inconsistencies in between the different pieces of legislation are also **disturbing the implementation calendar**. Legislation and their related delegated and implementing acts could better interact together.

- ⇒ **SFDR could encourage financial market participants’ best effort** (particularly considering those who are not yet subject to the CSRD).

- **On potential changes to disclosure requirements for financial market participants (section 3 of the consultation):**

This third section of the consultation questions the perimeter, relevance, uniformization and collection of the data necessary for disclosures at entity and product levels.

- **Entity level disclosures:**

The disclosure requirements stated in article 3, 4 and 5 of the SFDR regulation are particularly useful. **There is no overflow of information, but the adequate data should be available to assure more precise disclosures.** For example, the disclosure requirements on remuneration policies are insufficiently relevant and could be more explicit.

The analysis is quite similar regarding principal adverse impact (PAI) indicators adopted pursuant to article 4 of the SFDR. Principal adverse impact indicators on scope 1, scope 2 and scope 3 of greenhouse gas emissions are very relevant. However, commitment and respect for international human rights indicators are similar to compliance guidelines and seems least relevant in this disclosure context.

- **Product level disclosures:**

Disclosure requirements at product level are very useful. Their uniformization for all financial products offered in the EU, regardless of their sustainability-related claims or any other consideration is very important.

In this regard, **disclosures on principal adverse impact (PAI) indicators should be also required for all financial products offered in the EU (standardised product disclosures).**

As an example, disclosures on exclusions, engagement strategies, information about how ESG-related information is used in the investment process and Taxonomy-related disclosures should be required about all financial products for transparency purposes.

**However, for the smallest financial market participants and financial advisers, the reporting on Taxonomy alignment is already difficult. SFDR should consider it. Taxonomy related disclosures should be mandatory to a very large extent when the CSR Directive will be fully implemented.**

Product related information is generally available in precontractual disclosures, periodic documentation and on websites. However, the dispersal of information can be overwhelming for users (investors, clients...) looking for a specific piece of information. There is a risk of duplication in documents. Compiling the entire information in one document (e.g available on the website) would be easier, but for competition justifications, and some category of product, it does not appear as the adequate solution for financial market participants. The current breakdown of information between these three documents is then quite appropriate.

**Product disclosures under SFDR should continue to be publicly available, and more specifically sustainability information. It should also take confidentiality aspects into account.**

When possible, product-level disclosures should be expressed on a scale.

*On sustainability information at product-level more specifically:*

**The documents should be comparable about the same sustainability disclosure topics and guarantee the same level of granularity of sustainability information.**

Professional investors tend to obtain sustainability information from direct enquiries to market participants or via SFDR disclosures provided by market participants. But sometimes, they also resort to data provider for indirect information which most of the time is least relevant from the one directly obtained from market participants.

This also demonstrate how SFDR requirements have only partially improved the quality of information and transparency provided by financial market participants about the sustainability features of the product they offer.

- ⇒ **The European Single Access Point would be useful to make all product information disclosed under SFDR available on one single platform.**
- ⇒ Disclosures at product-level should take different considerations into account such as, whether the underlying investments are outside the EU, are in an emerging economy or are in SMEs...

- **On potential establishment of a categorisation system for financial products (section 4 of the consultation):**

SFDR shed light on the sustainability degree of products, but its application does not totally erase the risk of greenwashing.

This issue could be solved by the establishment of a product categorisation system to better develop and distinguish between Article 8 and Article 9. It could help clarify the definition of the products falling within the scope of each article. **Also, in order to make the distinction clearer and prevent false allegations, article 9 fund's SFDR should insure minimal alignment to the Taxonomy regulation.**

It would also help understand the existing concepts such as environmental and social characteristics, sustainable development and do no significant harm.

- ⇒ **The categorization could be focused on the type of investment strategy and clearly consider transition.** However, the SFDR regulation should maintain mandatory transparency on impact KPIs.