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POSITION OF THE EUROPEAN BANKING FEDERATION ON IMPROVING SFDR

Towards simpler, more meaningful and retail investor-friendly disclosures

The SFDR's objectives are still relevant. However, there are many shortcomings with the interpretation and implementation of existing requirements, and we welcome the upcoming revision of the SFDR to strengthen the effectiveness of the regulation. We have set out recommendations to improve the framework's usability and transparency for end-investors, with a particular focus on retail investors.

Our key messages:

- **Focus on the needs of retail investors:** Disclosures and product categories need to be as simple and understandable as possible. Only information that is really needed should be disclosed. The current system is too complex with too many technicalities, leading to information overload, which often has the opposite effect on retail investors and their interest in sustainable investing.

- **PAIs:** Delete the annual PAI statement (entity-level), as it is overly complex, burdensome and not useful for stakeholders. At least, it must be significantly simplified. PAIs should only be used at product level and reduced to the most meaningful indicators for investors. Reducing and simplifying PAIs is essential to ensure that retail investors understand them, which is currently not the case.

- **Disclosure system:** Revamp the product-level disclosure system and limit it to pre-contractual and periodic disclosures. Website disclosures must not be a separate disclosure type, but rather the means of communicating pre-contractual and periodic disclosures. Significantly simplify and shorten all product-level templates and focus only on the most meaningful disclosures. These disclosures need to be as short and clear as possible for retail investors.

- **Product categories:** The product categorisation system should be built as much as possible on elements that have already become familiar to the market. We generally support three new product categories proposed by the EU Platform on Sustainable Finance. However, we see several problematic points:

- The criteria for categories might still be too complex, unclear and broad. Limiting vague and broad elements in product classification is important to avoid inconsistent market practices across the EU.

- The distinction between categories needs to be as intuitive as possible. Retail investors must be able to easily distinguish between the product categories.

- The name of the ESG collection category is ambiguous and might even mislead retail investors. A different name should be used. It is important both for distinction and meeting investors' expectations regarding their investment strategy.

- Any product category should be tested on the market, including with retail investors beforehand. Product categories should be as far as possible interoperable with categories in other jurisdictions.

- **Portfolio management:** Remove portfolio management services from the SFDR scope. At least, delete website disclosure requirements for portfolio management services and other tailor-made products, such as special funds.

- **Consistency:**

- Improve coherence across the whole EU Sustainable Finance Framework, in particular with MiFID II, IDD and PRIIPS. Align MiFID II rules with new categories to match sustainability preferences with new categories and financial products.

- Interdependencies with other regulations should be looked at for consistency as well: Benchmarks Regulation with SFDR for index funds, CSRD and Taxonomy with SFDR for data availability.

- Apply a consistent approach for derivatives across SFDR and related products and entities' indicators.

- **Balance:** Strike a balance between implementation costs for the financial sector and the benefits for investors.

Introduction

We believe **the idea behind SFDR, namely, to disclose certain ESG information, is meaningful, but in its current version, it has not been working adequately**. **The current flaws of the SFDR are broadly acknowledged**, including but not limited to overly complex and extensive disclosures, leading to information overload for retail investors, and lack of comparability (also because of too broad/vague definitions and too extensive narrative part), resulting in a disclosure system that is difficult to understand for most important stakeholders – retail investors and financial market participants, in particular distributors and financial advisors. More specifically:

- **Disclosures are overwhelming and too complex for most retail investors to enable them to make informed decisions.** The terms they use are also too technical and complex. The existing disclosure complexity also poses several concerns for market participants, such as legal uncertainty and reputational risks (e.g., we note that the ESAs' report raised risks linked to greenwashing). Thus, disclosures must be significantly reduced, and the information should be **simplified and made user-friendly** to support, in particular, retail investors in finding financial products that match their sustainability preferences.

- **Legal requirements and concepts are also not sufficiently clear.** The interpretation of several concepts (e.g., what is "sustainable investment") and the methodology of disclosures (e.g., for PAIs) vary between financial market participants, which impedes the comparability of the information. Also, internal criteria are used for "product classification", leading to inconsistencies and a lack of comparability across the market. The review should improve clarity.

- **Derivatives' contribution to funds' reporting is inconsistently** recognised across the three SFDR metrics (PAI, Taxonomy-alignment and SI), and the reporting methodology is unclear.

- Distributors also have challenges in providing a balanced palette of products with varying sustainability profiles of the products they distribute due to the **difficulty of comparing products based on their disclosure information.**

The reviewed framework should be built on the existing system, **enabling financial market participants to use as much as possible the internal solutions, processes and tools that they have invested in and implemented over the last years**. The implementation of SFDR required great efforts for the whole industry to define product frameworks to comply with requirements defined for Articles 8 and 9 named financial products, to invest in high-quality data, to develop tools for the integration of all the information in management systems, to establish monitoring and control procedures, etc.

To enhance the understanding of investors, in particular retail investors, it is also important to ensure consistency between SFDR, MiFID, IDD and PRIIPS KID and other relevant pieces of the EU Sustainable Finance framework, such as the CSRD and Taxonomy. The criteria set out for ESG benchmarks and sustainability product categories should also be closely aligned. The products passively tracking a PAB should automatically be deemed to satisfy the criteria of a future sustainability product category.

Furthermore, clarification and simplification of the DNSH criteria as well as **alignment between the application of these criteria under SFDR and Taxonomy would be required.** The application of this principle differs across various EU frameworks.

Overall, the SFDR review should be **based on a pragmatic approach with emphasis on the needs of retail investors and aligned and coherent with any potential changes to the scope of companies subject to CSRD.** We see the most value in this review in enhancing clarity, embedding a principle-based approach, defining more proportionate, simpler and more decision-useful product-level disclosure requirements as well as eliminating overlaps with other entity-level disclosure requirements.

1. Product categorisation system

It is important to develop a product categorisation framework as much as possible on existing SFDR elements and align with global financial market initiatives where possible because:

- Financial market participants have already spent millions of euros developing their internal systems and processes to comply with the SFDR.
- Putting the current system aside and creating a completely new categorization framework could create reputational risks for financial market participants due to the transition that would be needed to move sustainable financial products from the actual concepts of Article 8 and 9 to new categories.

The Article 8 and 9 approach could therefore be a starting point to develop a simple, clear and comprehensible categorization system, which provides useful and simple disclosures and minimum quantitative requirements for product categories.

However, we **also see challenges in building the categorization system based on the current SFDR,** given the plethora of approaches and methodologies currently in place. This could be an obstacle to finding a common approach for categorisation without seriously affecting the product range of financial market participants. It may also be challenging to come up with clear and understandable product categories without preventing innovation and overly stifling the market.

It is important to ensure that new categories accommodate the majority of financial products **with sustainability characteristics on the market** while not preventing further innovation and **including a transition finance aspect in the system with clear criteria that prevent greenwashing.** The right balance needs to be achieved between a sufficient level of ambition and ensuring that the investment universe is broad enough for each category.

Concerning taxonomy-alignment criteria, in principle, we believe that a minimum proportion of investments in taxonomy-aligned activities could be one possible criterion for sustainable products (noting there is no social taxonomy). However, in addition to the taxonomy, it must also be possible to include another criterion in this category: the definition of a “sustainable investment” as outlined in the SFDR.

This means that financial products in this category should refer either to the taxonomy or a “sustainable investment”.

Above all, in practice, it currently makes little sense to set taxonomy as the sole basis due to the lack of data and very low alignment values. The proportion of taxonomy-aligned businesses is limited.

Therefore, a sustainable category must also be able to rely on another criterion: the definition of a “sustainable investment” as set out in the SFDR. This means that **financial products in the first category should refer either to the taxonomy or a “sustainable investment”** criterion.

This is also the only way to ensure that investments outside the EU and social investments can be considered sustainable. Furthermore, innovation in the field of sustainability can only take place based on a broad definition. This is because the taxonomy is relatively restrictive and defines only six environmental objectives, and currently, only a relatively small proportion of economic activities are taxonomy aligned. However, other economic activities that do not fall within the scope of the Taxonomy Regulation can also be sustainable.

The minimum share of investments that can be considered as a “sustainable investment” or need to be taxonomy aligned for a sustainable category should be set wisely. Setting the minimum share too high carries the risk that there will be no or very few sustainable products.

Given the importance of transition finance, the revision should **take the opportunity to consider introducing a transition investment aspect within the categorization system,** which could consider different transition finance practices at entity level. Therefore, the “Transition” category should be introduced for financial products that invest a minimum share in companies that are demonstrably in transition. This proportion should be determined at the individual investment level. It is also important that the criteria for this category should not be set out as an exhaustive list because this category is still under development.

We generally support the idea of the EU Platform on Sustainable Finance to introduce new product categories in SFDR. However, we see several important shortcomings in the proposal:

- **The criteria for categories may be seen as too complex by retail investors**

Financial market participants need comfort to design, distribute and advise on financial products, while retail investors need comfort in that chosen products match their ESG preferences. **Only a simple and understandable product categorisation scheme can give the required level of comfort.** If the categorisation is not simple, financial advisors will struggle to explain, while retail investors will struggle to understand why and how a financial product fits into a specific category, producing risks not only of improper product-matching (with ESG preferences) but also of greenwashing.

The more complex the system, the more difficult it is for financial advisors to advise retail investors and for retail investors to choose the products that match their ESG preferences. **Therefore, we believe that a simple categorisation system that is free of too many technicalities should be at the core of the revision.** Each product should have a single primary categorization for ease of explanation and understanding.

Some criteria mentioned by the Platform on Sustainable have a certain problem with subjectivity, which will result in the same problems with inconsistent interpretation and implementation as today. In the transition category, it is unclear who would oversee deciding whether a transition plan/pathway is credible. Wide discretion in defining transition might also be problematic, for instance:

- *"Investments with credible transition plan or science-based targets"* or *"Transitioning real estate and infrastructure based on a credible plan"* (When is a transition plan credible?). This criterion is too broad.

- "*Up to X% (e.g. 20%) investments in companies without a transition plan, provided credible engagement strategy with ultimate divestment"* (When engagement strategy is credible?). This criterion leaves too much leeway.

Therefore, to improve the interpretation and implementation of the intended system, it would be necessary to avoid subjective elements as much as possible and instead **stick to objective aspects.**

- **The proposed categories have not been tested in practice**

Any new categorisation and related disclosures **should undergo extensive testing with the target group before implementation to confirm that a new categorisation system does what is intended and is related to existing ESG preferences in the market.** For instance, it should be checked whether retail investors can understand the differences between proposed categories and products therein.

Furthermore, it should be taken into account that the level of financial literacy of retail investors is not homogeneous across the EU. Most retail investors at this point do not have knowledge or any particular opinion about the category to invest in. Therefore, it is important to check the consumer reaction across the EU.

- **The distinction between proposed categories should be intuitive and simple**

A clear distinction is needed for retail investors to choose suitable financial products and for financial advisors to explain the differences between them. **Retail investors need to differentiate between the proposed categories**. The legislator should establish clear, principle-based and less rule-based requirements for the product categories. Certain provisions of the ESMA guidelines on fund names would, such as the exclusion of CTBs and PABs, could provide suggestions for this.

- **The proposed categories must be aligned with sustainability preferences**

Before introducing any categorisation system, investors' ESG preferences need to be understood. **Any categorisation system should be aligned with investors' ESG preferences across the EU.**

Any changes to SFDR in terms of product categorisation must also be reflected in the sustainability preferences assessment test under MiFID II – the questions that investors have to answer in this test should refer to product categories in SFDR (avoiding further questions within those categories) and lead to concrete products. Without revising the sustainability preferences assessment test, new categories will not help retail investors and financial advisors to find the needed financial products. More specifically, the sustainability information (definition of sustainability preferences) specified in MiFID II/IDD should be consistent with the key information provided in the

ESG appendices under Articles 8, 9, and 11 of the SFDR.

Nevertheless, **the MiFID II ESG preferences test should not be amended before the review of the SFDR**. **It should be linked with the new product categories, and the necessary adjustments should be made at the same time.** Otherwise, it will be complicated to match investors' ESG preferences with concrete products categorised under the new categorisation scheme and explain the product-matching to retail investors. This would mean that the SFDR revision does not attain its goals.

MiFID II sustainability preferences assessment should also be simplified, as overly technical questioning might drive clients away from sustainable investing.

- **The transition category might be confusing**

The definition of what is transition is not homogeneous in the financial markets. We recognize the political need to focus on transition and want to propose a transition category in its own right. We are, however, slightly concerned that the Platform's proposal will not leave enough flexibility to create transition products that are diversified and create returns. The criteria for this category should not be set out as an exhaustive list since this category is still under development. **Products need to invest a minimum proportion in businesses that are demonstrably in transition.** This proportion should be determined at the individual investment level.

Apart from the climate benchmarks, investments in transition companies will be a smaller element of a broader portfolio to ensure diversification. This will have to be considered carefully when setting thresholds. The minimum requirements for this category should not be too high.

Setting the targets against the reference benchmark should also be possible in the transition category, just like in the third category.

- **The ESG collection category is ambiguous.**

We are in favour of a third category. This category is needed to cover all possible sustainable investment strategies which exist on the market, and it could be essential to build a bridge between the current regime and the future categories because few existing products may be categorized as Sustainable or Transition from the very beginning. **However, it is necessary to ensure that this category is named clearly and clearly differentiated from the other two and properly identified in its content.**

The term "ESG collection" seems to be too generic and not intuitive for retail investors. The ESG collection category will be difficult for retail clients to understand, but for distributors and advisors, to explain. **The vast majority of retail investors use the terms "Sustainable" and "ESG" interchangeably.**

The name "ESG collection" might even give a false impression that it has the same level of sustainability as the "Sustainable" category. It would also avoid giving the impression that it's just as sustainable as the other product categories. **This needs to be avoided, and the name of the category should be intuitive enough to allow retail investors to distinguish this category from others.**

➢ ESMA guidelines on fund names could give suggestions for new categories

Consistency between categories and ESMA fund naming guidelines is essential to have consistent communication with retail clients. There should be full consistency between the criteria for the categories and the names that can be used for those categories.

Currently, they are not aligned. For instance, ESMA guidelines require PAB exclusions for funds named "ESG", but the "ESG collection" category requires CTB. Therefore, there could be "ESG collection" funds applying CTB that could not be named "ESG" because of ESMA guidelines – this would be very confusing for retail investors. Thus, it is important to check the ESMA Guidelines on funds' names for their consistency with future product categories after the review of SFDR.

➢ Impact investing

We are aware of the development of impact investing ideas, namely that in addition to financial returns, investors might be interested in non-monetary impact. **However, the inclusion of the impact investing term in the product categorisation scheme would unnecessarily increase complexity for the following reasons:**

- There is no common definition of what impact investing means and how to measure the impact (i.e., the real-world change) in the EU. The real-world change can be defined very differently. Therefore, before addressing any issues related to impact investing, a common understanding should be reached across the EU on what impact investing means. Furthermore, "impact" should not become a notion having a specific meaning in the financial world.

- There might also be overlaps with other product categories if impact investing ideas are incorporated in the product categorisation system (e.g., products can achieve sustainable real-world changes, changes related to transition or other changes). It is more like a cross-cutting indicator because real-world changes can theoretically be achieved by products in any of the categories, however, it would be too complex to implement such an indicator.

- It is exceptionally challenging to claim and demonstrate a non-monetary impact when investing in listed assets. Retail clients, active in the secondary market, often have a very indirect impact. Nevertheless, even indirect investor impact by simply choosing to invest in a sustainable product (instead of a traditional product that does not have ESG characteristics) is valuable.

- It might confuse retail investors even more about how to distinguish the impact investing from sustainable investing, investing in transition and investing in a third category (remark: Platform on Sustainable Finance suggests the term "ESG collection products").

➢ Sustainability indicator – proposed in the ESAs report

The ESAs have recommended to the Commission to consider the introduction of a product classification system based on regulatory categories and/or sustainability indicators to help consumers navigate the broad selection of sustainable products and support the full transition to sustainable finance.

Although we see merits in the sustainability indicator, in particular its simplicity for retail investors, **it would be exceptionally challenging to compress all elements related to "sustainable investing" and cost-effectively establish a single, simple, meaningful, and relevant cross-category indicator.**

Sustainable investing is a very diverse, multi-dimensional and complex topic, and we see the risk that a sustainability indicator might even be misleading for retail investors. For instance, if a sustainability scale ranks financial products according to their degree of sustainability, then sustainable products will receive higher scores than transition products. This classification can create an impression that sustainable products are better, especially in terms of environmental and social criteria. We would recommend avoiding this, especially since transition is important in tackling climate change.

A sustainability indicator cannot be used as simply as the PRIIPS risk indicator or an EPC indicator, given that a simple scale simply cannot accurately represent the multifaceted topic of sustainability.

Furthermore, it is also impossible to have a comparable sustainability indicator as long as the SFDR contains subjective or broadly interpretative terms.

- **Interoperability with product categories in other jurisdictions**

It is important to promote interoperability with rules established in other jurisdictions and facilitate implementation with a mapping of how labelling criteria compare across these frameworks, unless these rules are ineffective. **In the proposal, we do not see that these product categories have been compared and analyzed in light of the product categories set out in other jurisdictions.**

- **Supporting measures and transitional period**

If a new product categorisation system is proposed, sufficient time as well as measures to support the transition are essential.

It **should be clear how existing products, in particular Article 8 and 9 products, are going to feed into the new categories.** There should be a clear, sufficiently long and gradual transition phase **to any new categorisation scheme,** and information is needed as to how the existing products are going to feed into the new categories and what the process of classifying the products anew is.

The implementation period should be at least 18 months.

To increase the usability, we believe it would be useful if a potential regulatory attempt to digitalize sustainability disclosures by financial market participants **builds on the European ESG Template (EET),** which has been developed by the financial industry to facilitate the exchange of data between financial market participants and stakeholders regarding sustainability disclosures. It would also be useful to make all **product information disclosed under the SFDR available in the upcoming European Single Access Point as soon as possible.** However, a cost analysis should be made beforehand.

Since the ESAs have recently published their final report regarding the possible amendments to the SFDR RTS (final report of 4 December 2023), we believe that **to avoid unnecessary confusion and further implementation costs,** the Commission **should not amend the RTS until it is clear whether and how the legal text of the SFDR will change** (which would entail further amendments to the RTS).

➢ Derivatives

There is a lack of consistency and clarity regarding the treatment of derivatives under the SFDR metrics, and unfair representation of their role in sustainability.

In light of the PSF's recent derivatives recommendations in the Taxonomy Usability Report (dated of February 2025, p. 31-32), we would recommend applying a consistent approach to derivatives across the sustainable finance framework, in particular in SFDR product indicators. Specifically:

- The treatment of derivatives' positive and negative contributions should be aligned across the three KPIs (Taxonomy alignment, Sustainable Investment and Principal Adverse Impact). This is not currently the case: while the EU authorities consider that derivatives should be taken into account when calculating PAIs because they can constitute investment decisions, derivatives can never be found to have a positive impact (e.g., a proportion of taxonomy alignment). If derivatives can have negative impacts depending on their underlying, it should logically follow that they can also have positive impacts depending on the underlying.

- Accordingly, derivatives providing exposure to companies' debt or equity should be accounted for both positively and negatively: in line with the current PAI methodology, they should be converted to their equivalent economic exposure, using a delta-adjusted calculation[1].

- According to the PSF 2.0 and 1.0[2] reports, only derivatives providing exposures to company debt or equity have the potential to contribute positively to the channelling of capital to virtuous economic activities.

This is a key concern in the market, as current interpretations differ widely across financial institutions, as can be seen from the disclosures of Article 9 funds. **Therefore, it is essential to clarify the treatment of derivatives under the SFDR metrics.**

[1] The last draft delegated regulation amending the SFDR RTS provided that derivatives should be converted to their equivalent economic exposure when calculating principal adverse impact indicators (delta). The PSF recommendations followed this analysis. We therefore suggest harmonising the measurement of sustainable contribution through equivalent economic exposure (i.e. delta) in all European sustainable finance regulations which refer to these KPIs.
[2] The findings from PSF 1.0 already indicated that only equity and credit derivatives can be easily assessed under Taxonomy/SI.

2. Disclosures

➢ Entity-level disclosures

The majority of investors find the information included in the annual principal adverse impact (PAI) statement difficult to understand because it is very detailed and complex. The PAI statement does not add value for institutional investors either. Their use of this information is rudimentary, at best. SFDR has been created to report information on financial products, and there is other EU legislation in place, in particular the CSRD, for entity-level disclosures.

Company-specific reporting requirements should only be fulfilled "in one place" and within the framework of the CSRD, provided that the financial market participant is also subject to the CSRD. **Disclosures in the investment world should be at product level, as investors ultimately need information to choose which financial product to invest in.** Investors are specifically interested in the sustainability features of their desired product, and **SFDR should set product-level disclosures, whereas CSRD should set entity-level disclosures.**

Currently, there is a high degree of overlap and inconsistencies between SFDR and CSRD disclosures. For instance, SFDR disclosures are required at entity level, while CSRD disclosures may be required at consolidated level. As a result, for complex firms, statements published under Articles 3 and 4 or SFDR simultaneously capture different lines of business, all with different approaches for considering adverse sustainability impacts of investment decisions on sustainability factors. For this reason, statements must then be filled with disclaimers and exceptions to clarify information related to the firm's structure, which is not relevant to end-investors, and they become unclear, dissonant, and not user-friendly as a result.

Therefore, we believe that the requirement for the annual PAI statement should be deleted. At least, it needs to be significantly simplified.

➢ Product-level disclosures

a. Disclosure System

The current product-level disclosure system, split into pre-contractual, periodic and website disclosures, is not appropriate or user-friendly and is confusing for financial market participants. A lot of information required by website disclosures is already reported in pre-contractual and periodic disclosures, therefore, it is duplicative, not beneficial for investors (on the contrary, this leads to information overload) and only adds costs and burden for financial market participants. Website disclosures should not be a separate disclosure type, but publishing on a website should be the means to populate pre-contractual and periodic information for investors.

The templates for Article 8 and 9 products often contain repetitive sections, which can make them cumbersome to complete and difficult for investors to interpret. This repetition can dilute the clarity and usefulness of the information provided. In this respect, **we have accumulated some examples of redundancy in pre-contractual**

and post-contractual templates:

- Questions *“What sustainable investment objective/environmental and/or social characteristics are promoted by this financial product?”* and *“What sustainability indicators are used to measure the attainment of these characteristics?”* **often contain overlapping content**.
- Question *“What investment strategy does this financial product follow?”* **usually overlaps with another question:** *“What are the binding elements of the investment strategy used to select the investments (…)?”*.
- Question *“What is the asset allocation planned for this financial product?”* **already includes the information that is included in the following questions:** *“To what extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?”, “What is the minimum share of sustainable investments with an environmental objective (…)?”, “What is the minimum share of socially sustainable investments?” and “What investments are under “Other”?”*. Therefore, the asset allocation section often includes information about products’ commitments, which are then described again in the taxonomy section and sustainable investment sections.

The detailed specifications for the website disclosures under Articles 24 and 37 of SFDR Delegated Regulation often duplicate information that is already included in pre-contractual documents, which are typically accessible via the same website. **This duplication adds no meaningful value for clients, who are unlikely to benefit from reading the same content in multiple formats.** It also imposes additional compliance burdens on financial market participants, who must maintain and update the same information in multiple places. **For instance, website sections that are already covered by pre-contractual documentation:**

- No sustainable investment objective
- Environmental/social characteristics or sustainable investment objective
- Investment strategy
- Proportion of investments
- Monitoring of characteristics or objectives
- Designated reference benchmark

Thus, we would recommend revamping the existing product-level disclosure system and providing only pre-contractual and periodic disclosures. We believe that the ESAs' proposed dashboard in the Final Report to SFDR RTS might be used as a good basis. However, we believe that the most important piece of information is about the binding ESG elements applied to the portfolio (what is excluded, what are the structural tilts, etc.). This information should be at the core of the future disclosures.

b. The Content of Disclosures

To ensure informed investment decisions, we suggest making the disclosures in the SFDR simple, clear and understandable. The SFDR should concentrate on giving investors less but more easily accessible and understandable information, enabling them to make informed and quick investment decisions. The quality of information is more important than its quantity.

Simplifying and significantly shortening the templates used for pre-contractual and periodic information is important in the SFDR review. Retail investors need clear and understandable information. Pre-contractual and periodic information could be perceived as technical, and retail investors could be discouraged and confused by the excessive amount of information. Pre-contractual templates and disclosures are not consumer friendly – they are too detailed and extensive. **There is an overload of information.** The focus should be only on the key points.

The requirements to report on PAIs are too extensive, not easy to understand for clients and seem to diverge from the principles of SFDR. On the one hand, the SFDR asks asset managers to be transparent and “autonomous” (within certain boundaries) in the definition of methodologies to identify ESG or sustainable financial products. On the other hand, it lists granular requirements through a wide array of PAIs. **Therefore, the number of PAIs to be applied at product level should be significantly reduced and simplified to the most important climate and social-related ones.**

Optional PAIs make disclosures less comparable. Mandatory disclosures on a fixed and limited set of relevant PAIs for specific financial products would make SFDR more decision-relevant for investors. However, this approach should be tested on the market beforehand to check whether this works for clients.

There are also methodological challenges connected to PAI reporting. Different approaches have been witnessed across geographies.

Any pre-contractual and periodic information must be simple and fit-for-purpose in the MiFID II context.

c. Confidentiality

While we agree in principle that product disclosures under the SFDR are to be publicly available, we believe that confidentiality aspects need to be considered when specifying the information that should be made available to the public under the SFDR. Confidentiality rules in SFDR should be aligned with ESRS S1, where the undertaking is not required to disclose classified or sensitive information, even if such information is considered material.

➢ Portfolio management services

We recommend removing portfolio management services from the scope of SFDR, as it is the only product covered that is not a financial instrument.

SFDR disclosures and reporting are not appropriate for the portfolio management services, which are already covered by MiFID sustainability preferences (and include a regular report to the client). Portfolio management is often bespoke and not accessible to all clients, further complicating public disclosures. And from a competition viewpoint, disclosures in this area give competitors, including those outside the EU that do not have the same constraints, information about portfolio composition and investment decisions taken.

In any case, there should not be any website disclosure requirements for tailor-made products that are not accessible to the general public. Such products include, for example, portfolio management services or special funds set up for individual customers. Only customers for whom these financial products were set up can acquire these financial products. **Information about such products and services does not provide any additional value for the general public.** On the contrary, the additional costs of disclosing the relevant information discourage providers from expanding their offers of such financial products.

3. Costs

The revision needs to strike a balance between implementation costs for the financial sector and the benefits of revision for investors. As of now, the costs are disproportionate to the benefits. The current framework (including PAI) is too granular, provides too many details, leading not only to costly regulation but also limited usefulness for retail investors.

Financial market participants face significant costs to comply with SFDR disclosure requirements, and **a significant proportion of these costs is associated with the difficulty of interpreting and implementing some of the key principles and definitions underpinning the regime**, and the legal costs associated with obtaining advice or reclassifying products under each new iteration of interpretative guidance issued by the Commission or the ESAs.

Despite the challenges in allocating costs, SFDR has led to a structural increase in costs for sustainable financial products. It must be **avoided that the revision of the SFDR further increases costs for clients that want to invest sustainably.** This is all the more relevant for portfolio management services, where the costs are not borne by numerous investors.

4. Data gaps

Financial market participants are still facing difficulties in obtaining high-quality data, especially regarding:

- The proportion of taxonomy-aligned investments at product level
- The contribution to an environmental or social objective
- Element of the definition of 'sustainable investment' at product level, especially considering that this term is interpreted inconsistently across the market
- Entity-level and product-level PAIs, including when assessed in the context of the DNSH test

The data gaps and lack of appropriate sequencing of disclosure requirements for the financial and non-financial sectors, combined with the granularity of the requirements for the assessment of PAIs and the calculation of related indicators, **have led financial market participants to sometimes rely on estimates and proxies**. Reliance on data providers has a great impact not only in terms of the costs of buying this data, but also in terms of efforts to undertake a review of the data to ensure its accuracy.

More supervision on data quality from data providers is needed. Financial market participants depend on data providers. This has a great impact not only in terms of the costs of buying this data, but also in terms of the efforts to undertake a review of the data to ensure its accuracy. There should be a binding process that ensures that data providers undertake all the necessary checks on the data before sharing it with their clients.

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