



ESBG's answer to the Commission consultation on the SFDR review

Executive summary

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The Commission invited stakeholders to provide input on its consultation related to the implementation of the Sustainable Finance Disclosure Regulation (SFDR). ESG believes that there is a need to update the SFDR framework to address some shortcomings and to implement more consistency and clarity.

ESBG'S POSITION

First, ESG wishes to stress that it welcomes the SFDR objective to strengthen transparency through sustainability-related disclosures in the financial services sector to support the EU's shift to a sustainable, climate neutral economy. Nonetheless, it appears that the **costs** of disclosure under the SFDR framework are not proportionate to the benefits it generates. Indeed, following up on SFDR requirements is very resource intensive, affecting internal priorities and causing lack of resources for other engagement work. As a preliminary remark, we would like to highlight that **implementing changes comes at a high economic expense**, which requires a considerable investment of resources as well as costly IT adaptations. ESG asks to consider very carefully any future changes to:

- avoid adding an extra layer of complexity to the current framework;
- avoid making it even more difficult to implement for financial market participants or financial advisors and;
- avoid causing fatigue to customers with new information/requirements in a short period of time.

Moreover, in ESG members' experience, retail clients struggle to understand the information available. **It is notably related to the fact that many EU initiatives utilise different definitions of sustainability (Taxonomy, SFDR, MiFID II)**. This can result in inconsistencies, double reporting, legal uncertainties, low acceptance rates and even accusations of greenwashing, which may in turn potentially lead to civil ramifications. ESG would also recommend **reducing the current number of mandatory PAI indicators** to a small set of generally relevant PAI that are less prone to misinterpretations by investors.

ESG considers necessary to **simplify entity disclosure requirements**, addressing the most urgent and relevant issues. Retail customers find it difficult to understand all the information available in the market due to the complexity of the disclosures. Another issue that members must tackle is the **challenge for firms to access reliable data**, especially outside the EU, as well as the methodological problems faced by firms in relation to the PAI indicators for the principle of no significant harm to the environment (DNSH), due to lack of data and the use of estimates.

ESG sees merit on implementing a categorisation system for financial products but the way to design the different categories must be assessed very carefully in order to make sure that the framework is understandable by all investors, that one avoids fragmenting the market and that consistency with other regulations (MiFID II notably) exists.

Finally, ESG wishes to highlight that **the notion of transition is not sufficiently reflected in the regulation** given that the current approach is quite binary (for example sustainable vs non-sustainable investment).