The European Savings and Retail Banking Group (ESBG) submitted its response to the consultation launched by the European Commission on the comprehensive review of the Sustainable Finance Disclosure Regulation (SFDR). As the Commission is currently analysing the answers to its consultation on the SFDR review, this paper aims to bring further clarity on what would be the best way to review the SFDR so it can fulfil its objectives to strengthen transparency through sustainability-related disclosures in the financial services sector. The paper notably emphasizes the need for more consistency with other EU regulations, simplification through the reduction of mandatory PAI and more flexibility when it comes to the categorisation system.

More consistency with other EU regulations (MIFID II, IDD, CSRD).
In many ESBG members’ experience, retail clients struggle to understand the information available. While advising clients, investment firms place a particular emphasis on ensuring that the investment’s sustainability features are credible, traceable, and transparent. Nonetheless, these efforts are impacted by the fact that many EU initiatives (Taxonomy, SFDR, MiFID II and IDD) use different definitions of sustainability and that their respective regulatory frameworks are only connected in an insufficient manner. 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.

Reducing the current number of mandatory Principal Adverse Indicator (PAI) to simplify the framework and tackle misinterpretations.
ESBG members stress the need for a simplification of the current SFDR framework through reducing the current number of mandatory PAI indicators and transparency requirements in general to a small set of generally relevant ones that are less prone to misinterpretations by investors. This would be highly beneficial for the general understanding by distributors and end-investors. This is especially crucial given the current limitations in data quality creating methodological problems in relation to the PAI indicators for the principle of Do No Significant Harm (DNSH).

Implementing more flexibility in the new framework, notably by reflecting better the notion of transition or the distinctive features of financial products.
In this regard, one might think that to provide a fair, clear, and not misleading information to retail investors, SFDR should, where appropriate, allow for different approaches between different types of products. This is especially relevant for individual portfolios. Also, for flexibility’s purpose, ESBG strongly believes that the next SFDR framework should better promote the notion of transition since the current approach is too binary (for example sustainable vs non-sustainable investment).

Some thoughts on the categorisation system suggested by the Commission in its consultation.
It is important to bear in mind that possible alignments should be explored to avoid fragmentation of the market and further confusion in marketing that would generate distrust on the part of investors in the schemes. In this regard, ESBG stresses that the understanding of products that are labelled as “sustainable” must be as clear as possible and consistent alongside all relevant pieces of EU law, especially with regard to the consideration of sustainable preferences according to MiFID II/IDD. It is of utmost importance to ensure that the criteria to underpin the existing concepts do not introduce totally new approaches. Should new product criteria be introduced, ESBG would like to ask for a sufficiently long transitional period.