

# Summary Report of the Open and Targeted Consultations on the SFDR assessment

14 September 2023 - 22 December 2023

**DISCLAIMER:** *This document should be regarded solely as a summary of the contributions made by stakeholders to the open and targeted consultations that took place from 14 September 2023 to 22 December 2023 on the SFDR assessment. It cannot in any circumstances be regarded as the official position of the Commission or its services. Responses to the consultation activities cannot be considered as a representative sample of the views of the EU population.*

# 1. INTRODUCTION

## 1.1 The SFDR

The Sustainable Finance Disclosures Regulation (SFDR) started applying in March 2021 and requires financial market participants (FMPs) and financial advisers to disclose at entity and product level how they integrate sustainability risks and principal adverse impacts in their investment decision making processes. It also introduces additional product disclosures for financial products making sustainability claims. The objective of the regulation is to provide transparency to investors about the sustainability risks that can affect the value of their investments and about the adverse impacts such investments have on the environment and society with a view to supporting EU climate and sustainability neutral targets. The SFDR also aims at strengthening investor protection and making it easier for investors to compare financial products and services on their sustainability claims, with a view to guiding their investment decisions.

## 1.2 Purpose and timing of this consultation

In December 2022, Commissioner Mairead McGuinness announced a comprehensive assessment of the SFDR framework. These open and targeted consultations are an important part of this assessment which also included workshops and roundtables, enabling stakeholders to submit further input.

## 2. SUMMARY OF KEY MESSAGES

***Widespread support for the broad objectives of the SFDR but divided opinions regarding the extent to which the regulation has achieved these objectives during its first years of implementation – 89% of respondents consider that the objective to strengthen transparency through sustainability-related disclosures in the financial services sector is still relevant today. In addition, 94% of respondents agree that opting for a disclosure framework at the EU level is more effective than national measures at Member State level. However, 77% of respondents also highlighted key limitations of the framework such as lack of legal clarity regarding key concepts, limited relevance of certain disclosure requirements and issues linked to data availability. According to many respondents, these limitations have hindered the effectiveness and usability of the framework.***

***Consensus on the need to ensure consistency across the wider Sustainable Finance framework: Many respondents identified problems with the interactions between the SFDR and the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), the sustainability rules under MiFID II and IDD and the EU Climate Benchmarks. These respondents stated that these misalignments lead to implementation challenges and operational costs, and called for further improvement in the overall coherence of the wider framework.***

***Split views regarding the relevance of the SFDR entity level disclosures: there was no consensus regarding the usefulness of the entity-level disclosures on remuneration policies (39% in support, 26% against) and, adverse sustainability impacts (31% in support, 31% against). Responses showed some support for the current transparency requirements on the sustainability risk policies (49% in support, 15% against). A large majority of respondents called for these disclosure requirements to be simplified and streamlined across the sustainable finance framework. Many expressed concerns about a potential overlap between the transparency requirements on principal adverse impacts under the SFDR and the reporting obligations under the CSRD.***

***Support for setting uniform disclosure requirements for all financial products offered in the EU as well as additional disclosures for products making sustainability claims: 56% of respondents believe that the EU should impose standardised disclosure requirements for all financial products, irrespective of their sustainability claims, to ensure fair competition and improve comparability. However, respondents against this proposal highlighted the associated costs and the potential lack of relevance of such disclosures, which may not align with the***

products' investment strategies and even mislead investors creating risks of greenwashing. Additionally, 55% of respondents agree that products making sustainability claims should provide additional disclosures to support their claims.

**Strong support for a voluntary categorisation system regulated at the EU level:** A large majority of respondents believe that EU sustainability product categories are necessary for an efficient distribution system based on investors' sustainability preferences (69%), to combat greenwashing (64%), and to facilitate professional investors (72%) and retail investors (80%) understanding of products' sustainability-related strategies and objectives. Over 70% of respondents believe that disclosures alone are not enough to achieve these objectives.

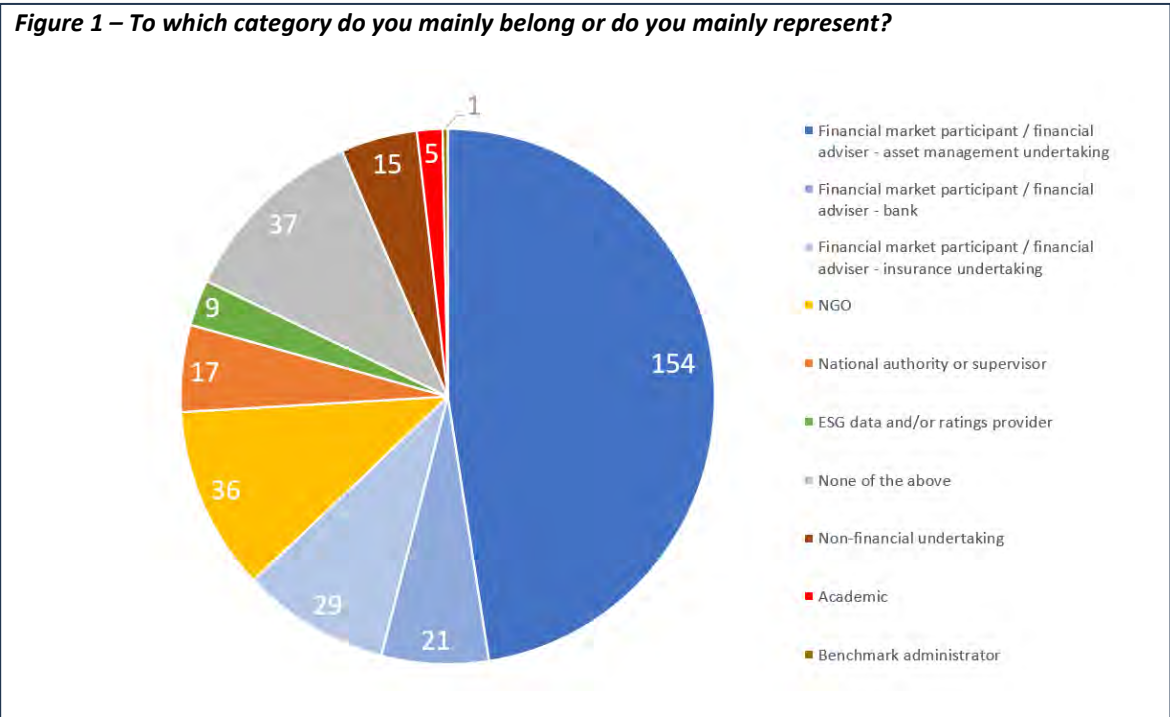
**No clear preference for one of the two proposed approaches to a potential EU categorisation system:** Views are divided on whether such categories should be based on new criteria (not related to existing concepts under the SFDR), or if Articles 8 and 9 should be converted into formal product categories by clarifying and adding criteria to support the already existing concepts.

**Although opinions differ on the approach to be taken, commonly agreed principles for the categories and underlying criteria emerged among respondents:**

- (1) **Retail investors-focused:** A large majority of respondents stressed the importance of categories being easily understandable by retail investors. They called for simple and comparable disclosures to help retail investors grasp the products' investment goals, strategies used to achieve them, and ESG performance monitoring.
- (2) **International dimension:** While acknowledging that full alignment with third countries' categorisation systems may not be feasible, most respondents urged the European approach to allow for international applicability.
- (3) **Integrating the concept of transition finance:** There is overwhelming support (72% of respondents) for creating a specific category for products with a transition focus, aiming to improve the sustainability profile of the assets they invest in.
- (4) **Asset-neutral criteria:** Respondents highlighted the need for underlying criteria to be asset-neutral and applicable to all types of financial products.

### 3. OVERVIEW OF RESPONDENTS

Figure 1 – To which category do you mainly belong or do you mainly represent?



324 organisations and individuals participated in the targeted consultation. Financial market participants (FMPs) and financial advisers made up the largest group of respondents (63%, 204 out of 324), primarily consisting of asset management firms (75%), insurance companies (14%), and banks (10%). The second largest group of respondents are NGOs, which constituted 11% (36 out of 324) of the respondents.

FMPs and financial advisers who responded to the consultation mostly conduct business for both professional and retail investors (44%) or towards professional investors only (41%), with 14% focusing solely on retail investors.

Respondents were predominantly from EU countries, with France, Germany, Belgium, Spain, and Luxembourg being the most represented (23%, 10%, 7%, 6%, and 6%, respectively, totalling 52%). Approximately 19% of respondents were from non-EU countries, predominantly the UK (11%) and the US (5%).

51 respondents provided answers to the open public consultation only, which included sections 1 and 2 of the targeted consultation. This group consists mainly of FMPs and financial advisers (37.3%, 19 out of 51) and NGOs (15.7%). The greatest number of respondents were from Germany (14%, 7 out of 51), followed by France, Belgium, Romania (12% each), and the UK (10%). Their responses were consistent with the trends observed in the targeted consultation. Therefore, this summary presents statistics from the targeted consultation only, incorporating relevant aspects of the responses to the open public consultation in sections 1 and 2.

## 4. SUMMARY OF RESPONSES PER SECTION

The consultation comprised 45 questions divided into 4 thematic sections. This chapter provides an overview of the main messages under each section. The statistics in this report only account for respondents who provided a response to the given question.

### 4.1 Current requirements of the SFDR

A total of 314 respondents answered this section of the targeted consultation. 47 additional respondents expressed their views on these questions in reply to the open public consultation, raising similar issues to those presented in the summary below.

The responses show significant **support for the SFDR policy goals but mixed views on how the implementation of the regulation delivered against its specific objectives.**

The vast majority of respondents (89%, 272 out of 304) agree to a very large or large extent, that the broad objective of the SFDR (i.e. to strengthen transparency through sustainability-related disclosures in the financial services sector) is still relevant today. In addition, 94% of respondents (276 out of 294) totally or mostly agree that opting for a disclosure framework at EU level was more effective and efficient than if national measures had been taken at Member State level. **However, 83% of respondents (245 out of 296) totally or mostly agree that the SFDR is currently not being used solely as a disclosure framework as intended, but is also being used as a labelling and marketing tool (in particular Article 8 and 9).**

Respondents expressed mixed views on whether the SFDR framework is effective in achieving its specific objectives. A majority (62%, 181 out of 292) said the SFDR has not effectively strengthened protection for end investors or made it easier for them to compare financial products with sustainability claims. A slight majority (52%, 153 out of 294) did not agree that it has successfully directed capital towards investments deemed sustainable, including transitional investments.

In addition, most respondents highlighted key limitations of the framework. Most notably, 84% (249 out of 296) totally or mostly agreed that the disclosures required by the SFDR are not sufficiently useful to investors, and 82% (247 out of 301) that some of its requirements and concepts, such as 'sustainable investment' are not sufficiently clear. 88% (263 out of 299) totally or mostly agreed that data gaps are making it challenging for FMPs and financial advisers to cope with the SFDR legal requirements. Most respondents agreed that these limitations are currently creating legal uncertainty (79%, 233 out of 296) and posing reputational risks for FMPs and financial advisers (80%, 237 out of 297) as well as risks of greenwashing and mis-selling (81%, 237 out of 294).

A great majority (over 66%) of FMPs and financial advisers (over 66%) consider the current interactions between principal adverse impact (PAI) product and entity level disclosures unclear. In particular, 80% of FMPs face methodological challenges with the requirement to 'take account of' the principal adverse impact (PAI) indicators established in the RTS at entity level for the 'do no significant harm' (DNSH) test at product level. In addition, 77% find it unclear how FMPs should approach materiality as regards these PAI indicators in the context of product disclosures for DNSH.

When asked about issues surrounding data availability, 98% (176 out of 180) of FMPs who responded to these questions said they face difficulties in obtaining good-quality data, and 53% (90 out of 171) reported engaging to a very large or large extent with investee companies to encourage reporting of the missing data. **When asked about the cost of disclosures, 58% (167 out of 287) of total respondents answered that they do not consider it to be proportionate to the benefits generated.** This figure increases to 71% (133 out of 186) among FMPs and

financial advisers. FMPs and financial advisers indicated that the main components of the costs of disclosures are the costs of personnel and of external advisory services.

## 4.2 Interaction with other sustainable finance legislations

Respondents were asked about their views on the SFDR interactions with the rest of the sustainable finance framework, including the EU Taxonomy, EU Benchmark Regulation, CSRD, MiFID II and IDD. A total of 296 respondents answered this section of the targeted consultation. 43 additional respondents expressed their views on these questions in reply to the open public consultation, raising similar issues as the ones presented in the summary below. **Many respondents highlighted that misalignments and inconsistencies between these regulations pose challenges for both FMPs and end investors.**

**Regarding the interaction with the EU Taxonomy Regulation**, more than a third of respondents (38%, 106 out of 277) agreed that the [Commission's FAQ released in June 2023](#) provided sufficient clarity on how to treat Taxonomy-aligned investments under the SFDR framework<sup>1</sup>, whereas a minority disagreed (20%, 56 out of 277). However, many respondents suggested that more efforts should be made to simplify the interactions between the definitions of 'sustainable investment' (SFDR) and 'environmentally sustainable' (EU Taxonomy). Concerns were raised about using the same terms for different concepts (e.g. 'contribution' and 'DNSH'), leading to confusion among retail investors.

**Regarding the interaction with the EU Benchmark Regulation**, most respondents identified inconsistencies regarding disclosures and the approaches to defining sustainability. Only 9% of respondents (24 out of 260) totally or mostly agreed that the ESG information provided by benchmark administrators aligns sufficiently with the information required by the SFDR for products referencing these benchmarks, compared to 33% who totally or mostly disagreed (87 out of 260).<sup>2</sup> Similarly, only 7% (19 out of 261) of respondents totally or mostly agreed that the SFDR approach to DNSH and good governance is consistent with the ESG exclusions under the PAB and CTB, against 34% (88 out of 261) who totally or mostly disagreed.<sup>3</sup> A significant share of respondents remained neutral or responded that they did not know.

**Regarding the interaction with the CSRD**, a large majority of respondents totally or mostly agreed (76%, 216 out of 284) that **there is room to streamline entity-level disclosure requirements under the SFDR and the CSRD**, especially regarding the future sectoral ESRS.<sup>4</sup> When asked **if the SFDR disclosures are consistent with the CSRD requirements**, more respondents disagreed (47%, 134 out of 285) than agreed (15%, 42 out of 285).<sup>5</sup> However, in their written responses, many FMPs and financial advisers welcomed the alignment between the PAI indicators of the SFDR and ESRS. The concerns raised mainly referred to the need to further harmonise definitions and terminology overall. Many respondents also indicated that further alignment between the SFDR and CSRD will not entirely address the current ESG data gaps, especially for investments in entities falling outside the scope of the CSRD reporting obligations. Specifically, on PAI reporting, some respondents believe that if an undertaking subject to the ESRS reports a data point derived from the SFDR as non-material, FMPs should also be able to consider that impact as zero for their own reporting. Others believe investee companies should be incentivised

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<sup>1</sup> The rest of the respondents either 'partially agreed and disagreed' (28%, 78 out of 277) or responded 'don't know/no opinion/not applicable' (13%, 37 out of 277)

<sup>2</sup> The rest of the respondents either 'partially disagreed and partially agreed' (14%, 37 out of 260) or responded 'don't know/no opinion/not applicable' (43%, 112 out of 260).

<sup>3</sup> The rest of the respondents 'partially disagreed and partially agreed' (24%, 62 out of 261) or indicated 'don't know/no opinion/not applicable' (35%, 92 out of 261).

<sup>4</sup> 4% (12 out of 284) totally or mostly disagreed, 7% (21 out of 284) 'partially disagreed and partially agreed', the rest of the respondents indicated 'don't know/no opinion/not applicable' (12%, 35 out of 284).

<sup>5</sup> The rest of the respondents 'partially disagreed and partially agreed' (26%, 74 out of 285) or indicated 'don't know/no opinion/not applicable' (12%, 35 out of 285).

to report on data that FMPs and advisers need, or be required to consider the majority of ESRS data points as always material.

**Regarding the interactions with the MiFID II and IDD rules**, 48% of respondents (128 out of 264) totally or mostly disagreed that the SFDR product disclosures are sufficiently useful and comparable to allow distributors to assess investors' sustainability preferences, against only 9% (25 out of 264) who totally or mostly agreed.<sup>6</sup> Concerns were raised regarding the varying methodologies used by product manufacturers to apply the same concepts, in particular 'sustainable investment' and 'consideration of principal adverse impact indicators'. Some respondents also suggested that ESG concepts used under MiFID II and IDD should focus more on products' intentionality. Many also recalled data availability issues hindering the implementation of the sustainability-related distribution rules.

Many respondents also support **aligning SFDR pre-contractual disclosures with the PRIIPs KID and investors' sustainability preferences**. In the scenario of a future product categorisation system, 73% would favour including the category that the product falls into as part of the PRIIP KID.

Finally, in the scenario of a future product categorisation system, 75% of respondents believe that if new EU ESG benchmarks were developed, **the criteria for these ESG benchmarks and the product categories should be closely aligned**. In addition, 40% believe that a fund tracking an EU Climate Benchmark (i.e. PAB/CTB) should automatically fall under one of the sustainability-related categories.

## 4.3 Potential changes to disclosure requirements for financial market participants

A total of 306 respondents answered this section of the targeted consultation.

### 4.3.1. Entity-level disclosures

The public consultation sought stakeholders' views on whether the SFDR framework is appropriate for setting sustainability-related disclosures at the level of the entities covered and whether the existing entity-level reporting requirements are deemed useful.

**Views on whether the SFDR is the right place to set entity-level disclosure requirements for FMPs and financial advisers are split, especially across the different stakeholders' groups.** Most FMPs and financial advisers responded that they do not consider the SFDR the right place to include entity-level disclosures<sup>7</sup>, while a majority of NGOs expressed support for having such disclosures in the SFDR.<sup>8</sup> NCAs' responses are split.<sup>9</sup>

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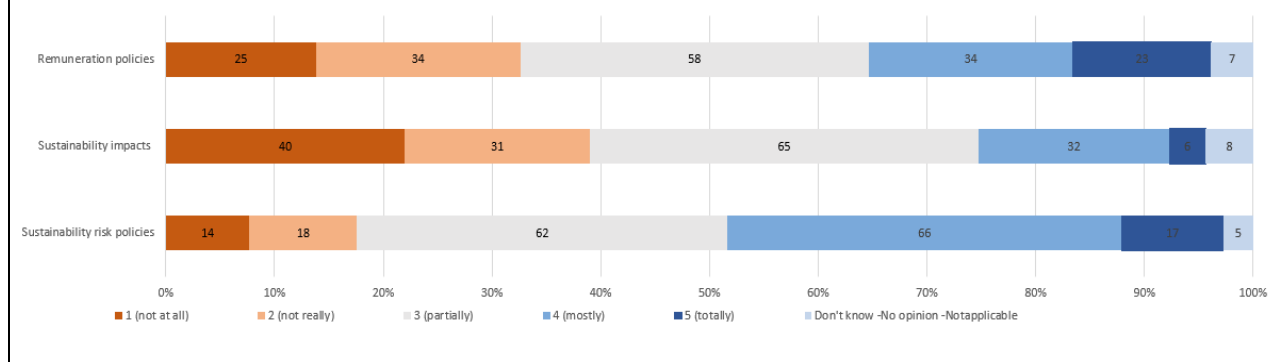
<sup>6</sup> 23% (24 out of 264) 'partially disagreed and partially agreed' Both agree and disagree, 18% (48 out of 264) responded 'don't know/no opinion/not applicable'.

<sup>7</sup> 52% (94 out of 182) responded 'not at all' or 'not really' and 21% (39 out of 182) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'.

<sup>8</sup> 19% (6 out of 32) responded 'not at all' or 'not really' and 59% (19 out of 32) responded 'mostly' or 'totally'. The rest responded 'partially' or 'don't know'.

<sup>9</sup> 29% (4 out of 14) responded 'not at all' or 'not really' and 36% (5 out of 14) responded 'mostly'. The rest responded 'partially' or 'don't know'.

**Figure 2: Are the current entity-level disclosures under the SFDR useful? insights from FMPs and financial advisers**



Respondents' views on the usefulness of the three sets of SFDR entity-level disclosures are also split. Disclosures concerning **sustainability risk policies** gathered the highest level of support, with 49% (138 out of 280) of respondents finding them 'totally' or 'mostly' useful, while 15% (41 out of 280) responded 'not really' or 'not at all'. Opinions are less definitive on disclosures regarding adverse **sustainability impacts**<sup>10</sup> and **remuneration policies**.<sup>11</sup>

Those in favour of the existing set of entity-level disclosures stated that they can provide valuable information to investors and civil society, allowing them to assess the sustainability ambition of an FMP and serving as a tool against greenwashing. Those against argued that they are not appropriate or useful to end-investors investing in financial products, and reported that investors rarely seek aggregate sustainability-related information at the level of the FMP.

**Most respondents also called for the entity-level requirements to be simplified**, for example for the PAI reporting requirements to be focused on material issues or on a reduced number of cross-sectoral indicators, **and streamlined across the different pieces of legislations**. Many stakeholders across all stakeholder groups expressed concerns around the duplication between the PAI reporting and the ESRS reporting.

#### 4.3.2. Product level disclosures

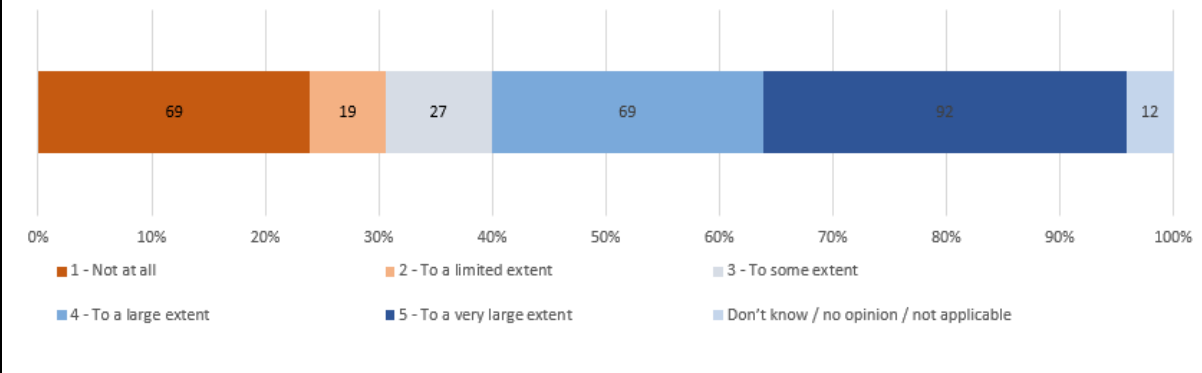
The consultation sought stakeholder views on potential changes to the product level disclosures, specifically on whether the framework should impose uniform requirements for all or for some financial products (e.g. products whose asset under management exceed a certain threshold to be defined, or products intended solely for retail investors) regardless of their sustainability-related claims, and whether additional disclosure requirements should be required from financial products that make sustainability-related claims.

<sup>10</sup> 31% (86 out of 281) responded 'totally' or 'mostly' and the same amount responded 'not really' or 'not at all'. The rest responded 'partially' or 'don't know'.

<sup>11</sup> 39% (108 out of 278) responded 'totally' or 'mostly' and 26% (73 out of 278) responded 'not really' or 'not at all'. The rest responded 'partially' or 'don't know'.



**Figure 3: Should the EU impose uniform disclosure requirements for all financial products regardless of their sustainability related claims?**

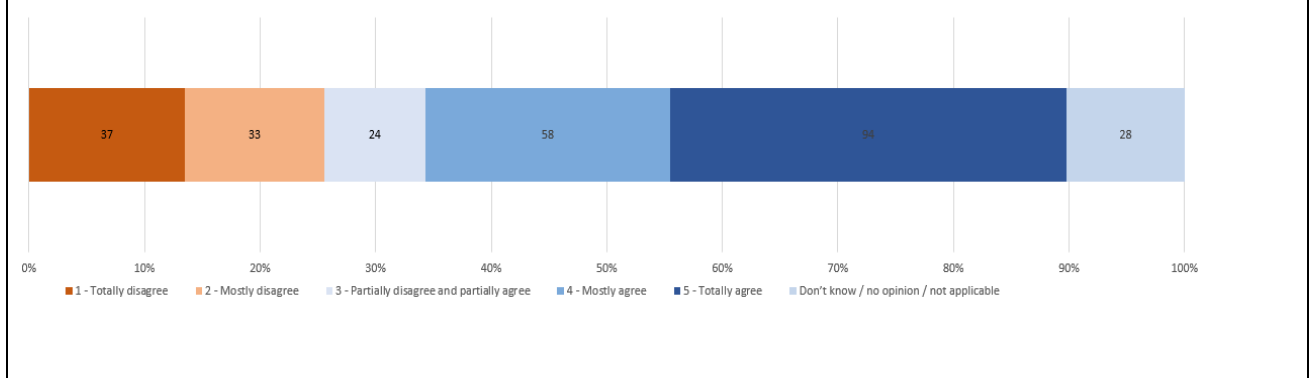


**56% of respondents (161 out of 288) agree ‘to a very large’ or ‘large extent’ that the EU should impose uniform disclosure requirements for all financial products offered in the EU, regardless of their sustainability claims.** 31% (88 out of 288) of respondents expressed the opposite view. Supporters of this measure, which are present throughout all stakeholders’ groups (for example, 50% of FMPs and financial advisers support such disclosures), argued that it would enable a level playing field, avoiding that sustainable products are disadvantaged by more reporting burdens and costs. Some have also argued that it would enhance transparency and comparability, allowing investors to make better informed choices. Those against argued that it would impose unnecessary costs on products without sustainability claims, and could confuse investors with information that may not be aligned with a product’s investment strategy, raising the risk of greenwashing.

When asked about what these disclosures should be, a large majority of respondents answered that they should be restricted to key meaningful indicators that are comparable across different markets and asset classes and easily understandable for retail investors. Respondents mostly mentioned **climate, diversity and human rights** as topics to be covered by the disclosures. Many respondents also argued that metrics on transition should be added. Conversely, some respondents, mainly from the NGO sector, suggested that there should be a comprehensive set of disclosures which could include the mandatory PAIs, alignment with the EU Taxonomy, percentage of investments in undertakings with a science-based transition plan, exclusions and engagement.

**There is less support for imposing uniform disclosure requirements for some financial products, regardless of their sustainability related claims** (e.g. products whose assets under management exceed a certain threshold to be defined, or products intended solely for retail investors), with 62% (172 out of 277) of respondents not agreeing at all, or only agreeing to a limited extent. The distribution of responses is similar across all stakeholder groups. Most respondents expressed concerns that it would make sustainability performance comparison impossible and would make the disclosure framework more complex and confusing. Many have also flagged that it would be challenging to define a subset of financial products that would need to fall within the scope of these disclosures.

**Figure 4: Should the EU impose additional disclosure requirements for products making a sustainability claims?**



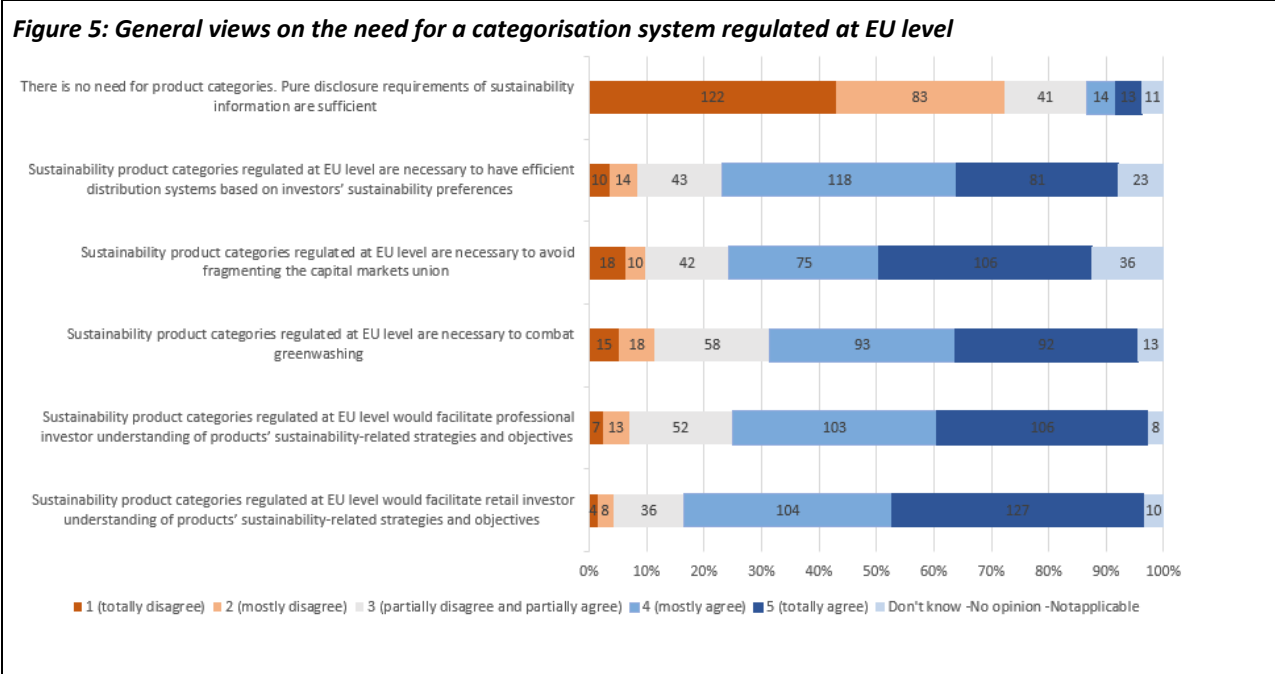
**55% (152 out of 274) of respondents totally or mostly agreed that products with sustainability claims should be required to substantiate their claims with additional disclosure to ensure credibility and prevent greenwashing.** While there was no clear consensus about what these qualitative and quantitative disclosures should be, the most cited ones include: sustainability objectives, sustainable investment strategy and associated binding and measurable KPIs, minimum standards of good governance, percentage of sustainable investments and Taxonomy-alignment, decarbonisation targets, percentage of undertakings having a transition plan, applied exclusions, engagement and voting policies and PAIs. Some respondents argued that such disclosures should be set in a flexible manner to align with diverse product investment strategies and to accommodate innovation and evolving market standards. On the other hand, others are of the view that these disclosures should be set by the regulators and be identical for all financial products with sustainability claims.

Lastly, many respondents stressed the importance of aligning these disclosures with potential future product categories and minimum criteria under the revised SFDR framework, and argued that any changes to the SFDR disclosures would need to be reflected in the MiFID and IDD sustainability preferences rules.

### 4.4. Potential establishment of a categorisation system for financial products

A total of 304 respondents answered this section of the targeted consultation.

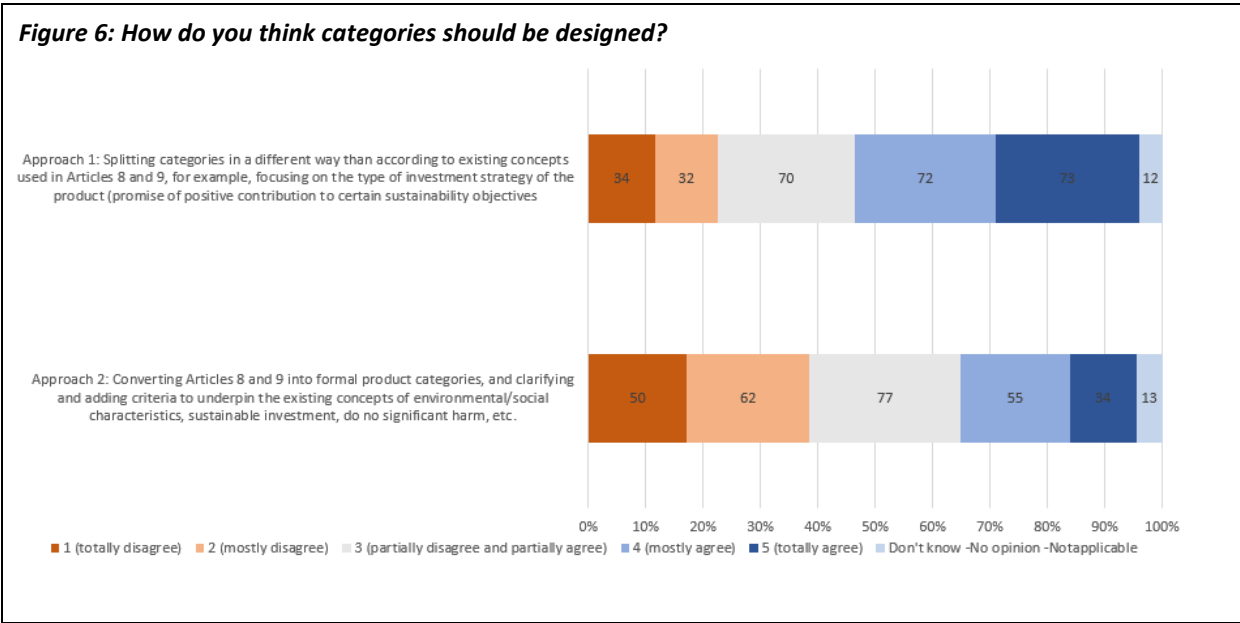
#### 4.4.1. Views on the potential establishment of an EU categorisation system



A large majority of respondents (72%, 205 out of 284) totally or mostly disagree with the idea that simply disclosing sustainability information is enough, **indicating the need to set up an EU categorisation system for financial products**. While the distribution of responses is similar across different stakeholder groups, respondents belonging to or representing the three financial services sectors (insurance, asset management and banking sector) have a slightly different view as regards the benefits of product categories for investors. 42% (11 out of 26) of respondents belonging to or representing the insurance sector totally or mostly agree that a categorisation system would improve understanding among professional investors, compared to 73% (104 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively. Similarly, 50% (13 out of 26) of the insurance sector respondents believe a categorisation system would help retail investors, compared to 84% (120 out of 143) and 76% (13 out of 17) in the asset management and banking sectors, respectively.

61% (163 out of 268) of respondents agreed that the SFDR is the appropriate legal instrument to deal with the accuracy and fairness of **marketing communications and the use of sustainability related names for financial products**, 19% (51 out of 268) disagreed and the remainder were unsure. In addition, 69% (192 out of 279) of respondents totally or mostly agreed that the introduction of product categories should be accompanied by specific rules on how market participants must label and communicate on their products. Several stakeholders raised timing concerns regarding the ESMA guidelines for fund names and the regulatory coherence with a potential new product categorisation system.

**4.4.2. General views on the two proposed approaches**



Respondents were asked whether they would support a system that splits categories in a different way than according to existing concepts used in Articles 8 and 9 (approach 1), or a categorisation system converting Articles 8 and 9 into formal product categories and clarifying and adding criteria to underpin the existing concepts of the SFDR (approach 2). Results indicate a slight preference for the first approach, with 50% (145 out of 293) of respondents totally or mostly agreeing and 23% (66 out of 293) totally or mostly disagreeing.

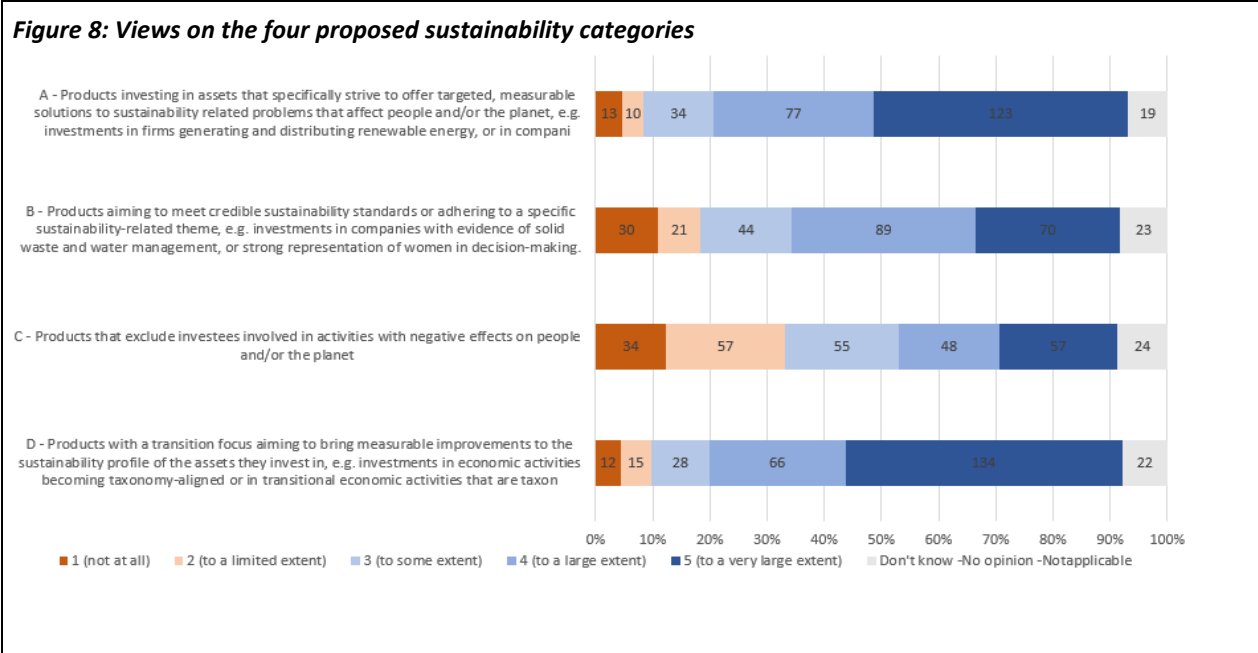
The distribution of responses varies among the different types of respondents.<sup>12</sup> Notably, the majority of respondents belonging or representing NCAs and the asset management sector support approach 1, while most respondents from the insurance sector strongly disagree with approach 1 and favour an approach based on existing concepts. The views of respondents representing the banking sector are divided.

The majority of respondents in favour of approach 1 highlighted the limitations in the current framework and argued that the existing concepts cannot cater for, or differentiate between, the wide range of ESG strategies in the market. Many also stated that the current terms are not adequate for retail investors. They also argued that new categories could allow for a potential alignment with other national regimes. Conversely, most respondents in favour of approach 2 argued that the SFDR already provides the necessary elements for sustainability assessments and disclosures and expressed concerns about regulatory stability and the associated costs of switching to a different system, which would be transferred to end-investors.

<sup>12</sup> **Distribution of opinions between categories of respondents:**  
**Views from NCAs** – Approach 1: 80% (12 out of 15) totally or mostly agree and 0% mostly or totally disagree. Approach 2: 20% (3 out of 15) totally or mostly agree and 73% (11 out of 15) totally or mostly disagree.  
**Views from NGOs** – Approach 1: 44% (14 out of 32) totally or mostly agree and 19% (6 out of 32) totally or mostly disagree. Approach 2: 25% (8 out of 32) totally or mostly agree and 25% (8 out of 32) totally or mostly disagree.  
**Views from the asset management sector** - Approach 1: 58% (84 out of 145) totally or mostly agree and 18% (26 out of 145) totally or mostly disagree. Approach 2: 30% (44 out of 145) totally or mostly agree and 46% (66 out of 145) totally or mostly disagree.  
**Views from the banking sector** – Approach 1: 35% (6 out of 17) totally or mostly agree and 41% (7 out of 17) totally or mostly disagree. Approach 2: 41% (7 out of 17) totally or mostly agree and 29% (5 out of 17) totally or mostly disagree.  
**Views from the insurance sector** – Approach 1: 11% (3 out of 27) mostly agree and 63% totally or mostly disagree. Approach 2: 52% (14 out of 27) totally or mostly agree and 19% totally or mostly disagree (5 out of 27).

Despite diverging views on the approach to be taken, many respondents indicated that they would support a hybrid approach combining established SFDR concepts with a voluntary categorisation framework. Irrespective of the chosen approach, most respondents emphasised the importance of the categories being **focused on retail investors, incorporating international frameworks, and leveraging existing national labels.**

**4.4.3. Views on approach 1**



The categories most supported by respondents are **category A** (73%, 200 out of 276, finds it useful to a large or very large extent) and **category D** (80%, 200 out of 249, finds it useful to a large or very large extent) **with a large majority of respondents having indicated that integrating transition finance within the SFDR should be a top priority.** Category B was deemed useful to a large or very large extent by 58% of the respondents (159 out of 277). However, there was little backing for category C, as many believe exclusion is a common ESG strategy applicable across various categories and thus doesn't warrant its own category. On the other hand, respondents in support of this exclusion category argued that it would address demands from retail investors to invest in products with mainstream ESG exclusions and no other sustainability features. Some respondents proposed additional categories, including a mixed category for products with multiple objectives and a grading system based on sustainability considerations. A few respondents also indicated that categories should allow differentiation between impact-aligned and impact-generating funds.

Regardless of the specific categories, if a categorisation system were established, a majority of respondents argued that **categories should be based on intentionality of outcomes**, i.e. aligning new product categories with investment goals rather than investment strategies. These respondents argued that transparency would be key, with products expected to clearly articulate their investment strategy and demonstrate how it aligns with their goals through **credible, measurable, and science-based KPIs.**

While most respondents agreed that each category should come with a clear set of criteria, opinion is split as to whether they should be accompanied by an already-defined set of KPIs/indicators (and potentially a certain level of ambition or quantitative thresholds), or if indicators should be chosen by FMPs in a flexible manner to allow for a wide range of investment strategies and avoid narrowing the scope of investment options. Despite these differing views, a large majority of respondents stressed the importance of **criteria that would be applicable across all asset classes and types of financial products** (e.g. pension funds, insurance products and multi-asset

strategies). Most respondents also indicated that the criteria and indicators chosen should **leverage the existing sustainable finance framework** where possible, and that the availability of data should be taken into account.

Respondents were asked how many sustainability product categories they would support and whether the categories should be mutually exclusive. Most respondents indicated a preference for between 3 and 5 categories<sup>13</sup>, while arguing that they cannot choose an exact number as the number of categories would depend on the approach and criteria chosen. Opinions are divided on whether categories should be mutually exclusive. While 31% (85 out of 271) of respondents agreed, 34% (91 out of 271) disagreed, and 22% suggested that another approach is possible.<sup>14</sup>

Finally, when asked if measures would be needed to support the transition to a categorisation system that builds on new criteria and not on the existing concepts embedded in Articles 8 and 9 (approach 1), a large majority of respondents totally or mostly agreed (81% - 219 out of 270), arguing that FMPs should be given sufficient time to understand and implement the new regime as a high proportion of investment products currently disclosing under Article 8 and 9 of the SFDR would need to be evaluated.

#### **4.4.4. Views on approach 2**

Respondents' opinions on retaining the current concepts under the SFDR in a potential categorisation regime are divided. Regarding the concept of **'sustainable investment'**, 58% (156 out of 267) of respondents find the current definition fit for purpose to some, a large, or a very large extent, while 33% (89 out of 267) responded 'to a limited extent' or 'not at all'. Respondents in favour of the current concept of sustainable investment argued that it provides for a common definition which can be applied to a wider pool of assets than the Taxonomy framework, and which is composed of all the critical aspects necessary to a sustainability assessment. However, some respondents stated that the underlying concepts (i.e. 'contribution to an environmental or social objective', 'DNSH', and 'good governance practices') are too broad and lead to a heterogeneous implementation between FMPs. When elaborating on their responses, many suggested the need for adjustments, particularly in establishing minimum criteria and providing additional guidance on their application, which could be issued by either the EC or the ESAs. In particular, these respondents argued that the lack of a prescriptive methodology for the 'DNSH' concept one of the primary issues of the SFDR framework.

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<sup>13</sup> 27% (71 out of 266) responded 4 categories, 21% (57 out of 266) responded 3 and 14% (36 out of 266) responded 5. 33% responded 'don't know/not applicable'.

<sup>14</sup> The rest of the respondents indicated 'don't know/no opinion/not applicable.'