EU Targeted Consultation: key messages from the SPTF group

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# **The Sustainable Finance Disclosure Regulation (SFDR) has been an important milestone in the shift towards a sustainable economy. However, like every new regulation it has unintended effects that need to be addressed in the upcoming review of the SFDR.**

**The Sustainable Finance Disclosure Regulation (SFDR) has been an important milestone in the shift towards a sustainable economy and a big gamechanger for mainstreaming sustainable finance in the boardroom of the investment world. However, like every new regulation it has unintended effects that do not contribute to the objectives of the regulation itself. We stand firmly behind the original SFDR objectives of steering capital flows towards sustainable investments, mainstreaming sustainability into risk management and fostering transparency and long-termism. With that in mind, we see the following effects of the regulation that need to be addressed in the upcoming review of the SFDR.**

**• The current SFDR documentation doesn’t provide clarity and comparability for investors, particularly retail investors. We see that the disclosure documents published on the product websites are hardly read and understood by investors. The market seems to rely on the article 6, 8 or 9 categorisations mostly, which is, however, limited and not comparable.**

**• The SFDR currently does not provide insights in the investments in non-sustainable or even harmful activities. The lack of information on the impact of article 6 products results in insufficient transparency for investors to make informed decisions and steer capital towards sustainable investments.**

**• The focus of the SFDR on disclosures for sustainable products results in an increased financial and administrative burden for those products. This results in an uneven playing field between sustainable and non-sustainable products, because it increases the costs of sustainable products only. It also leads to market participants purposely not disclosing sustainable characteristics of their products, also known as ‘green hushing’. Both stand in the way of steering capital to sustainable investments.**

**Questions where this key message can be pasted:**

**1.5 > 1.7 : current requirements of the SFDR**

# **Ensure harmonization and complementarity across EU sustainability-related regulations and remove overlaps.**

**SFDR for Financial Market Participants, the EU Taxonomy for sustainable activities, CSRD and the future CSDDD for Corporates, all share the same ultimate goal: foster a more sustainable economic development and reach the EU Green Deal Objectives. In their current form, these different pieces of regulation are deeply intertwined, have some overlaps and, while they borrow concepts from each other, they sometimes use different definitions for concepts that are quite similar. This creates legal uncertainty and confusion, at the cost of Corporates, Financial Market Participants and Investors.**

**To ensure that the EU regulations efficiently push all market actors towards a resource-efficient and just economy, we deem it imperative to ensure that these regulations complement each other, while removing overlaps and inconsistencies. This would improve the data available for SFDR reporting in terms of quality, coverage and comparability.**

## **1.1 SFDR should apply only to product (and not entity) disclosures.**

**We agree fully with increasing disclosure requirements. However, we believe that SFDR should focus on product-level disclosure and remove the current entity-level disclosure requirements. Indeed, much of the SFDR entity-level information has to be disclosed by Financial Market Participants through other regulatory requirements, with CSRD requiring all large companies and all listed companies to disclose information on what they see as the risks and opportunities arising from social and environmental issues and the Capital Requirements Regulation requiring banks to incorporate ESG risks in their risk management framework and stress testing.**

**If SFDR would solely focus on product-level disclosures, it would avoid overlaps and potential inconsistencies between the different pieces of the sustainability regulatory framework and ensure that regulatory obligations are proportional to meet investors’ needs. In turn, this cost-saving would enable Financial Market Participants to focus on enhancing their product-level disclosures.**

**This is especially true for the Principal Adverse Impact (PAI) statement: while disclosure of PAIs is very relevant at the product level and can help investors (including retail ones) in making their investment decision, entities can have different investment strategies and aggregating results at the entity level can be misleading, which goes against the purpose of SFDR.** Current PAI statements are exceeding 20-pages long, not user friendly nor useful for investors, and allow room for misinterpretations.

**The entity disclosures should thus be removed from the SFDR and entities that are in scope of CSRD would make disclosures according to European Sustainability Reporting Standards (ESRS) requirements.**

**Questions where this key message can be pasted:**

Box below 1.8 / 1.8.1 and 1.9: Disclosures of PAIs

**3.1 :** Entity Level Disclosures (box at the end of the section)

3.2.8: Do you believe that sustainability related disclosure requirements at product level should be independent from any entity level disclosure requirements, (i.e. product disclosures should not be conditional on entity disclosures, and vice-versa)?

## **1.2 Harmonization of concepts and approaches.**

**We agree fully with the goals of fostering more sustainable environmental and economic development. However, to be most effective, all regulatory efforts towards this goal (SFDR for financial services, the EU Taxonomy for sustainable activities, CSDR and the future CSDDD for Corporates) should be fully aligned, avoid overlaps, and use identical definitions for common key concepts. We suggest this requires to:**

* **Clarify the current overlap between SFDR’s Do No Significant Harm (“DNSH”) and Good Governance requirements and the EU Taxonomy’s Minimum Safeguards concepts. Currently, the SFDR Delegated Regulation requires to disclose minimum safeguards on top of good governance criteria and as part of “DNSH” safeguarding (s**ee art. 39(b) and 59(e)(ii) of Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022). **This overlap between concepts prevents disclosure harmonization and creates legal uncertainty. The SFDR should thus avoid all references to minimum safeguard concepts, applicable only within the framework of the Taxonomy Regulation. This will be legally consistent and ensure sufficient reporting.**
* **Ensure full alignment of SFDR and CSRD on metrics used for similar concepts. Both SFDR and CSRD recognize the concept of double materiality (i.e. ESG or sustainability risks and their implications for the value of investments or the value of the company, as opposed to the impact of the company or investee on ESG or sustainability factors). The double materiality concept translates into sustainability reporting requirements. However, such reporting is made with reference to two different sets of standards:**
  + **SFDR (Art.3 and Art.4) requires double materiality disclosures to be made in accordance with the Regulatory Technical Standards (RTS) which establish a single rulebook for sustainability disclosures under the SFDR and the Taxonomy Regulation.**
  + **CSRD requires double materiality reporting in compliance with the ESRS which provide twelve standards with detailed requirements for corporate ESG reporting.**

**As a result, financial institutions are facing multiple reporting requirements, which are at time overlapping and/or inconsistent. This adds complexity and undermines the purpose of providing consistent and reliable data. SFDR and CSRD metrics, when used for similar concepts, should be identical or comparable. The introduction of reconciliation tables may be a way forward to avoid this pitfall..**

* **Amend rules for Client Advice (MIFID) in line with future changes of SFDR so that intermediaries and investors can make effective use of SFDR disclosures to select a financial product that meets their clients’ “sustainability preferences”.**
* Another example is the inclusion or exclusion of cash in the PAI statements of entities and products. In some jurisdictions the definition of investments includes cash and in others cash is excluded. As some (more illiquid) alternative investment funds, especially private debt funds which are often used for impact investments, can have quite some cash in order to serve their (often retail) investors well, this has a large influence on the reported % of sustainable investments. The exclusion of cash from the calculation of proportion of sustainable investments/taxonomy-alignment should become standard and be clearly specified in the regulatory technical standards.

**Questions where this key message can be pasted:**

**Section 2: “Interaction with other sustainable Finance legislation” (box at the end of the section)**

**4.1.12 a) >> DNSH Harm Box [copy only the section on DNSH] : If you consider that the elements listed in question 4.1.12 are not fit for purpose, how would you further specify the different elements of the ‘sustainable investment’ concept, what should be the minimum criteria required for each of them?**

# **Different transparency requirements are needed for professional and retail investors. Website disclosures are crucial for retail investors but should become voluntary for products which only target professional investors.**

**Website disclosures should be left solely for products offered to retail investors, who often are unable or cannot fully understand annual reports or pre contractual disclosures, written in complex risk and legal jargon.**

**For products that are offered to professional investors, the website disclosures serve little to no purpose, as these investors are fully capable of understanding pre-contractual disclosures and periodic reports, and commonly use these documents for their due diligence at entry and for their ongoing monitoring of investments.**

**The depth and detail currently required for Financial Market Participants’ website disclosures impacts competitive advantages by obliging to explain strategies at length and to the open public, many times at the sole advantage of competitors who are granted free access to inside knowledge of other market participants.**

**Website disclosure obligations should thus be made voluntary for Financial Market Participants that solely offer products to professional investors.**

**Questions where this key message can be pasted:**

**Question 3.2.2 a) If the EU was to impose uniform disclosure requirements for some financial products, what would be the criterion/criteria that would trigger the reporting obligations?**

**Question 3.2.6:** Website disclosures

# **Mandatory** disclosure of a minimum set of PAI indicators for all products. Remaining PAI disclosure subject to a materiality threshold, based on the particular asset class.

We believe strongly in encouraging ALL Financial Market Participants towards greater transparency on sustainability issues. We believe limiting such disclosure requirements to only explicitly sustainable funds (Article 8 and 9) creates a misalignment of incentives, encouraging non-sustainable actors to hide their practices under less transparent (and less demanding) reporting requirements.

Disclosures on a limited number of sustainability indicators that allow investors to assess the most important negative impacts should be mandatory across all products. And then, the additional reporting from funds that have sustainable investments as their objective, would ensure that these funds can back up their claims with appropriate evidence. The effect would be to set a minimum PAI reporting floor for all, with supplementary reporting for sustainable products. We believe that this could support the acceleration of transitions and contribute to reduce adverse impacts of ALL investments by ensuring that investors can make informed investment decisions.

**The mandatory set of PAIs should include**:

* Exposure to companies active in the fossil fuel sector,
* Exposure to companies involved in the cultivation and production of tobacco,
* Violations of UN Global Compact and OECD Guidelines,
* Exposure to controversial weapons,

GHG emissions and the related metrics (Carbon footprint and GHG intensity of investee companies),

* Board gender diversity of investee companies.

The list above includes all investments that are excluded from EU-Paris aligned Benchmarks (art. 12 of the Delegated Acts of the Benchmark Directive (EU 2020/1818)). It provides relevant information for all investors and is also manageable to collect from all investee companies (through the use of proxies for the case of GHG emissions).

In addition, the following PAIs should also be mandatory, subject to a materiality assessment if a given product invests significant amounts in relevant economic sectors:

* Energy consumption intensity per high impact climate sector,
* Activities negatively affecting biodiversity sensitive areas,
* Emissions to water,
* Hazardous waste.

The definition of PAIs should be clarified to ensure comparability of disclosures (definitions, formulas, etc.) across products, jurisdictions and legal frameworks. The definition of violations notably should be sufficiently precise (sanctions, dispute in court, etc.).

Using a similar approach as CSRD, SFDR should also make it clear that Financial Institutions need to take into account the impact of their business/client relationships in their sustainability reporting to ensure comparability of disclosures on Principal Adverse Impacts for Financial Products that have Financial Institutions as Investee Companies.

Financial Market Participants could choose to disclose additional PAIs if they believe these are relevant for their types of investments.

**Questions where this key message can be pasted:**

Box below 1.8 / 1.8.1 and 1.9: Disclosures of PAIs

3.1.2 Among the specific entity level principal adverse impact indicators required by the Delegated Regulation of the SFDR adopted pursuant to Article 4 (tables 1, 2 and 3 of Annex I), which indicators do you find the most (and least) useful? **[Only list of PAIs + paragraph]**

3.2.1.a If the EU was to impose uniform disclosure requirements for all financial products offered in the EU, should disclosures on a limited number of principal adverse impact indicators be required for all financial products offered in the EU?

Question 3.2.2 b) If the EU was to impose uniform disclosure requirements for some financial products, should a limited number of principal adverse impact indicators be required? **[Only list of PAIs + paragraph]**

# Keep the current definition of “sustainable investments” (Article 2(17) of SFDR). Refine to include concepts commonly used internationally to define impact investments.

**We consider the current definition of “Sustainable Investments” (Article 2(17) of SFDR) as optimal in terms of its openness and flexibility. It allows a Financial Market Participant to explain how its investments contribute to sustainable objectives. It can adapt to all strategies that can be used by Financial Market Participants to contribute to solving sustainability issues. It can also adjust to the realities of emerging markets. This is very much welcome, and this approach should not be changed.**

**We however suggest refining the wording to put more emphasis on the terms commonly used internationally to define impact investments: the intention to achieve a positive and measurable social and/or environmental impact.**

**A potential evolution of Article 2(17) could read as follows (additions in CAPITAL LETTERS)**

**‘sustainable investment’ means an investment in an economic activity OR ASSET that contributes:**

1. **to an environmental objective, SUCH AS the REDUCTION OF THE use of energy, THE INCREASE IN THE PRODUCTION OR CONSUMPTION OF renewable energy, THE REDUCTION OF THE USE OF raw materials, water and land, the REDUCTION OF THE production of waste, THE REDUCTION OF greenhouse gas emissions (INCLUDING THROUGH TRANSITION PLANS), or A POSITIVE impact on biodiversity and the circular economy;**
2. **to a social objective, SUCH AS tackling inequality or FOSTERING social cohesion, social integration and labour relations, or an investment in human capital or THE DEVELOPMENT OF economically or socially disadvantaged communities;**

**provided that:**

1. **such investments do not significantly harm SUSTAINABILITY FACTORS;**
2. **SUCH INVESTMENTS ARE MADE WITH A PRE-DEFINED INTENTION TO ACHIEVE A POSITIVE IMPACT THAT IS REGULARLY REPORTED AND MEASURED**
3. **investee companies follow good governance practices.**

**We suggest clarifying the following points:**

* **Investments that specify the use of proceeds and intend to help companies decarbonize and/or adopt a transition plan are included within the definition, so as to give legal certainty to so-called article 9 funds that these activities naturally fall within the remit of products with sustainable investments as their objective, as long as clear impact targets are defined and measured and reasonable safeguards are put in place to ensure that such investments do not cause significant harm.**
* **Investments that contribute to the economic development of low or middle income countries can be considered as Sustainable Investment as long as clear impact targets are defined and measured and reasonable safeguards are put in place to ensure that such investments do not cause significant harm..**
* **Sustainable Investments cannot be confined to economic activities covered by the EU taxonomy as this would not do justice to the spectrum of investments needed for a sustainable society, especially given the fact that many Taxonomy criteria rely on compliance with EU legislation which de facto eliminates non-EU investments.**
* **Investment in companies that are not fully compliant with good governance practices but that include contractual conditions and engagement with investee companies to lead them to implement good governance practices, can be considered as Sustainable Investment as long as the Financial Market Participant has adequate monitoring and reporting mechanisms on this matter as well. This would ensure that Sustainable Investments can also foster change, which is much needed, especially in markets or countries where such concepts are not yet included in the national regulations. The enforcement of the forthcoming CSDDD will imply more activity in the governance area of sustainability.**
* **Reporting on positive impact should be governed by standards of quality and rigor similar to reporting on risks, as referred to in articles 19a, 29a and 34 of Directive 2013/34/EU.**

**Questions where this key message can be pasted:**

**1.5 > 1.7 : current requirements of the SFDR [Only first paragraph]**

**3.2.3 If requirements were imposed as per question 3.2.1 and/or 3.2.2, should there be some additional disclosure requirements when a product makes a sustainability claim?**

**4.1.12.a** If you consider that the elements listed in question 4.1.12 are not fit for purpose, how would you further specify the different elements of the ‘sustainable investment’ concept, what should be the minimum criteria required for each of them?

# The "promotion of social and/or environmental characteristics" (SFDR article 8) is too vague and is the one that can lead to the highest risk of greenwashing. This category should be removed, also if evolving into a different categorization system.

**The SFDR makes a distinction between financial products that promote environmental and/or social characteristics (Article 8) and products that have sustainable investments as their objective (Article 9). Based on the applicable article, financial market participants provide specific product disclosures. With the implementation of the SFDR in market practices, we have seen that the market has been using the distinction between these categories as de facto labels for a certain degree of sustainability. However, these provisions are not meant to be used as product labels and are thus not suitable for this purpose.**

**The misuse of Articles 8 and 9 can be a source of greenwashing. The distinction between financial products that promote sustainable characteristics and products with sustainable investments as an objective is not clear and therefore prone to different interpretations. Both categories include products with a varying degree of sustainability, as well as very different sustainability strategies. In particular, there is no meaningful sustainability quality threshold for products that report under SFDR Article 8, which makes its misuse as a sustainability label especially problematic. This also leads to an uneven playing field for providers of products with greater sustainable characteristics or objectives vis-à-vis providers with less ambition.**

**In a Q&A published in 2021, answering questions from the ESAs, the EC stated that the term ‘promotion’ within the meaning of Article 8 of Regulation (EU) 2019/2088 encompasses, by way of example, direct or indirect claims, information, reporting, disclosures as well as an impression that investments pursued by the given financial product also consider environmental or social characteristics in terms of investment policies, goals, targets or objectives or a general ambition in, but not limited to, pre-contractual and periodic documents or marketing communications, advertisements, product categorisation, description of investment strategies or asset allocation, information on the adherence to sustainability-related financial product standards and labels, use of product names or designations, memoranda or issuing documents, factsheets, specifications about conditions for automatic enrolment or compliance with sectoral exclusions or statutory requirements regardless of the form used, such as on paper, durable media, by means of websites, or electronic data rooms.**

**These criteria are very open and vague, leaving much room for loose statements and assertions which may not be backed by a specific methodology or precise indicators of the sustainable characteristics of the product. The term “promotion”, with the variety of forms it may take (“regardless of the form used”), lacks constraint and is conducive to greenwashing. Furthermore, sustainability claims made in pre-contractual or periodic documents should not be equated with those made in marketing material or advertisements.**

**Therefore, article 8 in its current form should be removed from the SFDR and replaced by a provision that regulates the product categorization: this would serve the market’s needs for a categorization.**

**Questions where this key message can be pasted:**

4.1.13. How would you further specify what promotion of ‘environmental/social characteristics’ means, what should be the minimum criteria required for such characteristics and what should be the trigger for a product to be considered as promoting those characteristics?

# **Create a product categorization system based on the current SFDR disclosures. This would allow Retail investors to judge the extent with which a Financial Product considers Sustainability in its investment strategy.**

**While we agree that the use of article 8 and 9 to judge the level of sustainability of financial products is problematic because it has driven the market to create a labeling system from a regulation that was not intended for that, we believe that a simple categorization of the spectrum of investment products, based on existing requirements, would help steer investors’ choices as intended.**

**The concepts underlying SFDR are the correct ones, and many Financial Market Participants have made significant investments to adjust their investment processes to fully comply with them. The concepts used in SFDR should thus only be marginally modified and clarified. Creating new concepts would not help.**

**The focus of the categorization system should be to ensure that the information provided by Financial Markets Participants is useful, comprehensible, and comparable for retail investors, who are less well placed than professional investors to navigate the complexities of financial regulation and are therefore in need of a user-friendly and informative categorization system.**

**With these elements in mind, we propose an approach that:**

* **as in the Approach 2, uses most of the current concepts of SFDR (sustainable investments, contribution to a social or environmental objective, DNSH, PAI, exclusions); and**
* **as in Approach 1, distinguishes financial products according to the extent with which sustainability is considered in the investment strategies.**

**Our proposal however differs from both Approach 1 and 2 in that:**

* **contrary to Approach 2, it removes the concept of “Article 8” and “Article 9” funds (and more specifically removes the concept underpinning Article 8 (“Promote environmental and social characteristics”) which is deemed too vague and generating a high risk of greenwashing;**
* **contrary to Approach 1, does not aim to define categories according to the investment strategies per se, but according to the degree of integration of sustainability considerations in these investment strategies. We believe that the proposed Approach 1 would not increase comparability, as there can be a spectrum of different strategies, which a regulation could never cover comprehensively, and it shouldn’t, as the regulation shouldn’t affect the flexibility of offering many different strategies that investors could ask for. Besides restricting investment strategies, creating product categories as stated in Approach 1 (with the associated eligibility criteria and reporting requirements) would likely add complexity to a regulation which clients and Financial Market Participants alike face difficulty grappling with.**

**Our proposal is a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.**

**We create categories defined by the extent with which a Financial Product considers sustainability in its investment strategy, based on their disclosure of:**

**(1) degree of sustainable investment(s) according to art 2(17);**

**(2) whether the PAIs filters are used in the investment selection process and/or the engagement strategy; and**

**(3) whether exclusions, especially the exclusion list of the Paris Aligned Benchmarks, are considered/applied.**

**This could imply 5 categories, from “strong” to “no” explicit consideration of sustainability. The actual level of sustainability would still need to be evaluated by each investor or third parties based on the information made available in the various disclosures, which formats would need to be simplified/ clarified.**

**1:**

**No exclusions + PAIs NOT considered in the selection process**

**2:**

**+ Minimum exclusions\* + PAIs NOT considered in the selection process**

**3:**

**+ Minimum exclusions \* + PAIs CONDISERED in the selection process**

**4:**

**+ Minimum exclusions \* + PAIs considered in the selection process + At least 50%\*\* proportion ‘sustainable investments’ article 2(17)**

**5:**

**+ Minimum exclusions \* + PAIs considered in the selection process + At least 90%\*\* proportion ‘sustainable investments’ article 2(17)**

**\* According to the exclusions for the EU Paris-aligned Benchmark (art 12 of EU 2020/1818)**

*\*\* The percentage should be calculated based on the current value of all investments, excluding cash.*

**Some of the concepts used in SFDR would need to be fine-tuned to serve the above purpose:**

* **the definition of sustainable investments in Article 2(17) would need to highlight the need to measure and monitor the achievement of the sustainable objective through sustainability indicators;**
* **DNSH criteria must be harmonized between the EU Taxonomy and SFDR.**

**Questions where this key message can be pasted:**

**3.2.1 b)** Please see a list of examples of disclosures that could also be required about all financial products for transparency purposes. In your view, should these disclosures be mandatory, and/or should any other information be required about all financial products for transparency purposes?

**4.1.2** If a categorisation system was established, how do you think categories should be designed?

**4.1.8**: (Box: There is another approach) Do you think product categories should be mutually exclusive, i.e. financial market participants should choose only one category to which the product belongs to in cases where the product meets the criteria of several categories (independently from subsequent potential verification or supervision of the claim)?

*Shorter version of key message for:* **4.3.1**: The objective of the PRIIPs KID is to provide short and simple information to retail investors. Do you think that if a product categorisation system was established under the SFDR, the category that a particular product falls in should be included in the PRIIPS KID?

# **Limit the use of certain product names to those who meet certain criteria**

**A simple categorization system would seem to be particularly beneficial for retail investors, generally less capable of understanding product strategies in detail and in need of more simple, understandable language to enable their decision making.**

**If the Commission does proceed with a categorization system, what is seen as imperative is that a future regulation allows the use of terms such as “ESG”, “Impact” or “Sustainable” in product names only if and when meeting specific criteria and, of course, as demonstrated by the Financial Product periodic reporting.**

**Questions where this key message can be pasted:**

4.4.1 to 4.4.3 Marketing and product names:

# SFDR needs to better account for FMPs investing in emerging markets. Unless support is provided (e.g. to collect certain PAIs and further promote proxy data collection) the SFDR will continue restricting the flow of investment to these vital parts of the economy. Consider the same for Taxonomy Regulation.

## **8.1 PAI indicator collection and proxy gathering**

The collection of specific Principal Adverse Impact indicators represents a challenge, especially when investee companies are Micro and Small Enterprises, and/or located in emerging markets, or when we make investments in Financial Products outside the EU. This is hampering necessary investments particularly in the Global South.

The best effort approach included in the current version of SFDR implies that providers can choose the depth of their disclosures on the PAI indicators and this allows for the necessary proportionality of complying to the requirements. However, the regulation should clarify the possibility to use proxies when PAIs are difficult to collect directly from a Fund’s investee company, as we have seen diverging interpretations on this point from Financial Market Participants.

Support from the EU for Financial Market Participants investing in the Global South is called for, to get access to reputable and acceptable proxies at a reasonable cost, especially because Financial Market Participants that deploy the most innovative and promising Sustainable Investment strategies in emerging markets often are relatively small compared to the financial market average and each additional cost can be an important drain on relatively limited human or financial resources.

Support from the EU could take the form of 1) the definition by ESMA of a list of reputable and acceptable proxies, especially for the estimation of GHG emissions, and 2) the financial support from EU development financial institutions for Financial Market Participants that invest in the Global South and their investee companies to gain access to such reputable and acceptable proxies.

**Alternatively, granting a clear exception for Investee companies that are Micro or Small Enterprises (<10M EUR of assets and <50 employees) could be envisaged to avoid putting an undue burden on these companies without delivering meaningful information to stakeholders.**

**Questions where this key message can be pasted:**

Box below 1.8 / 1.8.1 and 1.9: Disclosures of PAIs **>>only first two paragraphs**

1.12 > 1.12.5: Data estimates

3.2.14: When determining what disclosures should be required at product level, it should be taken into account whether… (box below)

4.2.3: If a categorisation system was established, to what extent do you agree with the following statement? “When determining the criteria for product categories it should be taken into account: ...”

## 8.2. Amend the Taxonomy Regulation to allow the use of local regulations or international standards when investments are made outside of the EU.

**SFDR allows the recourse to proxy data when the data is not there for the reporting on PAIs, but the Taxonomy Regulation does not always allow the use of local regulations or international standards to meet the DNSH criteria that are linked to European regulations that are not applicable outside of the EU. This means that, for a number of DNSH criteria that refer to EU law, the criteria are by default unachievable when the investee company is outside of the EU.**

**Although the Taxonomy Regulation itself refers to international standards where no EU regulation exists or is not applicable or commensurate, Taxonomy alignment is a huge barrier when investing in the Global South, because the Taxonomy Regulation doesn’t allow for the same references to be used as the SFDR does.**

**The Taxonomy Regulation should thus urgently amend its current EU-centric regulation of DNSH fulfillment and concede that alignment can also be obtained when the Financial Market Participants can demonstrate that the investee company is following similar applicable national regulations or international standards, such as the IFC Performance Standards. The use of proxies that meet international standards in case of investments in the Global South should be similarly allowed under the SFDR and the Taxonomy Regulation.**

**Questions where this key message can be pasted:**

Box below 1.8 / 1.8.1 and 1.9: Disclosures of PAIs **>>only first paragraphs**

1.12 > 1.12.5: Data estimates

3.2.14: When determining what disclosures should be required at product level, it should be taken into account whether.. (box below)

4.2.3: If a categorisation system was established, to what extent do you agree with the following statement? “When determining the criteria for product categories it should be taken into account: ...”