

M&G high level response to the Review of the Sustainable Finance Disclosures Regulation (SFDR)

M&G Investments is part of M&G plc, a savings and investment business with £332 billion¹ of assets under management in 26 markets. For nearly nine decades M&G Investments has been helping its customers to prosper by putting investments to work, which in turn creates jobs, homes and vital infrastructure in the real economy. We remain focused on increasing the amount of capital we channel into sustainable investments; widening the choice of sustainably focused products for our clients; and improving the tools and data which sit behind our investments.

In that vein, we welcome the European Commission's review of SFDR and in particular its willingness to consider a range of options to improve the existing framework. In addition to our detailed response to the targeted questionnaire, for ease of reference we have brought out and summarised our key points below.

Current requirements and potential changes

1. Transparency is essential but disclosure needs to be meaningful and user-friendly. This is particularly important for retail investors, whose needs and capacity to make informed decisions differ greatly from those of professional investors.
2. Product level disclosures should be set at retail level of understanding; complicated information like PAIs could be expressed at concept level pre-contractually, with the detail available via reporting. Product disclosures should also focus on qualitative disclosure; a scaling system might oversimplify the complex nature of ESG products.
3. Transition finance needs to be explicitly recognised within SFDR as a valid and necessary aspect of the transition to net zero. Further, SFDR in its current form is not well adapted to the needs of sustainable investors operating in developing countries. This is not just due to reduced data availability but also a conceptual shortcoming: the regulation fails to acknowledge that advances on some social topics in lower income countries will require economic development and thus an increase in emissions, albeit from a much lower baseline.
4. For consistency and quality of sustainability reporting, it is important to ensure alignment between SFDR and CSRD. Currently under CSRD, the entity conducts an assessment and

¹ As at 30 June 2023

only reports on the issues found to be material whether from an impact or financial perspective, or both. However, under SFDR financial market participants are required to disclose all mandatory indicators regardless of any materiality assessment. This could lead to a data gap and a challenge for asset managers to produce complete or accurate reporting.

5. While SFDR entity level disclosures have been of some value, we believe that going forward these should be consolidated into a single piece of legislation covering entity-level sustainability disclosures such as the Corporate Sustainability Reporting Directive (CSRD).
6. SFDR needs to apply at EU level to ensure a harmonised and standardised disclosure across all EU MS.

Product categories

7. We support product categories (labels) that are driven by their objective, i.e. what the product is trying to achieve. This is to enable clients to confidently rely on these categories as quality labels.
8. These categories should be: i) voluntary, with some *objective qualitative* criteria to be able to adhere to categories; and ii) conceptually easy to understand.
9. We argue against keeping and developing Articles 8 and 9 as potential labels, and *instead* support the development of new categories. To be clear, labels layered on top of Articles 6 – 9 are unwelcome as is any reform that leads to more complexity: this will be unhelpful to retail investors to make informed decisions.
10. As a fund manager with a global footprint, M&G supports alignment of sustainability disclosures as a way of ensuring customers are treated fairly and consistently. As such, a principle-based labelling system would be in line with developments in the US and the UK, and its recently confirmed Sustainability Disclosure Requirements (SDR) regime.
11. With regards to type of categories, we are of the view that some investors want exclusions and exclusions only; therefore we consider this is something we should be able to offer – but we are agnostic whether as part of a labelling regime or as something permitted outside it.
12. Finally, it is important to avoid pushing firms into greenwashing by forcing commitments based on what we would like to happen rather than what is practical at this time. For example, minimum Taxonomy levels will start to be introduced once the issuer data is there to support them but requiring them early is challenging. Similarly, mandatory exclusions on “Other” investments misses the point of the category; a better approach would be to have

an explanation of why, for instance, exclusions would not apply to financial indices, and why the product might hold excluded instruments from time to time due to passive breaches.

December 2023