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ICI Global[1] Response to Selected Questions

European Commission Targeted Consultation on Implementation of the Sustainable Finance Disclosure Regulation (SFDR)

1. CURRENT REQUIREMENTS OF THE SFDR

Question 1.1: The SFDR seeks to strengthen transparency through sustainability-related disclosures in the financial services sector to support the EU's shift to a sustainable, climate neutral economy. In your view, is this broad objective of the regulation still relevant?

1	2	3	4	5	Don't know
			X		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.6: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
Some disclosures required by the SFDR are not sufficiently useful to investors					X	
Some legal requirements and concepts in the SFDR, such as 'sustainable investment', are not sufficiently clear			X			
The SFDR is not used as a disclosure framework as intended, but as a labelling and marketing tool (in particular Articles 8 and 9)			X			
Data gaps make it challenging for market participants to disclose fully in line with the legal requirements under the SFDR				X		

[1] ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of €35.2 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, and Washington, DC.

Re-use of data for disclosures is hampered by a lack of a common machine-readable format that presents data in a way that makes it easy to extract						
There are other deficiencies with the SFDR rules (please specify in text box following question 1.7)					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 1.7: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
The issues raised in question 1.6 create legal uncertainty for financial market participants and financial advisers					X	
The issues raised in question 1.6 create reputational risks for financial market participants and financial advisers					X	
The issues raised in question 1.6 do not allow distributors to have a sufficient or robust enough knowledge of the sustainability profile of the products they distribute			X			
The issues raised in question 1.6 create a risk of greenwashing and mis-selling						
The issues raised in question 1.6 prevent capital from being allocated to sustainable investments as effectively as it could be						
The current framework does not effectively capture investments in transition assets					X	
The current framework does not effectively support a robust enough use of shareholder engagement as a means to support the transition						
Others						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any additional explanations as necessary for questions 1.5, 1.6 and 1.7:

ICI Global welcomes the Commission's targeted consultation seeking feedback on the implementation of the SFDR, and its focus on improving the disclosure framework. Our mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor.

We believe the SFDR should be reviewed and amended to meet its investor protection mandate, with the aim of promoting transparency and understanding of ESG- and sustainability-related investment products for retail investors, especially as demand for such funds continues to grow. Meaningful disclosure is an effective investor protection tool that empowers investors to make informed investment decisions. The current SFDR has not delivered on its mandate due to its focus on predefined mandatory indicators, such as principal adverse impact (PAI) and Taxonomy alignment, which are less investor-centric, less aligned with market practices, and lacking in terms of data.

We offer three recommendations for improving the SFDR framework to deliver on its investor protection mandate.

1. Disclosure requirements should be simplified and streamlined to promote clear and understandable information for investors, taking into account differences between retail and professional investors.

The current amount and complexity of information included in the SFDR disclosure templates is proving to be overwhelming and of negligible value to investors. Retail investors benefit from standardised disclosures that are clear and informative. The current SFDR templates are of limited value to retail investors due to their length and complexity. Resolving these problems requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing. Professional investors, with mandates tailored to their respective needs, typically utilize custom-made reporting solutions instead of standardised templates. We recommend a distinction between disclosure obligations for products offered to retail and professional investors, with only the former required to produce standardised disclosures and the latter available upon request. This distinction is already recognized in other regulatory frameworks, e.g., MiFID II and the Retail Investment Strategy.

2. Disclosure requirements should be firmly grounded in available and reliable data, and flexible to adapt to the evolving landscape of sustainability-related information reported by issuers over time.

A constant challenge in the implementation of SFDR has been to reconcile granular reporting requirements (e.g., PAI indicators and Taxonomy alignment) with a lack of available and reliable data from issuers worldwide. The lack of data is even more pronounced outside of corporate investments. Mandatory reporting requirements based on imperfect, unreliable data do not serve the interests of investors, and cause reputational and regulatory risks for financial market participants. In fact, requiring quantitative disclosures on a metric that only covers a small portion of assets risks misleading investors. This approach impedes the policy objectives of the EU and raises concerns for ESMA and national supervisors.

3. Disclosure requirements for financial products should support financial market participants' ability to communicate the various ways in which environmental and social information is used in the investment process, including any sustainability-related objectives.

Focusing too heavily on comparability of disclosures has undermined the Commission's ultimate goal of strengthening transparency, and we encourage a better balance of these objectives. To date, the EU sustainable finance framework has relied extensively on binary (sustainable or not) and overlapping (Taxonomy/SFDR Art 2(17)) concepts for measuring sustainability, with the primary goal being comparability rather than transparency. These concepts are narrow, static, and misaligned with the actual investment strategies and objectives of sustainability-related financial products, creating an over-emphasis on divestment and exclusion, stifling innovation, and hindering investors' choices. Moreover, embedding artificial and overlapping concepts into the SFDR disclosure framework has caused significant confusion among supervisors leading to challenges in terms of consistent enforcement. This further reduces comparability among products marketed across the EU.

Disclosure requirements should seek to highlight each financial product's characteristics, rather than striving for uniform comparability using metrics that may or may not relate to the product's investment strategy. Effective disclosures would enable distributors and investors to identify commonalities among certain products and understand important differences, thus empowering investors to make informed choices based on their own sustainability preferences.

1.1. Disclosures of principal adverse impacts (PAIs)

Question 1.8: To what extent do you agree with the following statements about entity level disclosures?

	1	2	3	4	5	Don't know
I find it appropriate that certain indicators are always considered material (i.e. "principal") to the financial market participant for its entity level disclosures, while having other indicators subject to a materiality assessment by the financial market participant (approach taken in Annex I of the SFDR Delegated Regulation).	X					
I would find it appropriate that all indicators are always considered material (i.e. "principal") to the financial market participant for its entity level disclosures.	X					
I would find it appropriate that all indicators are always subject to a materiality assessment by the financial market participant for its entity level disclosures.			X			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5=

totally agree)

Please provide any additional explanations as necessary for questions 1.8, 1.8.1 and 1.9:

As a general matter, quantitative disclosure requirements for financial market participants and financial products subject to SFDR that are based on data about underlying investments (e.g., Taxonomy alignment and PAI reporting) should be firmly grounded in available and reliable data. Where available data supports the ability of financial market participants to report such information, any associated disclosure requirements should be subject to materiality assessments and streamlined to reduce the reporting burdens on financial market participants. We strongly recommend eliminating mandatory entity-level aggregated PAI reporting. Any entity-level obligations should instead focus on providing narrative information about the organization's approach to sustainability-related governance, risk management, and strategies, including whether the organization has committed to any climate-related targets.

The entity-level PAI reporting for financial market participants does not result in useful information for retail investors in financial products covered by SFDR, because it requires entity-level PAI indicator information to be aggregated across many investment products. Such aggregated information has no relation to any particular investment product. While certain PAI indicators may be useful for assessing a particular company or investment, this benefit does not translate to aggregated reporting. Identification and prioritization of PAIs can vary among investment products for the same financial market participant. Moreover, aggregation across all investment products can be misleading to investors about the entity's role in managing those impacts. For example, in certain account structure types (e.g., separate accounts), the entity is responsible for acting within the guidelines set by the client. For these reasons, we strongly recommend eliminating mandatory entity-level PAI reporting (Art. 4).

Should the Commission determine to maintain entity-level PAI reporting obligations, we believe reporting aggregated PAI indicators at the entity level should be voluntary, or at most, subject to materiality assessments to align with the CSRD requirements. This approach would allow the framework to be flexible to adapt over time as data availability improves. Currently, financial market participants are required to report entity-level PAI indicators even where data coverage for some indicators is in the single digits. Our members' experience with PAI reporting to date has shown there may be as little as 3% coverage for some mandatory indicators. Requiring financial market participants to disclose a metric that only covers a portion of assets risks misleading investors.

Despite the significant steps being taken within the EU and worldwide to improve corporate sustainability reporting, policymakers must acknowledge that global data gaps will persist for some time, especially for impact-related information. To date, the EU is the only jurisdiction that has taken steps to require any disclosure of information from issuers based on an impact materiality assessment (or "double materiality"). Applying a materiality assessment to entity-level PAI reporting for asset managers is a critical step to streamlining the disclosure requirements. Policymakers and financial market participants must anticipate persisting data gaps in PAI information from companies within the EU regulatory perimeter, where disclosure is based on materiality

assessments, and the absence of the majority of PAI information from companies outside the EU regulatory reach for the foreseeable future. In the meantime, European financial market participants subject to the SFDR continue to bear the costly burden of these data challenges, in stark contrast to the overall objectives of the EU's broader policy goals to increase competitiveness, reduce costs among financial products, and stimulate retail investment. With respect to product-level PAI reporting, it should be voluntary, or (at most) only required for products that consider PAI as part of their investment strategy and where the financial market participant has identified PAI indicator(s) material to the investment strategy. Disclosure requirements should seek to highlight each financial product's unique characteristics, rather than striving for uniform comparability using metrics that may or may not relate to the product's investment strategy. Requirements should facilitate disclosures about the investment process, including any KPIs that are material to implementing the investment strategy.

2. INTERACTION WITH OTHER SUSTAINABLE FINANCE LEGISLATION

Question 2.3: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
The SFDR disclosures are consistent with the CSRD requirements, in particular with the European Sustainability Reporting Standards		X				
There is room to streamline the entity level disclosure requirements of the SFDR and the CSRD					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 2.4: To what extent do you agree that the product disclosures required in the SFDR and its Delegated Regulation (e.g. the proportion of sustainable investments or taxonomy aligned investments, or information about principal adverse impacts) are sufficiently useful and comparable to allow distributors to determine whether a product can fit investors' sustainability preferences under MiFID2 and the IDD?

1	2	3	4	5	Don't know
	X				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please clarify your replies to questions in section 2 as necessary:

The SFDR is one component of the EU sustainable finance regulatory ecosystem. Strong regulatory coherence is needed for this ecosystem to function properly.

1. Amendments to the SFDR should better align the SFDR with the CSRD.

Aligning the SFDR's disclosure requirements with those of the CSRD would improve the disclosures made to investors and enhance competitiveness of the EU markets -- objectives also shared by the Retail Investment Strategy and Capital Markets Union (CMU). The Commission’s SFDR review should take a complementary approach to the treatment of corporate reporting obligations under CSRD and focus on streamlining disclosure obligations and reducing reporting burdens on financial market participants at both the entity and product level.

To start, we strongly recommend exempting financial market participants from making entity-level SFDR disclosures (Art. 3, 4, 5) if they are within scope of the CSRD framework. The similar and duplicative entity-level reporting requirements for entities covered by both frameworks have disproportionately burdened European financial institutions with higher regulatory and data costs.

The SFDR product-level disclosure obligations should also reflect the current state of sustainability-related data available to financial market participants, and avoid relying on future or aspirational data availability (e.g., CSRD, ESRS, and Taxonomy Regulation). It should be proportional to the current data landscape, yet flexible to adapt as data availability improves over time. While the Commission has correctly noted that SFDR disclosures rely on the information reported under the CSRD, it fails to recognize that data gaps will persist despite the significant steps being taken within the EU and worldwide to improve corporate sustainability reporting. For example, there are companies – both within and outside of the EU – not subject to the CSRD nor similar corporate reporting obligations in other jurisdictions. In addition, the inconsistencies between the ESRS and the SFDR regarding materiality assessments amplify the data availability challenge as financial market participants are required to report all sustainability-related information in an aggregated manner regardless of materiality, while only having access to material sustainability-related information reported by companies covered under the CSRD.

2. Amendments to the SFDR should ensure better alignment with MiFID, by: (i) eliminating duplicative requirements for separate accounts that are already subject to MiFID suitability requirements; and (ii) triggering a timely revision of the definition of sustainability preferences with respect to MiFID suitability assessment rules.

First, the SFDR disclosure requirements should not apply to separate accounts (i.e., segregated mandates), which are tailor-made for clients by design. Application of the SFDR to separate accounts is unnecessary, because standardised disclosures do not reflect the tailored aspects of the product. These products are already subject to MiFID suitability requirements related to sustainability preferences, which ensure that client preferences are integrated by financial market participants at the product level.

Moreover, applying the SFDR disclosure obligations to these products creates duplicative disclosure burdens across the investment chain, in particular when both parties are subject to the SFDR (e.g., through sub-advisory agreements). Subjecting both financial market participants to the SFDR in this manner has created ambiguity and potential conflicts of disclosures where the same product could be classified in different ways. Second, amendments to the MiFID sustainability preferences will need to follow and align with amendments to the SFDR. Regulatory alignment across distribution and disclosure obligations is critical to the EU's investor protection and retail investment objectives. In practice, the three criteria constituting the "sustainability preferences" under MiFID II do not align with retail investors' actual sustainability preferences. For the current criteria to be effective, retail investors would need to have a sophisticated understanding of the regulatory parameters of PAIs, "sustainable investments" as defined by the SFDR, and Taxonomy alignment. The narrow approach in defining sustainability preferences in MiFID II constrains the universe of ESG- and sustainability-related investment products available to investors, running counter to the EU's objective of facilitating a broader range of retail products that appeal to EU investors. These criteria have also been challenging to apply due to significant data limitations and a lack of consistency and clarity among financial market participants and supervisors.

3. POTENTIAL CHANGES TO DISCLOSURE REQUIREMENTS FOR FINANCIAL MARKET PARTICIPANTS

3.1. ENTITY LEVEL DISCLOSURES

Question 3.1.1: Are these disclosures useful?

	1	2	3	4	5	Don't know
Article 3				X		
Article 4	X					
Article 5		X				

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Please explain your replies to question 3.1.1 as necessary:

ARTICLES 3, 4, & 5: ICI Global strongly recommends exempting financial market participants that are within scope of the CSRD regime from entity-level SFDR disclosure requirements (Art. 3, 4, 5). This approach would better align the CSRD and SFDR, and eliminate overlapping and duplicative reporting requirements.

ARTICLE 3: In general, we recommend streamlining entity-level disclosure obligations to focus on narrative information about the organization's approach to sustainability-related governance, risk management, and strategies, including whether the organization has committed to any climate-related targets. We support maintaining Art. 3 for financial market participants that are not subject to the CSRD, as it has improved transparency of information related to the management of sustainability risks.

ARTICLE 4: We strongly recommend eliminating mandatory entity-level aggregated PAI reporting (Art. 4). The entity-level PAI reporting for financial market participants does not result in useful information for retail investors in financial products covered by SFDR, because it requires entity-level PAI indicator information to be aggregated across many investment products. Such aggregated information has no relation to any particular investment product. While certain PAI indicators may be useful for assessing a particular company or investment, this benefit does not translate to aggregated reporting. Identification and prioritization of PAIs can vary among investment products for the same financial market participant. Moreover, aggregation across all investment products can be misleading to investors about the entity's role in managing those impacts. For example, in certain account structure types (e.g., separate accounts), the entity is responsible for acting within the guidelines set by the client.

Should the Commission determine to maintain entity-level PAI reporting obligations, we believe reporting aggregated PAI indicators at the entity level should be voluntary, or at most, subject to materiality assessments to align with the CSRD requirements. This approach would allow the framework to be flexible to adapt over time as data availability improves. Currently, financial market participants are required to report entity-level PAI indicators even where data coverage for some indicators is in the single digits. Our members' experience with PAI reporting to date has shown there may be as little as 3% coverage for some mandatory indicators. Requiring financial market participants to disclose a metric that only covers a portion of assets risks misleading investors.

Despite the significant steps being taken within the EU and worldwide to improve corporate sustainability reporting, policymakers must acknowledge that global data gaps will persist for some time, especially for impact-related information. To date, the EU is the only jurisdiction that has taken steps to require any disclosure of information from issuers based on an impact materiality assessment (or "double materiality"). Applying a materiality assessment to entity-level PAI reporting for asset managers is a critical step to streamlining the disclosure requirements. Policymakers and financial market participants must anticipate persisting data gaps in PAI information from companies within the EU regulatory perimeter, where disclosure is based on materiality assessments, and the absence of the majority of PAI information from companies outside the EU regulatory reach for the foreseeable future.

In the meantime, European financial market participants subject to the SFDR continue to bear the costly burden of these data challenges, in stark contrast to the overall objectives of the EU's broader policy goals to increase competitiveness, reduce costs among financial products, and stimulate retail investment.

3.2. PRODUCT LEVEL DISCLOSURES

Question 3.2.1: Standardised product disclosures - Should the EU impose uniform disclosure requirements for **all** financial products offered in the EU, regardless of their sustainability-related claims or any other consideration?

1	2	3	4	5	Don't know
X					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 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?

1	2	3	4	5	Don't know
X					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 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?

	1	2	3	4	5	Don't know
Taxonomy-related disclosures	X					
Engagement strategies	X					
Exclusions	X					
Information about how ESG-related information is used in the investment process			X			
Other information						

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain as necessary your replies to questions 3.2.1 and its sub-questions:

ICI Global strongly recommends against imposing uniform disclosure requirements for all financial products offered in the EU, regardless of whether they make sustainability-related claims. The Commission should carefully consider whether any benefits would be derived from such requirements, given the significant concerns and costs such

requirements would present.

1. Imposing data-driven quantitative disclosure obligations (e.g., Taxonomy alignment, PAI indicators, or GHG emissions) will carry significant costs for investment products that would need to secure data solutions and build out technology platforms to enable reporting. Raising the costs across all EU investment products jeopardizes the objective of the Retail Investment Strategy – to stimulate retail investor participation in the capital markets. Moreover, imposing additional disclosure requirements on all financial products runs counter to the Commission’s broader objectives of streamlining disclosure obligations and reducing reporting burdens.

2. Uniform sustainability-related disclosure for financial products that do not make sustainability claims would result in irrelevant and confusing information for investors. For example, these disclosures could give investors an incorrect and misleading impression of the role of sustainability in the investment process and its relative importance to other factors. Required quantitative disclosures are particularly dangerous because they present the illusion of certainty. We strongly believe that all disclosure obligations should be meaningful and clearly related to the product’s investment strategy.

3. The term “sustainability performance”, similar to “sustainable investment”, is not an agreed term and cannot be distilled to one singular metric. Products that have sustainability-related investment goals may use a variety of different tools and KPIs to measure performance. Disclosure requirements should seek to provide transparency about these tools and KPIs while preserving the ability of products to innovate in ways that are not unnecessarily constrained by narrowly defined concepts.

4. All financial products covered under SFDR are already required to disclose information about how ESG-related information is used in the investment process, unless sustainability risks are not relevant. SFDR Art. 6 requires, in pre-contractual disclosures, a description of the manner in which sustainability risks are integrated into investment decisions. Maintaining Art. 6 facilitates transparency to retail investors and promotes the integration of material sustainability-related information into the investment process across all financial products. However, we believe Art. 6 should be simplified and streamlined.

   Specifically, we recommend removing the requirement to describe, in pre-contractual disclosures, the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products under the Art. 6. Sustainability risks are generally assessed in a similar fashion to other types of risks, such as interest rate or credit risks, on an investment-by-investment basis. None of these risks are able to be weighed against the potential returns of a financial product (which are also dependent on numerous factors), independent of other financial risks. Moreover, financial market participants are not required to make similar disclosures for other types of material risks, such as interest rate or credit risks, and we are concerned with any regulatory requirements that treat sustainability-related risks differently than other types of risks that are equally important to the investment process.

Question 3.2.2: Standardised product disclosures - Would uniform disclosure requirements for **some** financial products be a more appropriate approach, regardless of their sustainability-related claims (e.g. products whose assets under management, or equivalent, would exceed a certain threshold to be defined, products intended solely for retail investors…)? Please note that next question 3.2.3 asks specifically about the need for disclosures in cases of products making sustainability claims.

1	2	3	4	5	Don't know
X					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

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?

Disclosure obligations for financial products offered to retail investors should be meaningful and clearly related to the product's investment strategy. ICI Global therefore strongly recommends against imposing uniform disclosure requirements for financial products offered in the EU that are unrelated to their sustainability-related investment strategies. The only appropriate threshold to trigger additional sustainability-related product disclosure beyond the consideration of sustainability risks (Art. 6) is when products market themselves as having a sustainability-related investment strategy. The Commission should carefully consider whether any benefits would be derived from such requirements, given the significant concerns and costs the requirements would present.

1. Imposing data-driven quantitative disclosure obligations (e.g., based on Taxonomy alignment, GHG emissions, or PAI indicators) will carry significant costs for investment products that would need to secure data solutions and build out technology platforms to enable reporting. Raising the costs across EU investment products by expanding the SFDR disclosure requirements jeopardizes the objectives of the Retail Investment Strategy – to lower costs of products offered to retail investors and stimulate retail investor participation in the capital markets. Moreover, imposing additional disclosure requirements on some financial products in an arbitrary manner unrelated to the investment strategy of the product runs counter to the Commission's broader objectives of streamlining disclosure obligations and reducing reporting burdens of financial market participants.

2. Uniform sustainability-related disclosure for financial products that do not make sustainability claims would result in irrelevant and confusing information for investors. For example, these disclosures could give investors an incorrect and misleading impression of the role of sustainability in the investment process and its relative importance to other factors. Required quantitative disclosures are particularly dangerous because they present the illusion of certainty. We strongly believe that all disclosure obligations should be meaningful and clearly related to the product's investment strategy.

3. The term “sustainability performance”, similar to “sustainable investment”, is not an agreed term and cannot be distilled to one singular metric. Products that have sustainability-related investment goals may use a variety of different tools and KPIs to measure performance. Disclosure requirements should seek to provide transparency about these tools and KPIs while preserving the ability of products to innovate in ways that are not unnecessarily constrained by narrowly defined concepts.

4. All financial products covered under SFDR are already required to disclose information about how ESG-related information is used in the investment process, unless sustainability risks are not relevant. SFDR Art. 6 requires, in pre-contractual disclosures, a description of the manner in which sustainability risks are integrated into investment decisions. Maintaining Art. 6 facilitates transparency to retail investors and promotes the integration of material sustainability-related information into the investment process across all financial products. However, we believe Art. 6 should be simplified and streamlined.

   Specifically, we recommend removing the requirement to describe, in pre-contractual disclosures, the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products under the Art. 6. Sustainability risks are generally assessed in a similar fashion to other types of risks, such as interest rate or credit risks, on an investment-by-investment basis. None of these risks are able to be weighed against the potential returns of a financial product (which are also dependent on numerous factors), independent of other financial risks. Moreover, financial market participants are not required to make similar disclosures for other types of material risks, such as interest rate or credit risks, and we are concerned with any regulatory requirements that treat sustainability-related risks differently than other types of risks that are equally important to the investment process.

Question 3.2.2. c): Please see a list of examples of disclosures that could also be required about the group of financial products that would be subject to standardised disclosure obligations for transparency purposes (in line with your answer to Q 3.2.2 above). In your view, should these disclosures be mandatory, and/or should any other information be required about that group of financial products?

	1	2	3	4	5	Don’t know
Taxonomy-related disclosures	X					
Engagement strategies	X					
Exclusions	X					
Information about how ESG-related information is used in the investment process			X			
Other information						

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain as necessary your replies to questions 3.2.2 and its sub-questions:

Disclosure obligations for financial products offered to retail investors should be meaningful and clearly related to the product's investment strategy. ICI Global therefore strongly recommends against imposing uniform disclosure requirements for financial products offered in the EU that are unrelated to their sustainability-related investment strategies. The only appropriate threshold to trigger additional sustainability-related product disclosure beyond the consideration of sustainability risks (Art. 6) is when products market themselves as having a sustainability-related investment strategy. The Commission should carefully consider whether any benefits would be derived from such requirements, given the significant concerns and costs the requirements would present.

1. Imposing data-driven quantitative disclosure obligations (e.g., based on Taxonomy alignment, GHG emissions, or PAI indicators) will carry significant costs for investment products that would need to secure data solutions and build out technology platforms to enable reporting. Raising the costs across EU investment products by expanding the SFDR disclosure requirements jeopardizes the objectives of the Retail Investment Strategy – to lower costs of products offered to retail investors and stimulate retail investor participation in the capital markets. Moreover, imposing additional disclosure requirements on some financial products in an arbitrary manner unrelated to the investment strategy of the product runs counter to the Commission's broader objectives of streamlining disclosure obligations and reducing reporting burdens of financial market participants.

2. Uniform sustainability-related disclosure for financial products that do not make sustainability claims would result in irrelevant and confusing information for investors. For example, these disclosures could give investors an incorrect and misleading impression of the role of sustainability in the investment process and its relative importance to other factors. Required quantitative disclosures are particularly dangerous because they present the illusion of certainty. We strongly believe that all disclosure obligations should be meaningful and clearly related to the product's investment strategy.

3. The term "sustainability performance", similar to "sustainable investment", is not an agreed term and cannot be distilled to one singular metric. Products that have sustainability-related investment goals may use a variety of different tools and KPIs to measure performance. Disclosure requirements should seek to provide transparency about these tools and KPIs while preserving the ability of products to innovate in ways that are not unnecessarily constrained by narrowly defined concepts.

4. All financial products covered under SFDR are already required to disclose information about how ESG-related information is used in the investment process, unless sustainability risks are not relevant. SFDR Art. 6 requires, in pre-contractual disclosures, a description of the manner in which sustainability risks are integrated into investment decisions. Maintaining Art. 6 facilitates

transparency to retail investors and promotes the integration of material sustainability-related information into the investment process across all financial products. However, we believe Art. 6 should be simplified and streamlined. Specifically, we recommend removing the requirement to describe, in pre-contractual disclosures, the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products under the Art. 6. Sustainability risks are generally assessed in a similar fashion to other types of risks, such as interest rate or credit risks, on an investment-by-investment basis. None of these risks are able to be weighed against the potential returns of a financial product (which are also dependent on numerous factors), independent of other financial risks. Moreover, financial market participants are not required to make similar disclosures for other types of material risks, such as interest rate or credit risks, and we are concerned with any regulatory requirements that treat sustainability-related risks differently than other types of risks that are equally important to the investment process.

Question 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?

1	2	3	4	5	Don't know
			X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain as necessary your replies to question 3.2.3:

In general, we agree with the current approach of the SFDR, which only imposes standardised disclosure obligations for financial products that have sustainability-related investment strategies and/or make sustainability-related claims. However, the current disclosure requirements under SFDR are in need of significant improvements to deliver clear and understandable information to retail investors. Disclosure requirements for financial products should support financial market participants' ability to communicate each investment product's strategy and characteristics, including whether the product has any sustainability-related objectives. An effective disclosure framework will promote investor understanding of the variety of sustainable investing strategies and objectives available and empower investors to make informed choices based on their own sustainability preferences. ICI Global offers the following specific recommendations to amend SFDR Level 1 product-level disclosure obligations: 1. Standardised disclosure templates should only be required for sustainability-related products offered to retail investors and permitted to be used voluntarily or provided upon request to professional clients. Retail investors benefit from standardised disclosures if they are clear and informative. The current SFDR templates are of limited value to retail investors due to their length and

complexity. Resolving the excessive length and complexity of disclosures requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing. The distinction between disclosure requirements for retail and professional investors is already recognized in other areas of the regulatory framework, such as MiFID II and the Retail Investment Strategy.

2. The disclosure requirements should seek to highlight each financial product's characteristics, rather than striving for uniform comparability using metrics that may or may not relate to the product's investment strategy. Requirements should facilitate disclosures about the investment process, including any KPIs that are material to implementing the investment strategy. In particular, product-level PAI reporting should be voluntary, or only required for products that consider PAI as part of their investment strategy and where the financial market participant has identified PAI indicators material to the investment strategy. Effective disclosures would enable distributors and investors to identify commonalities among certain products and understand important differences.

   Disclosure requirements should not rely on vague or novel standards, or overly complex terminology and concepts. Specifically, the definition of "sustainable investment" (Article 2(17)) should be removed from the disclosure requirements, unless a product elects to use that particular assessment in order to select its investments. Taxonomy alignment or "sustainable investment" as defined by Art. 2(17) could each be considered a credible standard used to select investments to fulfil a certain sustainability-related strategy, but it is critical that the EU regulatory framework acknowledges that these concepts are not the only credible standards in existence, now or in the future. The review of the SFDR should aim for its rules to be flexible enough to facilitate the use of robust proprietary standards developed by financial market participants, as well as future innovation. The novel concepts and definitions set out in the current SFDR are not particularly well-suited for assessing investments related to transition finance or products with social objectives, and it is important that the revised SFDR is able to keep up with market practices and investors' sustainability preferences.

Question 3.2.4: In general, is it appropriate to have product related information spread across these three places, i.e., in precontractual disclosures, in periodic documentation and on websites?

1	2	3	4	5	Don't know
X					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 3.2.5: More specifically, is the current breakdown of information between precontractual, periodic documentation and website disclosures appropriate and user friendly?

1	2	3	4	5	Don't know
	X				

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain as necessary your replies to question 3.2.4 and 3.2.5:

The current breakdown of sustainability-related information among pre-contractual documents, periodic reports, and website disclosures is neither appropriate nor user-friendly. Duplicative and overly burdensome disclosure requirements across various locations have magnified compliance costs of SFDR, prevented investors from accessing the information in a clear and concise manner, and made consistent monitoring and enforcement of SFDR compliance more challenging for regulators.

ICI Global offers the following specific recommendations to streamline the disclosures across pre-contractual documents, periodic reports, and websites in order to facilitate the delivery of key sustainability-related information for investors:

1. Disclosure requirements should avoid duplicative disclosures among pre-contractual documents, periodic reports, and websites in order to ensure that these disclosures each fulfil a clear purpose, and together provide the right amount of information to investors. Pre-contractual disclosures are used to describe the investment objectives and strategies of financial products, and information about the investment process (i.e., looking ahead at what the product intends to do). Periodic reporting should instead focus on the performance of such products at a particular point in time against the stated goals set out in the precontractual documents.
2. The SFDR should not require distinct website disclosures, and instead should utilize the precontractual and periodic reporting templates, which are designed to promote clear and concise disclosure for fund investors, for this purpose. Access to precontractual and periodic reporting templates on the asset managers' websites will highlight key information that is particularly important for retail investors to assess and monitor their fund investments. This approach would ensure that investors can easily access important information while avoiding duplicative and burdensome requirements. In general, we support a layered disclosure approach that provides investors the opportunity to dig as deeply as they wish into the sustainability-related information of the financial products.

   Moreover, we question the benefit of website disclosures for products only offered to professional investors with bespoke investment mandates. Publicly disclosing information about these mandates on the asset manager's website is not appropriate given the tailored nature of the investment strategy, and creates legal challenges when meeting the disclosure obligations risks divulging proprietary or client information. In contrast to retail investors, asset managers already have a number of channels to communicate directly with their professional clients. These established channels are more appropriate and effective for communicating with professional investors.
3. Standardised disclosure templates should only be required for products offered to

retail investors, and permitted to be used voluntarily or provided upon request to professional clients. The distinction between disclosure requirements for retail and professional investors is already recognized in other areas of the regulatory framework, such as MiFID II and the Retail Investment Strategy.

A premium should be placed on the brevity and clarity of standardised disclosures. Too much information can obscure key information and confuse the audience. The current SFDR templates are of limited value to retail investors due to their length and complexity. Resolving this requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing.

Question 3.2.9: Do you think that some product-level disclosures should be expressed on a scale (e.g. if the disclosure results for similar products were put on a scale, in which decile would the product fall)?

Yes	No	Don't know
	X	

Question 3.2.9.1: If so, how should those scales be established and which information should be expressed on a scale?

We strongly recommend the Commission avoid scaling products and instead pursue other alternatives to facilitating retail investors' understanding of the various types of sustainability-related strategies available in the EU.

An effective SFDR disclosure framework will promote investor understanding of the variety of sustainable investing strategies and objectives available, and empower investors to make informed choices based on their own sustainability preferences. Focusing too heavily on comparability of 'outcomes-based' disclosures, which are highly uncertain due to the poor availability of data has undermined the Commission's ultimate goal of strengthening transparency. To achieve a better balance of these objectives, the Commission should promote clear and understandable information for investors, rather than using narrow and static concepts and standards for measuring or "grading" sustainability.

Each investment strategy may take into consideration a variety of sustainability factors to achieve its stated investment objectives. There is no single metric for measuring overall sustainability, or even individual sustainability-related factors such as what constitutes a sustainable investment. The proliferation of approaches taken by financial market participants to determine "sustainable investments" under Art. 2(17) of the SFDR, and the resulting variation among disclosures, illustrates this point. This healthy variation of sustainability-related investment strategies, and processes used to select investments, is a reflection of the variation among investors regarding their sustainability preferences.

Using an oversimplified scale to grade financial products would depart from the focus of SFDR as a disclosure regime, stifle innovation, and offer a false sense of comparability to retail investors. We are concerned that scaling of products could confuse investors regarding what the scale is intended to measure, whether the product is designed to achieve a particular scale, or if the factors used to grade the product along a scale are even relevant to the investment process. We are similarly concerned that scaling products would inadvertently create a new product classification regime that is narrow, static, and hierarchical – in contrast to the practical approaches to product classification being considered by the Commission in Section 4 of this targeted consultation.

Question 3.2.11: If you are a professional investor, do you find the SFDR requirements have improved the quality of information and transparency provided by financial market participants about the sustainability features of the products they offer?

1	2	3	4	5	Don’t know
	X				

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Please explain as necessary your replies to question 3.2.10 and 3.2.11:

The SFDR disclosure requirements should take into account differences between retail and professional investors in order to facilitate better and more meaningful disclosures for all types of investors. ICI Global offers three recommendations to improve the SFDR obligations as they relate to disclosures made to professional investors, and with respect to products designed specifically for professional investors:

1. The SFDR should only require standardized templates for products offered to retail investors. This approach would facilitate targeting the disclosed information to the needs of retail investors. Professional investors, with mandates tailored to their respective needs, typically utilize custom-made reporting solutions. Standardized reporting templates, as required under the current SFDR framework, offer limited value to professional investors as they do not accurately reflect individualised components of the mandates. We do recommend, however, that the SFDR should permit the use of standardized disclosure templates voluntarily or by request for products offered to professional clients.

2. To better protect professional investors’ proprietary and sensitive client information, website disclosures should not be required for products that are not offered to retail investors. We question the benefit of website disclosures for products designed for professional investors with bespoke investment mandates. Publicly disclosing information about these mandates on the asset manager’s website is not appropriate given the tailored nature of the investment strategy, and creates legal challenges when meeting the disclosure obligations risks divulging proprietary or client information. In contrast to retail investors, asset managers already have a number of channels to communicate directly with their

professional clients. These established channels are more appropriate and effective for communicating with professional investors. 3. The SFDR disclosure requirements should not apply to separate accounts (i.e., segregated mandates), which are tailor-made for clients by design. Application of the SFDR to separate accounts is unnecessary because standardised disclosures do not reflect the tailored aspects of the product. These products are already subject to MiFID suitability requirements related to sustainability preferences, which ensure that client preferences are integrated by financial market participants at the product level. Moreover, applying the SFDR disclosure obligations to these products creates duplicative disclosure burdens across the investment chain; in particular, when both parties are subject to the SFDR (e.g., through sub-advisory agreements). Subjecting both financial market participants to the SFDR in this manner has created ambiguity and potential conflicts of disclosures where the same product could be classified in different ways.

4. POTENTIAL ESTABLISHMENT OF A CATEGORISATION SYSTEM FOR FINANCIAL PRODUCTS

4.1. POTENTIAL OPTIONS

Question 4.1.1: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
Sustainability product categories regulated at EU level would facilitate retail investor understanding of products' sustainability-related strategies and objectives				X		
Sustainability product categories regulated at EU level would facilitate professional investor understanding of products' sustainability-related strategies and objectives		X				
Sustainability product categories regulated at EU level are necessary to combat greenwashing	X					
Sustainability product categories regulated at EU level are necessary to avoid fragmenting the capital markets union.				X		
Sustainability product categories regulated at EU level are necessary to have efficient distribution systems based on investors' sustainability preferences.		X				

There is no need for product categories. Pure disclosure requirements of sustainability information are sufficient.		X				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

	1	2	3	4	5	Don't know
Approach 1: Splitting categories in a different way than according to existing concepts used in Articles 8 and 9, for example, focusing on the type of investment strategy of the product (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to those existing concepts.				X		
Approach 2: Converting Articles 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment, do no significant harm, etc.		X				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your reply to questions 4.1.2 and 4.2.2:

If the European Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related investment strategies and objectives. ICI Global agrees with the Commission's statement in the targeted consultation that any potential categorisation system should be voluntary, and that it should be complementary to the SFDR disclosure regime. Only products that claim to fall under a given product category should be required to meet corresponding disclosure requirements. We believe it would be beneficial for the voluntary categorisation system to sit separately from the SFDR, in order to avoid departing from the focus of SFDR as a disclosure regime. This approach would allow the categorisation system to readily adapt to continued market innovations as needed. A voluntary categorisation system that is static and unable to evolve with market practices, investors' sustainability preferences, and future product innovation, may impede the ability of the framework to promote retail investor understanding and empower investor choice. We encourage the Commission to consider the following recommendations, regardless of whether it eventually pursues Approach 1 or 2, or a combination of the two, in

designing a product categorisation system.

1. Categories should be designed to reflect the diversity of retail investors' actual sustainability preferences. If calibrated correctly, product categories could facilitate retail investors' ability to navigate the existing landscape of sustainability-related investment products. The Commission should conduct consumer testing using real-world distribution channels to inform the design of the categorisation system and avoid novel concepts and esoteric terminology.

2. Categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). Funds with similar overall investment goals (e.g., "transition focus") may employ different strategies, data, KPIs, or tools to seek to achieve those goals. Aligning product categories with broad sustainability-related investment goals allows for the categorisations system to adapt over time to market innovation that will coincide with improving data availability.

3. Category definitions and any associated criteria must remain flexible to allow for a variety of investment strategies and tools to be used to achieve the product's overall sustainability-related investment goals. Asset managers are best placed to determine the appropriate strategies to use, which may differ on an investment-by-investment basis, or by asset class. The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category.

4. Product names and communications should not be restricted by any voluntary categorisation system. Products should be permitted to use names and terminology in marketing materials that are clear, fair, and not misleading, regardless of whether they fall into a certain category or elect to use the categorisation system at all. Restrictions on the use of certain names or terms in marketing materials depending on voluntary use of a category could have the negative consequence of hindering retail investors' exposure to and understanding of funds' investment processes and sustainability characteristics.

5. The MiFID sustainability preferences and suitability requirements should accommodate products that may fall outside of the categorisation system. The use of voluntary categories should be a distinguishing factor among funds that elect to align with the categories, and not a limiting factor that could deter retail investors from accessing a diversity of sustainable investing strategies that meet their preferences.

6. The Commission's consideration of a voluntary categorisation system should include ways to address growing fragmentation among member states. Growing fragmentation among member states with respect to labelling, marketing and distribution rules is resulting in significant and costly customization of funds to meet local requirements, meaning smaller funds with higher costs to investors. Consistent with this, ICI research has shown that UCITS distributed in several member states tend to be more expensive than those sold in only one member state. This is diminishing the progress of the UCITS regime in a manner that impedes the objectives of the Retail Investment Strategy.

If a categorisation system was established according to approach 1 of question 4.1.2

Question 4.1.3: To what extent do you agree that, under approach 1, if a sustainability disclosure framework is maintained in parallel to a categorisation system, the current distinction between Articles 8 and 9 should disappear from that disclosure framework?

1	2	3	4	5	Don't know
			X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 4.1.4: To what extent would you find the following categories of sustainability products useful?

	1	2	3	4	5	Don't know
A - Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet, e.g. investments in firms generating and distributing renewable energy, or in companies building social housing or regenerating urban areas.			X			
B - Products aiming to meet credible sustainability standards or adhering to a specific sustainability-related theme, e.g. investments in companies with evidence of solid waste and water management, or strong representation of women in decision-making.			X			
C - Products that exclude activities and/or investees involved in activities with negative effects on people and/or the planet			X			
D - Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in, e.g. investments in economic activities becoming taxonomy-aligned or in transitional economic activities that are taxonomy aligned, investments in companies, economic activities or portfolios with credible targets and/or plans to decarbonise, improve workers' rights, reduce environmental impacts.*			X			

** In line with the transition to a climate neutral and sustainable economy.*						
Other						

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

If you think there are other possible useful categories, please specify which ones:

If the European Commission develops a categorisation system for sustainability-related products, it should be designed to facilitate retail investors' choice among products with sustainability-related strategies and objectives.

ICI Global encourages the Commission to consider the following recommendations when designing a product categorisation system.

1. Categories should be designed to reflect the diversity of retail investors' actual sustainability preferences. The Commission should avoid novel concepts when developing a categorisation system. Steering investors toward certain financial products or creating a hierarchy among products will ultimately impede investors' choice. The Commission should conduct consumer testing to inform the development of a categorisation system. The experience of the ill-fated EU Ecolabel for Retail Financial Products illustrates the importance of designing categories based in a real-world context rather than a notional outcome. If calibrated correctly, product categories that are easy to understand could potentially facilitate retail investors' ability to navigate the existing landscape of sustainability-related investment products.

2. Categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). The categories and their definitions should not confuse the investment goals, intentions, and/or objectives of the product, with the strategies and tools employed to achieve the overall investment goal. For example, we recommend describing Category C in terms of its investment goals – to invest in assets that align with clients' values – rather than one of the tools the product may employ (e.g., exclusions). We support the Commission's recognition of exclusionary/negative screening as a tool that products in this category are likely to use.

3. Category definitions and any associated criteria must remain flexible to allow for a variety of investment strategies and tools to be used to achieve the product's overall sustainability-related investment goals. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. For example, products with a transition focus (Category D) can take a variety of different approaches. One strategy could focus on investing in companies that are high-emitting today, but that are in key sectors or perform economic activities that will be essential through the transition. This fund allocates capital to companies supporting an economy-wide transition without setting emissions

reduction targets for its investment portfolio. By contrast, another transition focused strategy might also invest in companies that are high-emitting today, but that have potential to significantly reduce their emissions over time in the context of a global economic transition. This fund may manage its assets in a manner to achieve specific emissions reduction targets. Defining categories too narrowly or prescribing the use of certain strategies, such as setting GHG emissions reduction targets, would risk making the categories static and short-lived, unable to adjust to the needs of transition finance, nor adapting to evolving investors' preferences and continued market innovation.

4. Category definitions and any associated criteria should work with all asset classes. Asset managers are best placed to determine the appropriate strategies and tools to use to achieve the goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Criteria that narrowly prescribe the use of a particular strategy or tool could potentially result in the exclusion of certain asset classes for certain product categories, or the exclusion of multi-asset portfolios from the categorisation system altogether. An unintended consequence could be funds using certain categories would carry additional concentration risks.

<u>Question 4.1.10</u>: What should be the minimum criteria to be met in order for a financial product to fall under the different product categories? Could these minimum criteria consist of:

For product category A of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment	X					
Engagement strategies	X					
Exclusions	X					
Pre-defined, measurable, positive environmental, social or governance-related outcome			X			
Other				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

ICI Global strongly recommends that the Commission not require any quantitative minimum criteria to be met in order for a financial product to fall under any product categories. The experience of the EU Ecolabel for Retail Financial Products, and the

resulting lack of the Ecolabel's use as a market tool, illustrates the importance of avoiding category criteria based on notional quantitative thresholds. If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related strategies and objectives. We encourage the Commission to consider utilizing effective product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features. Product categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. Asset managers are best placed to determine the appropriate strategies to use to achieve the investment goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. Defining categories too narrowly or prescribing the use of certain strategies or tools would risk making the categories static and short-lived, unable to adjust to the needs of transition finance, nor adapting to evolving investors' preferences and continued market innovation. For example, products described in Category A are likely to use a wide variety of strategies, tools, and KPIs to invest in assets that aim to achieve targeted, measurable solutions to sustainability related problems that affect people and/or the planet. Rather than prescribing certain criteria, the Commission should ensure that complementary disclosure obligations for Category A adequately facilitate financial market participants' ability to describe each product's specific theory of change, and how the strategies aim to invest in assets having measurable positive environmental, social or governance-related outcomes. It is important to recognize that there is no one metric for measuring these positive outcomes, and different products may strive to invest in assets with different outcomes altogether.

For product category B of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment		X				

Engagement strategies	X					
Exclusions	X					
Pre-defined, measurable, positive environmental, social or governance-related outcome	X					
Other				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

ICI Global strongly recommends that the Commission not require any quantitative minimum criteria to be met in order for a financial product to fall under any product categories. The experience of the EU Ecolabel for Retail Financial Products, and the resulting lack of the Ecolabel's use as a market tool, illustrates the importance of avoiding category criteria based on notional quantitative thresholds. If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related strategies and objectives.

We encourage the Commission to consider utilizing effective product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features.

Product categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. Asset managers are best placed to determine the appropriate strategies to use to achieve the investment goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. Defining categories too narrowly or prescribing the use of certain strategies or tools would risk making the categories static and short-lived, unable to adjust to the needs of transition finance, nor adapting to evolving investors' preferences and continued market innovation.

For example, products described in Category B are likely to use a wide variety of strategies to invest in accordance with various credible sustainability standards or sustainability-related themes. Both the EU Taxonomy and the SFDR Art. 2(17) definition of "sustainable investment" could be considered credible sustainability

standards. However, they should not be considered the only credible standards, now or in the future. Innovation in this space is likely to coincide with improving data availability and the proliferation of new credible sustainability standards. Category B should be flexible enough to facilitate the use of robust proprietary standards developed by financial market participants, as well as future innovation among market-based standards.

For product category C of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment	X					
Engagement strategies	X					
Exclusions			X			
Pre-defined, measurable, positive environmental, social or governance-related outcome	X					
Other				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

ICI Global strongly recommends that the Commission not require any quantitative minimum criteria to be met in order for a financial product to fall under any product categories. The experience of the EU Ecolabel for Retail Financial Products, and the resulting lack of the Ecolabel's use as a market tool, illustrates the importance of avoiding category criteria based on notional quantitative thresholds. If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related strategies and objectives. We encourage the Commission to consider utilizing effective product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features. Product categories should relate to the clearly articulated investment goals, intentions,

and/or objectives of the product (i.e., what the product is seeking to achieve). The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. Asset managers are best placed to determine the appropriate strategies to use to achieve the investment goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. Defining categories too narrowly or prescribing the use of certain strategies or tools would risk making the categories static and short-lived, unable to adjust to the needs of transition finance, nor adapting to evolving investors' preferences and continued market innovation. For example, we recommend describing Category C in terms of its investment goals – to invest in assets that align with clients' values – rather than one of the tools the product may employ (e.g., exclusions). We support the Commission's recognition of exclusionary/negative screening as a tool that products in this category are likely to use.

For product category D of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment	X					
Engagement strategies	X					
Exclusions	X					
Pre-defined, measurable, positive environmental, social or governance-related outcome		X				
Other				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

ICI Global strongly recommends that the Commission not require any quantitative minimum criteria to be met in order for a financial product to fall under any product categories. The experience of the EU Ecolabel for Retail Financial Products, and the resulting lack of the Ecolabel's use as a market tool, illustrates the importance of avoiding category criteria based on notional quantitative thresholds. If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related strategies and objectives. We encourage the Commission to consider utilizing effective product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing

qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features. Product categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. Asset managers are best placed to determine the appropriate strategies to use to achieve the investment goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. For example, products with a transition focus (Category D) can take a variety of different approaches. One strategy could focus on investing in companies that are high-emitting today, but that are in key sectors or perform economic activities that will be essential through the transition. This fund allocates capital to companies supporting an economy-wide transition without setting emissions reduction targets for its investment portfolio. By contrast, another transition focused strategy might also invest in companies that are high-emitting today, but that have potential to significantly reduce their emissions over time in the context of a global economic transition. This fund may manage its assets in a manner to achieve specific emissions reduction targets. Defining categories too narrowly or prescribing the use of certain strategies, such as setting GHG emissions reduction targets, would risk making the categories static and short-lived, unable to adjust to the needs of transition finance, nor adapting to evolving investors' preferences and continued market innovation.

Question 4.1.11: Should criteria focus to any extent on the processes implemented by the product manufacturer to demonstrate how sustainability considerations can constrain investment choices (for instance, a minimum year-on-year improvement of chosen key performance indicators (KPIs), or a minimum exclusion rate of the investable universe)?

	1	2	3	4	5	Don't know
Category A of question 4.1.4	X					
Category B of question 4.1.4	X					
Category C of question 4.1.4	X					
Category D of question 4.1.4	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 4.1.11 a): If so, what process criteria would you deem most relevant to demonstrate the stringency of the strategy implemented?

ICI Global strongly recommends that the Commission not require quantitative minimum criteria to be met in order for a financial product to fall under any product category. This includes criteria aimed at measuring "the extent on the processes implemented by the product manufacturer to demonstrate how sustainability considerations can constrain investment choices (for instance, a minimum year-on-year improvement of chosen key performance indicators (KPIs), or a minimum exclusion rate of the investable universe)". Rather than attempting to assess the robustness of an investment process by quantifying how it constrains investment choices, we believe it would be more effective to consider utilizing product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features. We note that quantitative thresholds measuring the extent to which the investable universe has been constrained have little relation to a given strategy's ability to achieve a stated sustainability-related investment goal. Prescribing such thresholds would impede retail investors' understanding of the actual sustainability characteristics of the products. We would also have significant concerns with quantitative criteria requiring year-on-year improvement of KPIs, as this could lead to short-term investment decisions that are misaligned with long-term financial growth and sustainability-related investment goals.

……………………………………………………………………………………………………

If a categorisation system was established according to approach 2 of question 4.1.2

Question 4.1.12: If a categorisation system was established based on existing Articles 8 and 9, are the following concepts of the SFDR fit for that purpose?

	1	2	3	4	5	Don't know
The current concept of 'environmental and/or social characteristics'		X				
The current concept of 'sustainable investment'		X				

The current element of 'contribution to an environmental or social objective' of the sustainable investment concept	X					
The current element 'do no significant harm' of the sustainable investment concept, and its link with the entity level principal adverse impact indicators listed in tables 1, 2 and 3 of Annex I of the Delegated Regulation	X					
The current element of 'investee companies' good governance practices' of the sustainable investment concept	X					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 4.1.14: Do you think that a minimum proportion of investments in taxonomy aligned activities shall be required as a criterion to:

	Yes	No	Don't know
…fall under the potential new product category of Article 8?		X	
…fall under the potential new product category of Article 9?		X	

4.2. GENERAL QUESTIONS ABOUT THE POTENTIAL ESTABLISHMENT OF SUSTAINABILITY PRODUCTS CATEGORIES

Question 4.2.1: In addition to these criteria, and to other possible cross- cutting/horizontal disclosure requirements on financial products, should there be some additional disclosure requirements when a product falls within a specific sustainability product category? This question presents clear links with question 3.2.3 in section 3.

1	2	3	4	5	Don't know
			X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 4.2.1 a): Please see a list of examples of disclosures that could be required when a product falls within a specific sustainability product category. Should this information be required when a product falls within a specific sustainability product category, and/or should any other information be required about those products?

	1	2	3	4	5	Don't know
Taxonomy-related disclosures		X				
Engagement strategies		X				
Exclusions		X				
Information about how the criteria required to fall within a specific sustainability product category have been met					X	
Other information			X			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please specify any other information:

If the European Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related strategies and objectives. ICI Global agrees with the Commission's statement in the targeted consultation that any potential categorisation system should be voluntary, and that it should be complementary to the SFDR disclosure regime. Only products that claim to fall under a given product category should be required to meet corresponding disclosure requirements.

Disclosure requirements should seek to highlight each financial product's specific characteristics, rather than striving for uniform comparability using metrics that may or may not relate to the product's investment strategy. Meaningful disclosure is an investor protection tool that empowers investors to make informed investment decisions. We therefore strongly recommend against imposing on financial products electing to use product categories any uniform disclosure requirements that are unrelated to the specific product category or the product's sustainability-related strategies or investment goals.

Instead, we believe it would be more effective to consider utilizing product-level disclosure within the SFDR framework that facilitates financial market participants' ability to describe how the investment strategies chosen aim to achieve the stated investment goals of the intended product category. This could be done, for example, by providing qualitative disclosures: (i) clearly articulating the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describing how data is used in the investment process to select and/or exclude investments; (iii) describing whether and how stewardship activities are used in the investment process; and (iv) describing whether and how any KPIs are used to measure, track, and report performance of sustainability-related features.

Asset managers are best placed to determine the appropriate strategy to employ in order to achieve the intended investment goals. The strategies and tools employed may differ on an investment-by-investment basis, or by asset class. Disclosures on any criteria, metrics, methodologies, or credible sustainability standards used should relate to how

the financial market participant implements the strategies and measures performance against its stated investment goals. In some cases, as noted above, it may be appropriate for a product using a category to choose to disclose information related to Taxonomy alignment, engagement policies, and/or exclusions, depending on the specific investment strategy. For example, a product electing to use Category B may aim to select investments that are Taxonomy aligned (i.e., as the credible sustainability standard). That product could use Taxonomy alignment disclosure to demonstrate how it achieves its stated investment goals. Similarly, a product in Category C may disclose information about its exclusion policy to demonstrate how it avoids investing in assets that do not align with clients' values. Products in any category, and those which do not fall into a category but do utilize a sustainability-related investment strategy, may choose to disclose information about their engagement policy if it plays a key role in the overall investment strategy of the product.

Question 4.2.2: If a product categorisation system was set up, what governance system should be created?

	1	2	3	4	5	Don't know
Third-party verification of categories should be mandatory (i.e. assurance engagements to verify the alignment of candidate products with a sustainability product category and assurance engagements to monitor on-going compliance with the product category criteria)	X					
Market participants should be able to use this categorisation system based on a self-declaration by the product manufacturer supervised by national competent authorities					X	
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your answer to question 4.2.2:

ICI Global strongly recommends that market participants be permitted to use the potential product categorisation system based on a self-declaration by the product manufacturer supervised and authorized by national competent authorities. Internal assessment and verification could be performed by the financial market participant's internal compliance or audit function, which are generally independent of the investment decision-making function. A mandatory requirement for a fund to seek third-party verification of its strategy would

only generate unnecessary costs and additional reliance on third-party providers, with no real benefits to investors. This would run counter to the overall objectives of the EU's broader policy goals to increase competitiveness, reduce costs among financial products, and stimulate retail investment. The Commission should take into account the lack of consistent, reliable standards for independent auditors or assurance providers to use to perform this type of assessment, the range of providers qualified to perform this task, and the considerable costs for investors. Outsourcing regulatory functions to unregulated commercial third parties in the EU would only exacerbate fragmentation among regulatory approaches among member states.

In our view, meaningful disclosure is an effective investor protection tool, sufficient to enable retail investors to make informed decisions about whether a product falling under a particular category would meet their sustainability preferences, and likewise sufficient to enable effective supervision by regulators.

4.4. MARKETING COMMUNICATIONS AND PRODUCT NAMES

Question 4.4.2: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
The introduction of product categories should be accompanied by specific rules on how market participants must label and communicate on their products	X					
The use of terms such as 'sustainable', 'ESG', 'SDG', 'green', 'responsible', 'net zero' should be prohibited for products that do not fall under at least one of the product categories defined above, as appropriate.	X					
Certain terms should be linked to a specific product category and should be reserved for the respective category.	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your replies to questions 4.4.1, 4.4.2 and 4.4.3:

If the Commission develops a product categorisation system, it is essential that product names and communications are not restricted by any such system. Products should be permitted to use names and terminology in marketing materials that are fair, clear, and not misleading, regardless of whether they fall into a certain category or elect to use the categorisation system at all.

Restrictions on the use of certain names or terms in marketing materials depending on voluntary use of a categorisation system could have the negative consequence of hindering retail investors' exposure to and understanding of funds' investment processes and sustainability-related investment strategies. Investor education about these topics should be top of mind for regulators. The fund industry is responding to retail investors' increased interest in sustainability-related products by, among other things, creating funds that explicitly tailor their investments to a broad range of environmental and/or social preferences. Continued innovation in the fund industry reflects the diversity of clients' actual sustainability preferences, and a categorisation system developed in the EU should not hinder or limit the fund industry's ability to develop, offer, and inform EU investors about the characteristics of any particular product.

Moreover, additional naming and communications rules for sustainability-related products are unnecessary. Existing sectoral legislation in the EU ensures that product names and communications are fair, clear, and not misleading. There is no reason to subject products with sustainability-related investment strategies to different and more restrictive regulatory requirements than other products offered in the EU, regardless of whether they may elect to use a voluntary categorisation system.

The Commission should focus its efforts on improving the SFDR disclosure framework to deliver on its investor protection mandate, taking into account the sequencing and consistency among related regulatory initiatives. Considering additional regulatory requirements at this stage without assessing the regulatory coherence of the revised SFDR and other existing and upcoming regulatory initiatives for the EU sustainable finance regulatory ecosystem, such as the anticipated ESMA guidelines for fund names, would only add to the risk of regulatory fragmentation and create undue costs on financial market participants in the EU.