spainsif

<u>STATEMENT OF SPAINSIF ON THE SFDR COMPREHENSIVE CONSULTATION – APRIL 2023</u>

Spainsif has consistently supported the SFDR framework, aligning with its overarching objectives to promote capital flows toward sustainable investments, integrate ESG risks, and enhance sustainability transparency in financial markets. Despite acknowledging the positive impact of SFDR's binding disclosure rules on financial market transparency, Spainsif notes certain challenges in the framework's implementation.

The organization underscores that SFDR has been perceived as a labeling scheme by market participants, lacking clear definitions and minimum criteria for essential concepts such as "sustainable investments," "environmental and/or social objectives," "ESG factors/characteristics," "PAIs consideration," and "good governance practices." This lack of clarity has resulted in confusion and a lack of coherence with other sustainable finance rules, leading to difficulties in precisely identifying the features of products labeled as "Article 8" or "Article 9."

To address this issue, Spainsif emphasizes the necessity of a standardized framework that encompasses underlying processes, investment strategies, and objectives, extending beyond investment portfolios. Additionally, the organization calls for interoperability criteria between SFDR and other relevant regulations, including Taxonomy, CSRD/ESRS, MIFID II, CRR, and BMR.

Concerns are raised about the potential for greenwashing and greenhushing/greenbleaching due to the lack of clarity and interoperability in the regulatory framework. Spainsif underscores the importance of resolving these issues to incentivize capital allocation to sustainable outcomes and investors' sustainability preferences.

Furthermore, Spainsif expresses reservations about the availability of sustainable data post-SFDR implementation and calls for improvements in interoperability with the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS). The organization stresses the need for consistency between materiality ESRS assessments and mandatory PAIs disclosures.

While recognizing the positive impact of SFDR, Spainsif believes that the framework can be further improved. The organization supports the Commission's comprehensive assessment of the framework and recommends aligning the revised requirements explicitly with SFDR's initial objectives. Key recommendations include refining concepts, defining clear categories based on sustainability goals, ensuring interoperability with other regulations, and enhancing disclosure requirements for financial products.

Spainsif emphasizes the importance of clear categories, expressing concerns about potential fragmentation in supervision within the EU. The organization advocates for building categories based on the SFDR, incorporating and clarifying criteria and minimum thresholds that the industry is already using in practice. Creating categories disconnected from the SFDR would be counterproductive, considering the industry-wide efforts already made. However, Spainsif emphasizes that investment products' sustainability claims should be demonstrated with clear and specific minimum criteria for each category aligned with the objectives and sustainability claims of the product's investment strategy.

Spainsif also stresses the need for the "impact" category, particularly in terms of impact and intentionality additional disclosure requirements, with special attention to sustainability information estimates in private markets (private equity and venture capital). The organization calls for conceptualizing the impact category not as a classification negating the positive repercussions of other financial products within distinct categories but as supplementary disclosure obligations pertaining to impact measurement and deliberate intent. All products in this category should provide this additional information. The concept of "impact investment" must be clarified for consistent application by supervisors and participants in financial markets across different market types and asset classes.

The possibility of a specific Transition category is rejected due to its diverse and dynamic nature, along with the inherent difficulty of its classification within the SFDR framework. Nevertheless, the importance of necessary disclosure regarding transition plans is acknowledged and highlighted, both within the taxonomy and the CSRD framework.

Spainsif proposes four categories based on existing SFDR articles:

- "ESG Factors' Promotion" would fit into Article 8, requiring a minimum threshold of 50% of investments dedicated to promoting these factors, demonstrating the integration of crucial environmental and/or social factors at the core of the investment process.
- "Sustainable" with minimum thresholds for sustainable investments to be defined, greater than 50% but less than 100%, would fit into an Article 8 plus.
- "Sustainable Plus" with minimum thresholds of sustainable investments close to or equal to 100%, would fit into Article 9, as it does currently.
- "Impact" would fit into an Article 9 plus, where additional disclosures regarding impact intention and measurement are required.

In this context, the organization calls for specific disclosure requirements for each SFDR category and minimum disclosure requirements for all financial products against PAI indicators on climate change and human rights violations. Spainsif agrees with the idea that PAIs should have a relevant role in all categories/products with a proportionality criterion to avoid excessive complexity. Disclosed PAIs should be useful for investors, and their preparation should not impose an excessive degree of complexity on the entity.

In the consultation on the SFDR Delegated Regulation, Spainsif endorsed the ESAs' recommendations to broaden the list of obligatory social Principal Adverse Impact (PAI) indicators. These additions encompass factors such as earnings in non-cooperative tax jurisdictions, exposure to tobacco cultivation and production, interference with trade unions or the election of worker representatives, wages paid under a minimum adequate level, and other pertinent social considerations such as inclusion and the employment of individuals with disabilities.

The use of sustainable or ESG terms in fund names and the questions included on sustainability preference tests according to MIFID II/IDD must be interoperable with the categories finally defined by the SFDR.

Finally, Spainsif suggests that category supervision should be underpinned by national supervisory authorities.

In conclusion, Spainsif welcomes the consultation and recommends comprehensive enhancements to the SFDR framework to better achieve its intended objectives.