Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR) - Additional Document

In addition to the answers provided in the response form, we would like to add the following explanations to our replies to questions 1.1 and 1.2:

Ad Question 1.1:

Appropriate disclosure regarding the ESG characteristics of potential investments is indeed of high importance for the transition to a sustainable economy.

However, there is a certain risk of overestimating the practical use of ESG information by clients, particularly if this information has a high degree of detail. As discussed by the European Commission itself in the context of its Retail Investment Strategy, practical experience shows a limited use even of information provided in PRIIPs KIDs, and even more so for longer and more detailed information such as in prospectuses.

Currently, the only part of the SFDR that receives a high degree of attention from clients is the de-facto classification system that has developed based on Articles 8 and 9. The actual decision by clients for a certain investment is much more driven by what happens at the point of sale, particularly in cases where clients receive advice about the investment most suitable for them.

This also means that SFDR disclosure currently is not a "pull factor" for product selection.

In addition, on the distribution side (at the point of sale), many more types of potential investments are effectively competing for the capital of retail investors with sustainability preferences than are currently covered by the SFDR – namely, in addition to mutual funds, various types of securities (not just structured ones). In practice, retail investors will regularly decide between investing in investment funds and structured securities.

Accordingly:

(a) Less can be more in connection with ESG information - short-form key information presented in a concise and understandable format has the potential to increase practical use of the information by clients.

(b) The ESG information regime needs to be looked at together with, and materially attached to, the relevant point-of-sale rules, for all financial instruments and in a truly holistic manner.

(c) There is an inherent nexus between disclosure of relevant information and the circumstances relevant for ESG purposes at the point-of-sale, which the current SFDR, with its limited product scope, does not take into account.

Ad Question 1.2:

For all of the objectives mentioned in this question, the degree of actually achieving these goals is hampered by deficiencies of the current regulatory regime, particularly the high degree of detail currently prescribed for the information and the lack of harmonisation with the relevant point-of-sale rules, both as already mentioned.