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# Policy Position

## Targeted consultation – Implementation of the Sustainable Finance Disclosure Regulation (SFDR)



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Allianz welcomes the European Commission's initiative to conduct a comprehensive assessment of the Sustainable Finance Disclosure Regulation (SFDR), considering its embedment in the overall Sustainable Finance Regulatory Framework.

In this paper, we present what we consider the most important aspects in regard to a potential SFDR review.

1. **Purpose:** The original purpose of the SFDR as a transparency regime should be maintained.
2. **Product disclosure simplification:** Initiatives which are designed to simplify the currently rather complex SFDR disclosures are generally welcomed. Focusing on the purpose of the SFDR as a transparency regime (and independent of any additional considerations on categorization), there should be no different templates for Article 8 and Article 9 products anymore. One pre-contractual disclosure (PCD) template and one periodic reporting (PR) template with key information/core KPIs for all Article 8 and 9 products should prevail, with the PCD information focusing on commitments towards the customer and the PR information focusing on the respective fulfilments. The presentation could be done in the form of an easy-to-understand dashboard. This would lead to the same look & feel for at least all Article 8 and 9 products.

All further detailed product information should be provided via website disclosures (accessible for customers via a link) in an easy to digest, layered way. More generally, we suggest having some core disclosure requirements on sustainability for all products (thereby ending the one-sided reporting burden for products with sustainability elements) to allow for true comparability of products and to enable financial advisors as well as retail investors to easily identify the relevant information at the point of sale.

3. **Entity disclosure simplification:** All entity level reporting should be covered under CSRD by replacing it by respective aggregated Group level information, thereby absorbing SFDR Articles 3, 4 and 5. In accordance with SFDR Article 4, CSRD already requires PAI reporting for own operations. To complement this, the sector-specific European Sustainability Reporting Standards (ESRS) could require PAI reporting for investments as well. Thereby, consistent and useful information provision for investors would be ensured (i.e. PAI aggregated Group level reporting for both own operations and investments).
4. **Regulatory clarification:** The current room for interpretation of concepts and disclosure requirements under the SFDR is perceived to be too broad to

allow financial market participants to confidently implement the regulation and to appropriately allocate financial products to Articles 8 and 9. Unclear definitions and inconsistencies need to be tackled to allow for true comparability of products and to ensure legal certainty for investors and financial market participants (FMP):

- Articles 8 and 9: The differentiation between Articles 8 and 9 needs to be reviewed and potentially adjusted or even removed.
- Sustainable Investment (SI): The definition of Sustainable Investment in accordance with Article 2 (17) SFDR should be clarified further, i.e. a common methodology for the calculation of SI should be determined (the calculation method may, however, vary across asset classes).
- PAI consideration: A common understanding of what "PAI consideration" means is needed taking into account current market practices and data availability (e.g. consideration of PAI families instead of every single PAI).

5. **Transition:** Transition finance concepts, e.g. by considering decarbonization targets, should be introduced in a credible and comparable but also easy-to-understand way to address and acknowledge transition efforts (beyond the existing transition aspects under SI and Taxonomy-aligned investments). The interlinkages with CSRD (disclosure of transition targets) and future CSDDD (potential requirement to implement transition targets) should be taken into account.

6. **Categorization:** A potential categorization system could be one approach to facilitate retail investor understanding of products' sustainability-related strategies and

objectives and to advance the advisory process. A potential categorization system should:

- Ensure fair and transparent information for retail customers for all types of financial products. Different approaches and dimensions of sustainability should be reflected adequately and without hierarchy (e.g. transition-oriented products with strategies focused on supporting the transition, outcome-oriented products with focus on already sustainable assets).
- Be designed in such a way that is also suitable for broadly diversified portfolios like a general account for life insurance products or multi-asset funds. As such, it is essential that the wide range of investment instruments that such portfolios are composed of (e.g. including government bonds) is covered by the metrics upon which the potential categorization system would be built.
- As far as possible be based on information provided under SFDR and not add a new level of complexity by introducing additional KPIs/information/metrics to avoid an information overload for retail investors. However, investments supporting the transition efforts of the real economy should be considered as an additional element (see point 5 on transition).
- Consider the evolution of the Sustainable Finance regulatory framework and related standards (including the Taxonomy and transition finance concepts).
- Be reflected appropriately in the context of the development of product naming.

7. **Interlinkages:** The review of the SFDR as well as the potential establishment of a categorization system should have the objective to substantially improve the framework and make it more consistent in a long-term perspective, considering interlinkages with other legislation:

- IDD/MiFID II: Interlinkages with IDD and MiFID II need to be considered, while acknowledging that the period of experience with sustainability preference queries is rather short. Generally, IDD/MiFID II should use the potential categories to identify preferences, as the main purpose of a categorization system would be the simplification of the decision-making-process at the point of sale. Thus, a potential categorization system should be the basis for the integration of sustainability preferences as part of the suitability assessment.
- PRIIPs: For all products in scope of both SFDR and PRIIPs, the duplication of disclosures should be avoided.
- CSRD/ESRS: As stated in point 3, we support replacing entity level reporting under SFDR by aggregated Group level reporting under CSRD. As long as this is not implemented, the list of mandatory PAI indicators should be consistent and aligned with the disclosure requirements under the ESRS with a strong focus on significant (material) sector-agnostic indicators. Thus, interdependencies between SFDR and CSRD concerning data availability should always be considered, i.e. any intended changes to the SFDR PAIs need to be preceded by a change in the ESRS to avoid inconsistent or missing data. This also means that any intended changes to the SFDR

PAIs should be subject to a public consultation on the CSRD ESRS to avoid knock-on effects without due process.

- Taxonomy: The Taxonomy should be further developed to become more usable over time, i.e. more activities should be covered and applicability to further asset classes, e.g. sovereigns, is needed.