

MEMO# 35547

December 15, 2023

ICI Global Responds to European Commission SFDR Targeted Consultation

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TO: ICI Global Members
ESG Advisory Group
EU Sustainable Finance Disclosure Regulation Working Group
Europe Regulatory and Policy Committee
SUBJECTS: ESG
International/Global RE: ICI Global Responds to European Commission SFDR Targeted Consultation

ICI Global submitted the attached response to the European Commission's targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR).[\[1\]](#)

The targeted consultation, aiming to identify potential shortcomings and explore possible options to improve the SFDR framework, focuses on (i) the current requirements under the framework, (ii) interactions with other sustainable finance legislation, (iii) possible changes to the disclosure requirements for financial market participants, and (iv) the possible establishment of a categorization system for sustainability-related products. This consultation will inform the legislative review of the SFDR, which is expected in early 2025. We will continue our engagement with the policymakers and regulators in the EU as the process moves forward.

ICI Global welcomes the Commission's review of the SFDR, and its focus on improving the disclosure framework. 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. Our response sets out three key messages for improving the SFDR framework to deliver on its investor protection mandate:

1. The SFDR disclosure requirement should be simplified and streamlined to promote clear and understandable information for investors, empowering investors to make informed choices based on their own sustainability preferences. To date, the overemphasis on comparability has undermined the Commission's primary goal of strengthening transparency.

2. The SFDR review should ensure better alignment and coherence with other regulatory initiatives, such as the Corporate Sustainability Reporting Directive (CSRD) and the Markets in Financial Instruments Directive (MiFID II). Strong regulatory coherence is essential for the EU sustainable finance regulatory ecosystem to function properly.
3. If the Commission develops a categorisation system for sustainability-related products, it should be voluntary. Fund names and communications should not be restricted depending on use of a voluntary categorisation system. Only products that claim to fall under a given product category should be required to meet corresponding disclosure requirements.

Specifically, we provide the following recommendations on reviewing and amending the SFDR in the following ways:

Simplifying and streamlining SFDR disclosure obligations:

- Eliminate entity-level aggregated principal adverse impact (PAI) reporting. Should the Commission determine to maintain aggregated entity-level PAI reporting obligations, they should be voluntary, or at most, subject to materiality assessments.
- Product-level PAI reporting 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.
- The SFDR should not require distinct website disclosures, and instead utilize the precontractual and periodic reporting templates, which are designed to promote clear and concise disclosure for fund investors, for this purpose. Duplicative disclosures among pre-contractual documents, periodic reports, and websites should be avoided.
- Standardized 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. Website disclosures should not be required for products that are not offered to retail investors.
- ICI Global strongly opposes uniform sustainability-related disclosure requirements for all financial products in 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 and can result in irrelevant and confusing information for investors.

Strengthening regulatory coherence across the EU sustainable finance regulatory ecosystem:

- Exempt financial market participants that are in scope of the CSRD from making entity-level SFDR disclosures (Articles 3, 4, 5) to eliminate overlapping and duplicative reporting requirements.
- SFDR disclosure obligations should reflect the current state of sustainability-related data available to financial market participants. In particular, the inconsistencies between the European Sustainability Reporting Standards (ESRS) and SFDR regarding materiality assessments amplify the data availability challenges.
- Amendments to the SFDR should trigger a timely revision of MiFID sustainability preferences. If the Commission develops a voluntary categorisation system for sustainability-related products, the MiFID sustainability preferences and suitability requirements should accommodate products that fall outside of such voluntary system.

Considering development of voluntary investment product categories:

- If the Commission develops a categorisation system for sustainability-related products, it should be voluntary and flexible to facilitate retail investors' choice and adapt with market innovations. The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category.
- Product names and communications should not be restricted by any such 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.
- ICI Global strongly opposes minimum criteria based on quantitative data in order for a financial product to fall under any product categories. Instead, we encourage 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.

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Notes

[1] Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR), 14 September 2023, available at https://finance.ec.europa.eu/regulation-and-supervision/consultations/finance-2023-sfdr-implementation_en.

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