Triodos Bank’s response to the consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR)

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Triodos Bank was founded on the conviction that banking can be a powerful force for good. Our mission is to make money work for positive cultural, environmental and social change. We finance progressive entrepreneurs and influence the banking sector to become more transparent, diverse and sustainable.

Triodos Bank

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 1.2: Do you think the SFDR disclosure framework is effective in achieving the following specific objectives (included in its Explanatory Memorandum and mentioned in its recitals)[1]:

	1	2	3	4	5	Don't know
Increasing transparency towards end investors with regard to the integration of sustainability risks[2]			X			
Increasing transparency towards end investors with regard to the consideration of adverse sustainability impacts		X				
Strengthening protection of end investors and making it easier for them to benefit from and compare among a wide range of financial products and services, including those with sustainability claims	X					
Channeling capital towards investments considered sustainable, including transitional investments ('investments considered sustainable' should be understood in a broad sense, not limited to the definition	X					

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0354

[2] In this questionnaire we refer to the term 'end investor' (retail or professional) to designate the ultimate beneficiary of the investments in financial products (as defined under the SFDR) made by a person for their own account.

	1	2	3	4	5	Don't know
of sustainable investment set out in Article 2(17) of SFDR)						
Ensuring that ESG considerations are integrated into the investment and advisory process in a consistent manner across the different financial services sectors			X			
Ensuring that remuneration policies of financial market participants and financial advisors are consistent with the integration of sustainability risks and, where relevant, sustainable investment targets and designed to contribute to long-term sustainable growth		X				

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

Question 1.3: Do you agree that opting for a disclosure framework at EU level was more effective and efficient in seeking to achieve the objectives mentioned in Question 1.2 than if national measures had been taken at Member State level?

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 1.4: Do you agree with the following statement?

	1	2	3	4	5
The costs of disclosure under the SFDR framework are proportionate to the benefits it generates (informing end investors, channeling capital towards sustainable investments)	X				

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

Question 1.5: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know

The SFDR has raised awareness in the financial services sector of the potential negative impacts that investment decisions can have on the environment and/or people		X				
Financial market participants have changed the way they make investment decisions and design products since they have been required to disclose sustainability risks and adverse impacts at entity and product level under the SFDR.				X		
The SFDR has had indirect positive effects by increasing pressure on investee companies to act in a more sustainable manner.				X		

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

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	
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		X				
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			X			
The issues raised in question 1.6 prevent capital from being allocated to sustainable investments as effectively as it could be					X	
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		X				
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:

We have seen a lot of media attention for the SFDR, specifically in relation to non-sustainable activities in article 9 funds. The SFDR has had an impact on the way finance decisions are based and it has exerted pressure on product providers and investees to do better. However, the SFDR does not provide an answer to the problem of non-sustainable investments, investments in harmful activities, as the awareness of the adverse impacts and consequences thereof for article 6 funds has not changed. The lack of information on the impact of article 6 funds also results in insufficient transparency for investors to decide on sustainability. Also, the current SFDR documentation doesn't provide clarity and comparability for investors, particularly retail investors. We see that the disclosure documents published on the product websites are hardly read and understood by investors. The market seems to rely on the Article 6, 8 or 9 categorisations mostly, which is, however, limited and not comparable. Moreover, the market and supervisors interpret certain concepts differently, such as the PAI consideration on product level. However, in our opinion the concept of 'sustainable objective' is clear enough and leaves room for different product providers to make principle-based decisions. Also, data availability for SMEs, (non-listed) companies and projects in emerging markets and impact bonds is a complicating factor in the implementation of the SFDR although it is known that investments in the global south are crucial for the EU's sustainability goals. These unclarities and uncertainties result in reputational risks for product providers, but most of all, they prevent capital from being allocated to sustainable investments. At this point it is more interesting to not offer products as being sustainable, even if they are. This practice is known as "green hushing" and it happens because of the reputation risks and increased costs. This is worse in certain countries where national supervisors impose strict communication guidelines regarding sustainability. Although preventing greenwashing is an important objective, only focusing on this brings us further away from the most important objective of becoming more sustainable across the range of financial products offered. Altogether, the complications of non-comparability and unclarity between art 6, 8 and 9 funds, the lack of data for emerging countries and SMEs, and the different interpretations of supervisors make achieving the SFDR objectives difficult. With regard to investments in transition assets, the Climate Transition Benchmark already provides a tool. And the taxonomy defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. So when transition assets are progressing on the right net zero trajectory, they should already align with the taxonomy and this should be visible through capex-based Taxonomy disclosures. Therefore, the taxonomy also covers the transition assets, which then could be seen as having a sustainable objective or social and environmental characteristics.

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					X	

	1	2	3	4	5	Don't know
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).						
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)

Question 1.8.1: When following the approach described in the first statement of question 1.8 above, do you agree that the areas covered by the current indicators listed in table 1 of the Delegated Regulation are the right ones to be considered material in all cases?

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 1.9: To what extent do you agree with the following statements about product level disclosures?

	1	2	3	4	5	Don't know
The requirement to 'take account of' PAI indicators listed in Annex I of the Delegated Regulation for the DNSH assessment, does not create methodological challenges.		X				
In the context of product disclosures for the do no significant harm (DNSH) assessment, it is clear how materiality of principal adverse impact (PAI) indicators listed in Annex I of the Delegated Regulation should be applied			X			
The possibility to consider the PAI indicators listed in Annex I of the Delegated Regulation for product level		X				

disclosures of Article 7 do not create methodological challenges.						
It is clear how the disclosure requirements of Article 7 as regards principal adverse impacts interact with the requirement to disclose information according to Article 8 when the product promotes environmental and/or social characteristics and with the requirement to disclose information according to Article 9 when the product has sustainable investment as its objective.			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:

We believe that there is a need for indicators that are mandatory for all financial market participants to disclose on an entity level, but not based on the PAIs. The entity disclosures should follow the CSRD whereas several ESRS should be mandatory for all. With regard to disclosing PAIs on a product level, we do experience methodological and data availability and quality challenges, specifically for SMEs, emerging market investments, (impact) bonds and investments in external funds.

Question 1.10.1: Could you split the total costs between product level and entity level disclosures?

%	Product-level disclosures	Entity-level disclosures	Don’t know
Estimated percentage of costs	60%	40%	

If you wish to provide additional details, please use the box below:

We expect the additional costs that we made to be structural. The main reason for this is because the assessment on positive impact, negative impact, exclusions, good governance and outside in sustainability risk have always been part of our investment (monitoring) process and have been set up in such a way, that it is fully integrated in our processes. Nonetheless, collecting PAI data, specifically for our non-listed market investments around the globe, assessing taxonomy requirements for those companies that do not disclose under CSRD, and making what we do more explicit, disclosing the information according to SFDR disclosure requirements are all time and costs consuming. As a very rough estimate up to half of the personnel costs will also be spent on an annual basis. Next to that, the costs for buying impact data more than tripled between 2020 and 2022.

Question 1.11: In order to have a better understanding of internal costs, could you provide an estimate of how many full-time-equivalents (FTEs - FTEs - 1 FTE corresponds to 1 employee working full-time the whole year) are involved in preparing SFDR disclosures?

For Triodos, the assessment on positive impact, negative impact, exclusions, good governance and outside in sustainability risk have always been part of our investment and monitoring process and have been set up in such a way, that it is fully integrated in our processes. It is therefore difficult to estimate the number of FTEs, as many co-workers are involved in some way with the investment process and therefore also the SFDR disclosures.

Could you please provide a split between:

%	Retrieving the data	Analysing the data	Reporting SFDR disclosures	Other	Don't know
Estimated percentage	15	35	35	15	

Question 1.12: Are you facing difficulties in obtaining good-quality data?

Yes	No	Don't know
X		

Question 1.12.1: If so, do you struggle to find information about the following elements?

	1	2	3	4	5	Don't know
The entity level principal adverse impacts					X	
The proportion of taxonomy-aligned investments (product level)					X	

The contribution to an environmental or social objective, element of the definition of 'sustainable investment' (product level)		X				
The product's principal adverse impacts, including when assessed in the context of the 'do no significant harm' test which requires the consideration of PAI entity level indicators listed in Annex I of the Delegated Regulation and is an element of the definition of 'sustainable investment' (product level)				X		
The good governance practices of investee companies (product level)		X				
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)

Question 1.12.2: Is the SFDR sufficiently flexible to allow for the use of estimates?

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 1.12.3: Is it clear what kind of estimates are allowed by the SFDR?

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 1.12.4: If you use estimates, what kind of estimates do you use to fill the data gap?

	Entity level principal adverse impacts	Taxonomy aligned investments (product level)	Sustainable investments (product level)	Other
Estimates from data providers, based on data	X		X	

coming from the investee companies				
Estimates from data providers, based on data coming from other sources	X			
In-house estimates	X			
Internal ESG score models				X
External ESG score models				X
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)

Question 1.12.5: Do you engage with investee companies to encourage reporting of the missing data?

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 1.13: Have you increased your offer of financial products that make sustainability claims since the disclosure requirements of Articles 8 and 9 of the SFDR began to apply (i.e. since 2021, have you been offering more products that you categorise as Articles 8 and 9 than those you offered before the regulation was in place and for which you also claimed a certain sustainability performance)?

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 1.13.1: Please specify how the share of financial products making sustainability claims has evolved in the past years. (Please express it as a percentage of the total financial products you offered each year.)

2020	2021	2022	2023
100%	100%	100%	100%

2. INTERACTION WITH OTHER SUSTAINABLE FINANCE LEGISLATION

Question 2.1: The Commission recently adopted a FAQ clarifying that investments in Taxonomy-aligned 'environmentally sustainable' economic activities can automatically qualify as 'sustainable investments' in those activities under the SFDR. To what extent do you agree that this FAQ offers sufficient clarity to market participants on how to treat Taxonomy-aligned investment in the SFDR product level disclosures?

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

	1	2	3	4	5	Don't know
The questions & answers published by the Commission in April 2023 specifying that the SFDR deems products passively tracking CTB and PAB to be making 'sustainable investments' as defined in the SFDR provide sufficient clarity to market participants				X		
The approach to DNSH and good governance in the SFDR is consistent with the environmental, social and governance exclusions under the PAB/CTB			X			
The ESG information provided by benchmark administrators is sufficient and is aligned with the information required by the SFDR for products tracking or referencing these benchmarks						X

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

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)

Question 2.5: MIFID and IDD require financial advisors to take into account sustainability preferences of clients when providing certain services to them. Do you believe that, on top of this behavioural obligation, the following disclosure requirements for financial advisors of the SFDR are useful?

	1	2	3	4	5	Don’t know
Article 3, entity level disclosures about the integration of sustainability risks policies in investment or insurance advice		X				
Article 4, entity level disclosures about consideration of principal adverse impacts	X					

Article 5, entity level disclosures about remuneration policies in relation to the integration of sustainability risks		X				
Article 6, product level pre-contractual disclosures about the integration of sustainability risks in investment or insurance advice					X	
Article 12, requirement to keep information disclosed according to Articles 3 and 5 up to date		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 2.6: Have the requirements on distributors to consider sustainability preferences of clients impacted the quality and consistency of disclosures made under SFDR?

Yes	No	Don't know
X		

Question 2.6.1: If so, how?

The categorization of art. 6, 8 or 9 in the KID should be leading for all intermediaries. Intermediaries should not be allowed to change the categorization of the investment product. If a product has categorization art. 9 it should remain art. 9 irrespective of the intermediary. It appears to be very confusing for investors if they can invest in the same investment fund that has different articles depending on the distributor of the fund.

3. POTENTIAL CHANGES TO DISCLOSURE REQUIREMENTS FOR FINANCIAL MARKET PARTICIPANTS

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= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain your replies to question 3.1.1 as necessary:

The PAI statement is useful but not as it is designed now (at entity level) and not until data availability is solved. The coverage for some PAI’s is too low to say anything meaningful at the moment. And as the statement is at entity level, comparability of the statements between entities is impossible.

Question 3.1.2: Among the specific entity level principal adverse impact indicators required by the Delegated Regulation of the SFDR adopted pursuant to Article 4 (tables 1, 2 and 3 of Annex I), which indicators do you find the most (and least) useful?

For corporates we think that the following PAIS are most useful: carbon footprint, GHG intensity of investee companies, exposure to companies active in the fossil fuel sector, energy consumption intensity per high impact climate sector, activities negatively affecting biodiversity sensitive areas, emissions to water, hazardous waste and radioactive waste ratio (should be untreated hazardous waste), violations of UN Global Compact and OECD Guidelines, lack of processes and compliance mechanisms, unadjusted gender pay gap, board gender diversity, exposure to controversial weapons. Exposure to tobacco should be included.

For sovereign bonds and real estate both PAI’s are relevant. However, the good governance concept should be adapted to include sovereign bonds and real estate as well. Both could also be included in the good governance concept, which could be aligned with the Minimum Safeguards under the Taxonomy, following the approach of the Expert Group report on minimum safeguards, p. 57.

Question 3.1.3: In this context, is the SFDR the right place to include entity level disclosures?

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 3.1.4: To what extent is there room for streamlining sustainability-related entity level requirements across different pieces of legislation?

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 your replies to questions in section 3.1 as necessary

For article 3 and 5, entity level could be appropriate but preferably this is covered under the CSRD/CRR. For the PAI statement it makes more sense to publish the statement at product level. It is very important that different pieces of legislation are streamlined. Most relevant is streamlining the SFDR and CSRD requirements. This will improve the data quality, coverage and comparability of the SFDR reporting significantly.

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)

Please specify which ones:

All financial products should be required to report on the same set of PAIs. Currently PAI disclosures are only made at the entity level. There is no transparency on harmful activities on the level of a financial product. This transparency may at best contribute to less greenwashing, but it should lead to moving investment flows in a sustainable direction. Only then the real economic change happens. Therefore we propose that all products under the scope of the SFDR should disclose on a set of key PAI indicators.

For corporates we deem the following PAIs the most useful for mandatory reporting: carbon footprint, GHG intensity of investee companies, exposure to companies active in the fossil fuel sector, energy consumption intensity per high impact climate sector, activities negatively affecting biodiversity sensitive areas, emissions to water, hazardous waste and radioactive waste ratio (should be untreated hazardous waste), violations of UN Global Compact and OECD Guidelines, lack of processes and compliance mechanisms, unadjusted gender pay gap, board gender diversity, exposure to controversial weapons. Exposure to tobacco should be included.

For sovereigns bonds and real estate both PAIs are relevant.

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					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)

If you selected 'Other information' please specify:

All financial products should disclose the same set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

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

We stand firmly behind the original SFDR objectives of steering capital flows towards sustainable investments, mainstreaming sustainability into risk management and fostering transparency and long-termism. With that in mind, we see the following effects of the regulation that need to be addressed in the upcoming review of the SFDR.

- The current SFDR documentation doesn't provide clarity and comparability for investors, particularly retail investors. We see that the disclosure documents published on the product websites are hardly read and understood by investors. The market seems to rely on the article 6, 8 or 9 categorisation mostly, which is, however, limited and not comparable.

- The SFDR currently does not provide insights in the investments in non-sustainable or even harmful activities. The lack of information on the impact of article 6 products results in insufficient transparency for investors to make informed decisions and steer capital towards sustainable investments.

- The focus of the SFDR on disclosures for sustainable products results in an increased financial and administrative burden for those products. This results in an uneven playing field between sustainable and non-sustainable products, because it increases the costs of sustainable products only. It also leads to market participants purposely not disclosing sustainable characteristics of their products, also known as 'green hushing'. Both stand in the way of steering capital to sustainable investments.

To further improve the SFDR, we propose a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.

Our proposal includes categories that distinguish to what extent any financial product considers sustainability, based on their disclosure of

1. the degree of sustainable investments according to either the Taxonomy Regulation and/or following art 2(17) of the SFDR (the percentage should be calculated based on the current value of all investments, excluding cash),

2. if the Principle Adverse Impact Indicators (PAIs) are used in the investment selection process and/or the engagement strategy, and

3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from “strong” to “no” explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No
Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

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?

All financial products should disclose the same set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. There should not be any exemption.

Question 3.2.2. b): If the EU was to impose uniform disclosure requirements for some financial products, should a limited number of principal adverse impact indicators be required?

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 specify which ones:

All financial products should disclose the same set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. There should not be any exemption.

For corporates we consider the following PAIs most useful for mandatory reporting: carbon footprint, GHG intensity of investee companies, exposure to companies active in the fossil fuel sector, energy consumption intensity per high impact climate sector, activities negatively affecting biodiversity sensitive areas, emissions to water, hazardous waste and radioactive waste ratio (should be untreated hazardous waste), violations of UN Global Compact and OECD Guidelines, lack of processes and compliance mechanisms, unadjusted gender pay gap, board gender diversity, exposure to controversial weapons. Exposure to tobacco should be included.

For sovereigns bonds and real estate both PAIs are relevant.

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					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)

If you selected 'Other information' please specify:

All financial products should disclose the same set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

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

We stand firmly behind the original SFDR objectives of steering capital flows towards sustainable investments, mainstreaming sustainability into risk management and fostering transparency and long-termism. With that in mind, we see the following effects of the regulation that need to be addressed in the upcoming review of the SFDR.

- The current SFDR documentation doesn't provide clarity and comparability for investors, particularly retail investors. We see that the disclosure documents published on the product websites are hardly read and understood by investors. The market seems to rely on the article 6, 8 or 9 categorisation mostly, which is, however, limited and not comparable.

- The SFDR currently does not provide insights in the investments in non-sustainable or even harmful activities. The lack of information on the impact of article 6 products results in insufficient transparency for investors to make informed decisions and steer capital towards sustainable investments.

- The focus of the SFDR on disclosures for sustainable products results in an increased financial and administrative burden for those products. This results in an uneven playing field between sustainable and non-sustainable products, because it increases the costs of sustainable products only. It also leads to market participants purposely not disclosing sustainable characteristics of their products, also known as 'green hushing'. Both stand in the way of steering capital to sustainable investments.

To further improve the SFDR, we propose a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.

Our proposal includes categories that distinguish to what extent any financial product considers sustainability, based on their disclosure of

1. the degree of sustainable investments according to either the Taxonomy Regulation and/or following art 2(17) of the SFDR (the percentage should be calculated based on the current value of all investments, excluding cash),
2. if the Principle Adverse Impact Indicators (PAIs) are used in the investment selection process and/or the engagement strategy, and
3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from "strong" to "no" explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No
Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

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:

All products should report the same baseline of disclosure. Financial products that make a sustainability claim should give an explanation for certain disclosures. For example, a product should first disclose if the products make use of exclusions, so Yes/No. If the product does, it should disclose on what is being excluded on top of the exclusion of the Paris Aligned Benchmark (Delegated Regulation 2020/1818).

The obligation to pick several extra PAIs on top of the mandatory key PAIs should become voluntary.

The transparency on harmful activities is equally important as transparency on sustainability. The risk that SFDR intends to address lies with the harmful activities. As the SFDR is designed now, these risks are not disclosed.

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:

Product related information spread across three places is appropriate, although we have some concerns about the practicality, clarity and comparability of the PAI statement and annex in the precontractual disclosure. The information presented should be simplified and made more modular especially on websites. The format of the PAI statement is not user friendly. Our PAI statement is 37 pages long. It should be more compact and better visualised. There is also plenty of room for misinterpretations. For example, in some jurisdictions, the definition of investments include cash and in others, cash is excluded. As some (more illiquid) funds can have quite some cash this has a large influence on the reported % of sustainable investments. The exclusion of cash from the calculation of proportion of sustainable investments/taxonomy-alignment should become standard.

Question 3.2.6: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
It is useful that product disclosures under SFDR are publicly available (e.g. because they have the potential to bring wider societal benefits)					X	
Confidentiality aspects need to be taken into account when specifying the information that should be made available to the public under the SFDR	X					
Sustainability information about financial products should be made available to potential investors, investors or the public according to rules in sectoral legislation (e.g.: UCITS, AIFM, IORPs directives); the SFDR should not impose rules in this regard		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 3.2.6:

We see that the documents published on the website are hardly read and understood by the audience, particularly retail investors. The market seems to rely on the article 6, 8 or 9 categorisation mostly. Transparency is always an issue in relation to confidentiality but the level of transparency asked for by SFDR does not interfere with confidentiality. Sustainability information should be aligned with our proposal of transforming the SFDR into an improved categorization system. For such a categorization system, information on sustainability strategies is important irrespective of what is already covered by sectoral legislation.

Question 3.2.7: To what extent do you agree with the following statements?

	1	2	3	4	5	Don’t know
The same sustainability disclosure topics and the exact same level of granularity of sustainability information (i.e. same number of datapoints) should be required in all types of precontractual documentation to allow for comparability		X				
The same sustainability disclosure topics should be required in all types of precontractual documentation to allow for comparability		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 3.2.7:

Not all precontractual documentation should require the same sustainability disclosure topics and the exact same level of granularity of sustainability information. The information presented should be simplified and made more modular especially on websites. The format of the PAI statement is not user friendly. The extent of details in the prospectus can be much higher than in the KIID.

Question 3.2.8: Do you believe that sustainability related disclosure requirements at product level should be independent from any entity level disclosure requirements, (i.e. product disclosures should not be conditional on entity disclosures, and vice-versa)?

Yes	No	Don't know
X		

Please explain as necessary your replies to question 3.2.8:

An entity can have different investment strategies. It is important that (retail) investors can distinguish these different investment strategies at product level. We believe that there need to be indicators that are mandatory for all financial market participants to disclose on an entity level, but not based on the PAIs. The entity disclosures should follow the CSRD where several ESRS should be mandatory for all.

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 propose a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.

Our proposal includes categories that distinguish to what extent any financial product considers sustainability, based on their disclosure of

1. the degree of sustainable investments according to either the Taxonomy Regulation and/or following art 2(17) of the SFDR (the percentage should be calculated based on the current value of all investments, excluding cash),
2. if the Principle Adverse Impact Indicators (PAIs) are used in the investment selection process and/or the engagement strategy, and
3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from “strong” to “no” explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No

Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

Question 3.2.10: If you are a professional investor, where do you obtain the sustainability information you find relevant?

	1	2	3	4	5	Don't know
From direct enquiries to market participants						
Via SFDR disclosures provided by market participants						

(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 3.2.11: 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

(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 3.2.10 and 3.2.11:

We notice that the SFDR documents published are hardly read and understood by the audience. The retail and professional markets seem to rely on the article 6, 8 or 9 categorisations mostly and to a lesser extent, the professional market uses the data in the European ESG template.

Question 3.2.12: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
Article 2(2) of the SFDR Delegated Regulation already requires financial market participants to make disclosures under the SFDR in a searchable electronic format, unless otherwise required by sectoral legislation.				X		

This is sufficient to ensure accessibility and usability of the disclosed information.						
It would be useful for all product information disclosed under the SFDR to be machine-readable, searchable and ready for digital use.					X	
It would be useful for some of the product information disclosed under the SFDR to be machine-readable and ready for digital use.			X			
It would be useful to prescribe a specific machine-readable format for all (or some parts) of the reporting under the SFDR (e.g. iXBRL).				X		
It would be useful to make all product information disclosed under the SFDR available in the upcoming European Single Access Point as soon as possible.					X	
Entity and product disclosures on websites should be interactive and offer a layered approach enabling investors to access additional information easily on demand.					X	
It would be useful that a potential regulatory attempt to digitalise sustainability disclosures by financial market participants building on the European ESG Template (EET) which has been developed by the financial industry to facilitate the exchange of data between financial market participants and stakeholders regarding sustainability disclosures.					X	

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

Question 3.2.13: Do you think the costs of introducing a machine-readable format for the disclosed information would be proportionate to the benefits it would entail?

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 3.2.14: To what extent do you agree with the following statement? "When determining what disclosures should be required at product level it should be taken into account: ..."

	1	2	3	4	5	Don't know
Whether the product is a wrapper offering choices between underlying investment options like a Multi-Option Product		X				
Whether some of the underlying investments are outside the EU		X				
Whether some of the underlying investments are in an emerging economy		X				
Whether some of the underlying investments are in SMEs		X				
Whether the underlying investments are in certain economic activities or in companies active in certain sectors		X				
Other considerations as regards the type of product or underlying investments						

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

Please explain your reply to question 3.2.14:

All financial products should be required to report on the same set of disclosure requirements and a mandatory set of PAI's in order to enable comparability for investors without any exemption. The best effort approach implies that providers can choose the depth of the disclosure of their assessment of the respective elements of these requirements. The best effort approach thus already provides enough proportionality and there's no need to specify different sets of requirements. Different sets would, moreover, increase confusion among investors.

4. POTENTIAL ESTABLISHMENT OF A CATEGORISATION SYSTEM FOR FINANCIAL PRODUCTS

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:

We stand firmly behind the original SFDR objectives of steering capital flows towards sustainable investments, mainstreaming sustainability into risk management and fostering transparency and long-termism. With that in mind, we see the following effects of the regulation that need to be addressed in the upcoming review of the SFDR.

- The current SFDR documentation doesn't provide clarity and comparability for investors, particularly retail investors. We see that the disclosure documents published on the product websites are hardly read and understood by investors. The market seems to rely on the article 6, 8 or 9 categorisation mostly, which is, however, limited and not comparable.

- The SFDR currently does not provide insights in the investments in non-sustainable or even harmful activities. The lack of information on the impact of article 6 products results in insufficient transparency for investors to make informed decisions and steer capital towards sustainable investments.

- The focus of the SFDR on disclosures for sustainable products results in an increased financial and administrative burden for those products. This results in an uneven playing field between sustainable and non-sustainable products, because it increases the costs of sustainable products only. It also leads to market participants purposely not disclosing sustainable characteristics of their products, also known as 'green hushing'. Both stand in the way of steering capital to sustainable investments.

To further improve the SFDR, we propose a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.

Our proposal includes categories that distinguish to what extent any financial product considers sustainability, based on their disclosure of

1. the degree of sustainable investments according to either the Taxonomy Regulation and/or following art 2(17) of the SFDR (the percentage should be calculated based on the current value of all investments, excluding cash),

2. if the Principle Adverse Impact Indicators (PAIs) are used in the investment selection process and/or the engagement strategy, and

3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from "strong" to "no" explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No
Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

Key in our proposal is that we use the same baseline of disclosures for every category. We strongly recommend avoiding different sets of information requirements between categories, as this would obstruct the comparability for investors. Furthermore, we deliberately use existing disclosure requirements that are available in the market to ensure a cost-effective implementation for financial market participants. Finally, we recommend numbers or letters over names. From our 30 years' experience in sustainable finance, we have experienced the difficulties with names, as they are time-bound and prone to interpretation.

With the key points of our proposal in mind, we regard the suggested approaches by the European Commission (EC) insufficient. Both approach 1 and 2 result in incomparable categories, whether these are based on sustainability strategy or the existing article 8 and article 9 approach. Furthermore, both approaches only address sustainable products and therefore doesn't address the consequence of green hushing, the uneven playing field between sustainable and non-sustainable products and most importantly, the lack of comparability for investors across all products.

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.[11]		X				
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:

There shouldn't be categories based on strategies at all.

Triodos Bank proposes a comprehensive and easier to understand categorisation system based on the idea of article 9. The categorisation is divided into 5 different categories that distinguish to what extent a financial product considers sustainability, on a scale from 5 (strong consideration of sustainability) to 1 (no explicit consideration of sustainability).

To be able to establish such categorisation system, all financial products should disclose the proportion of sustainable investments according to either the Taxonomy Regulation and/or the 'sustainable investments' following article 2(17) of SFDR or disclose that they do not track this, if and how PAIs have been considered in the investment process (which could include engagement strategies) and whether the exclusion list according to 2020/1818 is applied.

Key in our proposal is that we use the same baseline of disclosures for every category. We strongly recommend avoiding different sets of information requirements between categories, as this would obstruct the comparability for investors. Furthermore, we deliberately use existing disclosure requirements that are available in the market to ensure a cost-effective implementation for financial market participants. Finally, we recommend numbers or letters over names. From our 30 years' experience in sustainable finance, we have experienced the difficulties with names, as they are time-bound and prone to interpretation.

With the key points of our proposal in mind, we regard the suggested approaches by the European Commission (EC) insufficient. Both approach 1 and 2 result in incomparable categories, whether these are based on sustainability strategy or the existing article 8 and article 9 approach. Furthermore, both approaches only address sustainable products and therefore doesn't address the consequence of green hushing, the uneven playing field between sustainable and non-sustainable products and most importantly, the lack of comparability for investors across all products.

Question 4.1.5: To what extent do you think it is useful to distinguish between sustainability product category A and B described above?

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 4.1.6: Do you see merits in distinguishing between products with a social and environmental focus?

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 4.1.8: Do you think product categories should be mutually exclusive, i.e. financial market participants should choose only one category to which the product belongs to in cases where the product meets the criteria of several categories (independently from subsequent potential verification or supervision of the claim)?

Yes	No	There is another possible approach	Don’t know
		X	

In case you have selected “There is another possible approach”, please specify below.

Triodos Bank proposes a comprehensive and easier to understand categorisation system based on the idea of article 9. The categorisation is divided into 7 different categories that distinguish to what extent a financial product considers sustainability, on a scale from 7 (strong consideration of sustainability) to 1 (no explicit consideration of sustainability).

To be able to establish such categorisation system, all financial products should disclose the proportion of environmentally sustainable investments according to either the Taxonomy Regulation and/or the ‘sustainable investments’ following article 2(17) of SFDR or disclose that they do not track this, if and how PAIs have been considered in the investment process (which could include engagement strategies) and whether the exclusion list according to Delegated Regulation 2020/1818 is applied.

Please explain your replies to questions 4.1.5, 4.1.6, 4.1.7 and 4.1.8.

We stand firmly behind the original SFDR objectives of steering capital flows towards sustainable investments, mainstreaming sustainability into risk management and fostering transparency and long-termism.

To further improve the SFDR, we propose a simple, clear and comparable categorisation system that informs all investors about the sustainability efforts of a financial product. The key principles of our proposal are that all products should be comparable, that the comparison should be easily understood, that it contributes to the original objectives of the SFDR, and that the conceptual framework can stand the time.

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3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from “strong” to “no” explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No
Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

Key in our proposal is that we use the same baseline of disclosures for every category.

We strongly recommend avoiding different sets of information requirements between categories, as this would obstruct the comparability for investors. Furthermore, we deliberately use existing disclosure requirements that are available in the market to ensure a cost-effective implementation for financial market participants. Finally, we recommend numbers or letters over names. From our 30 years’ experience in sustainable finance, we have experienced the difficulties with names, as they are time-bound and prone to interpretation.

With the key points of our proposal in mind, we regard the suggested approaches by the European Commission (EC) insufficient. Both approach 1 and 2 result in incomparable categories, whether these are based on sustainability strategy or the existing article 8 and article 9 approach. Furthermore, both approaches only address sustainable products and therefore doesn’t address the consequence of green hushing, the uneven playing field between sustainable and non-sustainable products and most importantly, the lack of comparability for investors across all products.

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 4.1.12 a): If you consider that the elements listed in question 4.1.12 are not fit for purpose, how would you further specify the different elements of the 'sustainable investment' concept, what should be the minimum criteria required for each of them?

'contribution to an environmental or social objective', element of the sustainable investment concept	The elements of the current definition in article 2(17) as well as the specification of PAIs in the DA are sufficiently flexible to acknowledge any kind of investment needed for a sustainable society. The definition does need a clarification of the methodology for determining how much sustainable investment is in the product/fund, i.e. revenue based or total amount, and excluding cash in the fund. The definition could be expanded with investments in taxonomy-aligning activities, but should not be confined to

	those, as that would not do justice to the spectrum of investments needed for a sustainable society.
‘do no significant harm’, element of the sustainable investment concept	To clarify the concept of ‘do no significant harm’, we propose products need to follow at least the exclusion list according to the Paris Aligned Benchmark (DA 2020/1818)
‘investee companies’ good governance practices’, element of the sustainable investment concept	The ‘investee companies’ good governance practices’, element of the sustainable investment concept should confirm best practices and thus refer to OECD/UNGP standards.

Question 4.1.12 b): Should the good governance concept be adapted to include investments in government bonds?

Yes	No	Don't know
X		

If yes, what should be the minimum criteria required for this element?

Align with Minimum Safeguards under the Taxonomy, following the approach of the Expert Group report on minimum safeguards, p. 57 and following https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf

Question 4.1.12 c): Should the good governance concept be adapted to include investments in real estate investments?

Yes	No	Don't know
X		

If yes, what should be the minimum criteria required for this element?

Align with Minimum Safeguards under the Taxonomy, following the approach of the Expert Group report on minimum safeguards, p. 57 and following https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf

Question 4.1.13: How would you further specify what promotion of 'environmental/social characteristics' means, what should be the minimum criteria required for such characteristics and what should be the trigger for a product to be considered as promoting those characteristics?

"The promotion of environmental/social characteristics" cannot be specified in a disclosure framework that is meant for reporting on a fair view of the investments done. The element of "promoting" should be deleted from the SFDR. In our proposal a comprehensive and easier to understand categorization system is based on the ideas of article 9. The categorization is divided into 5 different categories that distinguish to what extent a financial product considers sustainability, on a scale from 5 (strong consideration of sustainability) to 1 (no explicit consideration of sustainability). Categories 5 and 4 are more aligned with article 9, where different proportional criteria are determined. Categories 3 and 2 consider different sustainability strategies in their products, but do not track the proportion of environmentally sustainable investments according to Taxonomy Regulation and/or 'sustainable investments' article 2(17) of SFDR. This is close to the current situation with Art. 8 products. Category 1 is similar to Article 6 funds, with the main difference that they do need to disclose that they don not apply any of the requirements and that they do disclose the key set of mandatory PAIs.

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		

Question 4.1.14 b): If yes, what should be this minimum proportion for Article 9?

The definition could be expanded with investments in taxonomy-aligning activities, but should not be confined to those, as that would not do justice to the spectrum of investments needed for a sustainable society. The proportion of sustainable investments would then be according to Taxonomy Regulation and/or 'sustainable investments' article 2(17) of SFDR. Two different categories could apply, namely high (90%), and low (50%).Investment products' sustainability disclosure always depends on the context, be it economic, social or regional. Applying the definition of sustainable investment in article 2(17) gives sufficient room for explaining that context, which is why the current flexibility of the definition should be kept. Confining the definition to anything narrower than the current one would harm the possibility to explain this important context to the investor.

Question 4.1.15: Apart from the need to promote environmental/social characteristics and to invest in companies that follow good governance practices for Article 8 products and the need to have sustainable investments as an objective for Article 9 products, should any other criterion be considered for a product to fall under one of the categories?

Our proposal includes categories that distinguish to what extent any financial product considers sustainability, based on their disclosure of

1. the degree of sustainable investments according to either the Taxonomy Regulation and/or following art 2(17) of the SFDR (the percentage should be calculated based on the current value of all investments, excluding cash),
2. if the Principle Adverse Impact Indicators (PAIs) are used in the investment selection process and/or the engagement strategy, and
3. whether exclusions are applied or not, with as a minimum the required exclusions of the Paris Aligned Benchmark.

This would imply 5 categories, from "strong" to "no" explicit consideration of sustainability in a financial product. Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

The table below shows what such a categorisation system could look like.

	5	4	3	2	1
Degree of sustainable investments	High (90%)	Low (50%)	Not tracked	Not tracked	Not tracked
PAIs used in the selection process and/or engagement strategy	Yes	Yes	Yes	No	No
Exclusions applied	Yes	Yes	Yes	Yes	No
Key PAIs disclosed	Yes	Yes	Yes	Yes	Yes

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:

All products should report the same baseline of disclosure. Financial products that make a sustainability claim should give an explanation for certain disclosures. For example, a product should first disclose whether the products make use of exclusions, so Yes/No. If the product does, it should disclose on what is being excluded on top of the exclusion of the Paris Aligned Benchmark (2002/1818).

The obligation to pick several extra PAIs on top of the mandatory key PAIs should become voluntary.

The transparency on harmful activities is equally important as transparency on sustainability. The risk lies with the harmful activities. As the SFDR is designed now, these risks are not disclosed.

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					X	

(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:

The CSSF (Lux) has been showing an effective approach to supervising the disclosures under the current SFDR. This approach can be shared with other supervisors.

Question 4.2.3: If a categorisation system was established, to what extent do you agree with the following statement? "When determining the criteria for product categories it should be taken into account: ..."

	1	2	3	4	5	Don't know
Whether the product is a wrapper offering choices between underlying investment options like a Multi-Option Product	X					
Whether the underlying investments are outside the EU	X					
Whether the underlying investments are in an emerging economy	X					
Whether the underlying investments are in SMEs	X					
Whether the underlying investments are in certain economic activities	X					
Other considerations as regards the type of product or underlying investments						

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

Please explain your reply to question 4.2.3:

All financial products should be required to report on the same set of disclosure requirements and PAI's, there should not be any exemption. The best effort approach already provides enough proportionality.

Question 4.3.1: The objective of the PRIIPs KID is to provide short and simple information to retail investors. Do you think that if a product categorisation system was established under the SFDR, the category that a particular product falls in should be included in the PRIIPS KID?

Yes	No	Don't know
X		

Please explain your answer to question 4.3.1:

We propose a categorisation of 5 different categories that distinguishes to what extent a financial product considers sustainability, on a scale from 5 (strong consideration of sustainability) to 1 (no explicit consideration of sustainability). This can be easily integrated in the PRIIPS KID, just as the risk scale. On top of that, the proportion of sustainable investment can be included.

The ESG scale encompasses the application of MiFID II, IDD, Taxonomy regulation, SFDR, and PRIIPs regulation. At the same time, it reveals the urgent need, yet respects the competencies of the EU legislator to close current regulatory gaps, to create more consistency among Sustainable Finance directives, regulations and delegated acts, to find a clearer definition of "sustainable investment" following Article 2(17) SFDR, and to define a harmonized and consistent methodology for calculating proportions of sustainable investments.

Question 4.3.2: If new ESG Benchmarks were developed at EU level (in addition to the existing Paris-aligned benchmarks (PAB) and climate transition benchmarks (CTB), how should their criteria interact with a new product categorisation system?

	1	2	3	4	5	Don't know
The criteria set for the ESG benchmarks and the criteria defined for sustainability product categories should be closely aligned	X					
Other						

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

Question 4.3.3: Do you think that products passively tracking a PAB or a CTB should automatically be deemed to satisfy the criteria of a future sustainability product category?

Yes	No	Don't know
	X	

Question 4.3.4: To what extent do you agree that, if a categorisation system is established, sustainability preferences under MiFID 2/IDD should refer to those possible sustainability product categories?

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 4.4.1: Do you agree that the SFDR is the appropriate legal instrument to deal with the accuracy and fairness of marketing communications and the use of sustainability related names for financial products?

Yes	No	Don't know
	X	

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)

Question 4.4.3: Would naming and marketing communication rules be sufficient to avoid misleading communications from products that do not fall under a product sustainability category?

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 your replies to questions 4.4.1, 4.4.2 and 4.4.3:

We propose a categorisation of 5 different categories that distinguishes to what extent a financial product considers sustainability, on a scale from 5 (strong consideration of sustainability) to 1 (no explicit consideration of sustainability). Each financial product should be categorised, and should disclose the category in the pre-contractual documentation of the product. On top of that, all financial products should disclose a set of key PAIs, so investors can compare the adverse impact, regardless of the categorisation of the product. As a result, sector-based benchmarks on performance can be established to increase comparability.

Key in our proposal is that we use the same baseline of disclosures for every category. We strongly recommend avoiding different sets of information requirements between categories, as this would obstruct the comparability for investors. Furthermore, we deliberately use existing disclosure requirements that are available in the market to ensure a cost-effective implementation for financial market participants. Finally, we recommend numbers or letters over names. From our 30 years' experience in sustainable finance, we have experienced the difficulties with names, as they are time-bound and prone to interpretation.