



COMMENT LETTER

December 15, 2023

ICI Global Responds to European Commission SFDR Targeted Consultation

Summary of the Response

ICI Global^[1] welcomes the European Commission's targeted consultation^[2] seeking feedback on the implementation of the Sustainable Finance Disclosure Regulation (SFDR), and its focus on improving the disclosure framework. Our mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. 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 key messages for improving the SFDR framework to deliver on its investor protection mandate are:

- 1. The SFDR disclosure requirements 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 recommend the Commission review and amend 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.

Read more in the [comment letter](#).

Notes

[1] [ICI Global](#) carries out the international work of the [Investment Company Institute](#), the leading association representing regulated investment funds. With total assets of €35.2 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, and Washington, DC.

[2] 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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