The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

30 May 2025

European Commission
DG FISMA
Unit C4 Asset Management
Submitted electronically via online portal

RE: Call for evidence on sustainability-related disclosures in the financial services sector

The Investment Company Institute (ICI)[1] appreciates the opportunity to share our views on the European Commission's call for evidence on the review of the Sustainable Finance Disclosure Regulation (SFDR).[2] ICI welcomes the Commission's focus on how to improve the functioning of the SFDR—both for financial market participants and for end investors. Our mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor.

To promote transparency and understanding of ESG- and sustainability-related investment products for retail investors, while reducing regulatory barriers that create undue operational costs and hinder innovation in financial markets, we recommend targeted changes to the disclosure obligations for asset management entities and funds that result in meaningful information that empowers investor choice. We strongly encourage seamless alignment between the SFDR and related legislation (e.g., MiFID, CSRD, and Taxonomy Regulation) to promote market growth and reduce unnecessary complexities.

If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related investment strategies and objectives. Moreover, the development of any categorisation system should be done in an efficient manner, taking into account redundant costs incurred by market participants to continually implement and adapt to changing SFDR obligations.

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[1] The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in Europe, North America and Asia and manage fund assets of €41.5 trillion, including UCITS, mutual funds, exchange-traded funds (ETFs), closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Brussels, London, and Washington, DC.

[2] European Commission call for evidence on the revision of EU rules on sustainable finance disclosure, 2 May 2025, available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14666-Revision-of-EU-rules-on-sustainable-finance-disclosure_en. See also Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, "Sustainable Finance Disclosure Regulation" (SFDR), available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2088.

ICI looks forward to working collaboratively with the Commission and engaging in a comprehensive discussion on improving the sustainable finance regulatory framework and increasing the EU's competitiveness.

I. Meaningful disclosure empowers investor choice

Meaningful disclosure is an effective investor protection tool that empowers investors to make informed investment decisions. The current SFDR has not delivered on its investor protection mandate due to its focus on predefined mandatory indicators, such as principal adverse impact (PAI) and Taxonomy alignment, which are less investor-centric, less aligned with market practices, and lacking in terms of data.

Disclosure requirements should be simplified and streamlined to promote clear and understandable information for investors, taking into account differences between retail and professional investors. The current amount and complexity of information included in the SFDR disclosure templates is proving to be overwhelming and of negligible value to investors. Retail investors benefit from standardised disclosures that are clear and informative. The current SFDR templates are of limited value to retail investors due to their length and complexity. Resolving these problems requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing, and consultation with advisors and distributors. Professional investors, with mandates tailored to their respective needs, typically utilise custom-made reporting solutions instead of standardised templates. We recommend a distinction between disclosure obligations for products offered to retail and professional investors, with only the former required to produce standardised disclosures and the latter available upon request. This distinction is already recognised in other regulatory frameworks, e.g., MiFID and the Retail Investment Strategy.

Disclosure requirements should be firmly grounded in available and reliable data, and flexible to adapt to the evolving landscape of sustainability-related information reported by issuers over time. A constant challenge in the implementation of SFDR has been to reconcile granular reporting requirements (e.g., PAI indicators and Taxonomy alignment) with a lack of available and reliable data from issuers worldwide. The lack of data is even more pronounced outside of publicly-listed corporate investments. Mandatory reporting requirements based on imperfect, unreliable data do not serve the interests of investors, and cause reputational and regulatory risks for financial market participants. In fact, requiring quantitative disclosures on a metric that only covers a small portion of assets risks misleading investors. This approach impedes the policy objectives of the EU and raises concerns for the European Securities and Markets Authority (ESMA) and national supervisors.

For coherence within the EU regulatory perimeter, the SFDR review should ensure that EU financial market participants will not be required to disclose information that investee companies will not be required to disclose under the revised European Sustainability Reporting Standards (ESRS) as contemplated under the Omnibus proposal. In practice, investment is global. The SFDR review must also avoid mandatory disclosures of information that companies and other issuers are not required to disclose in other jurisdictions (e.g., using the International Sustainability Standards Board (ISSB) standards as a rational starting point). Embedding the principle of materiality within SFDR will be essential to its success.

Disclosure requirements for financial products should support financial market participants' ability to communicate the various ways in which environmental and social information is used in the investment process, including any sustainability-related objectives. Focusing too heavily on comparability of disclosures has undermined the Commission's ultimate goal of strengthening transparency, and we encourage a better balance of these objectives. To date, the EU sustainable finance framework has relied extensively on binary (sustainable or not) and overlapping (Taxonomy/SFDR Art 2(17)) concepts for measuring sustainability, with the primary goal being comparability rather than transparency. These concepts are narrow, static, and misaligned with the actual investment strategies and objectives of sustainability-related financial products, creating an over-emphasis on divestment and exclusion, stifling innovation, and hindering investors' choices. Moreover, embedding artificial and overlapping concepts into the SFDR disclosure framework has caused significant confusion among supervisors leading to challenges in terms of consistent enforcement. This further reduces comparability among products marketed across 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. Effective disclosures would enable distributors and investors to identify commonalities among certain products and understand important differences, thus empowering investors to make informed choices based on their own sustainability preferences.

A. Simplifying entity-level disclosures

To ensure that the Commission's aim of simplification is achieved, ICI strongly recommends eliminating, or greatly reducing, entity-level disclosures from the SFDR (Art. 3, 4, 5). It is critical to avoid duplication between CSRD and SFDR. Both regimes must take into account the complexities of an asset management company, and ensure that disclosures are meaningful. Whether CSRD or SFDR, disclosure requirements for asset managers should not require quantitative aggregated metrics of the characteristics of underlying investments, where those assets are held on behalf of clients. Where an asset manager is subject to sustainability-related disclosure obligations, it will be reporting to facilitate understanding of enterprise-level risks and opportunities of the asset manager as a reporting entity. Aggregated data of companies in various client-mandated portfolios could reduce the ability to assess how the company manages its enterprise-level risks.

Within SFDR, where any entity-level disclosure obligations would apply, we recommend streamlining to focus on narrative information about the organisation's approach to sustainability-related governance, risk management, and strategies, including whether the organisation has committed to any climate-related targets (Art. 3). The objective should be to balance the need for transparency of information related to the management of sustainability risks with regulatory costs and burdens.

As a general matter, quantitative disclosure requirements for financial market participants and financial products subject to SFDR that are based on data about underlying investments (e.g., Taxonomy alignment and PAI reporting) should be firmly grounded in available and reliable data. Where available data supports the ability of financial market participants to report such information, any associated disclosure requirements should be voluntary, or at minimum, subject to materiality assessments and

streamlined to reduce the reporting burdens on financial market participants.

We strongly recommend eliminating mandatory entity-level aggregated PAI indicator reporting (Art. 4). Any entity-level obligations should instead focus on providing narrative information about the organisation's approach to sustainability-related governance, risk management, and strategies, including whether the organisation has committed to any climate-related targets.

The entity-level PAI reporting for financial market participants does not result in useful information for retail investors in financial products covered by SFDR, because it requires entity-level PAI indicator information to be aggregated across many investment products. Such aggregated information has no relation to any particular investment product. While certain PAI indicators may be useful for assessing a particular company or investment, this benefit does not translate to aggregated reporting. Identification and prioritisation of PAIs can vary among investment products for the same financial market participant. Moreover, aggregation across all investment products can be misleading to investors about the entity's role in managing those impacts. For example, in certain account structure types (e.g., separate accounts), the entity is responsible for acting within the guidelines set by the client. For these reasons, we strongly recommend eliminating mandatory entity-level PAI reporting (Art. 4).

Should the Commission determine to maintain entity-level PAI reporting obligations, we believe reporting aggregated PAI indicators at the entity level should be voluntary, or at most, subject to materiality assessments to align with the CSRD requirements. This approach would allow the framework to be flexible to adapt over time as data availability improves. Any such requirements should follow comprehensive assessments of current data availability against any indicators under consideration. Currently, financial market participants are required to report entity-level PAI indicators even where data coverage for some indicators is in the single digits. Our members' experience with PAI reporting to date has shown there may be as little as 3% coverage for some mandatory indicators. Requiring financial market participants to disclose a metric that only covers a portion of assets risks misleading investors. For these same reasons, PAI indicators should not form the basis for 'Do No Significant Harm' (DNSH) assessments.

Despite the significant steps being taken within the EU and worldwide to improve corporate sustainability reporting, policymakers must acknowledge that global data gaps will persist for some time, especially for impact-related information. To date, the EU is the only jurisdiction that has taken steps to require any disclosure of information from issuers based on an impact materiality assessment (or "double materiality"). The SFDR review must consider impacts to data availability within the EU due to the significant reduction in scope of reporting companies under the Omnibus proposal.

Applying a materiality assessment to entity-level PAI reporting for asset managers is a critical step to streamlining the disclosure requirements. Policymakers and financial market participants must anticipate persisting data gaps in PAI information from companies within the EU regulatory perimeter, where disclosure is based on materiality assessments, and the absence of the majority of PAI information from companies outside the EU regulatory reach for the foreseeable future.

In the meantime, European financial market participants subject to the SFDR continue to bear

the costly burden of these data challenges, in stark contrast to the overall objectives of the EU's broader policy goals to increase competitiveness, reduce costs among financial products, and stimulate retail investment.

B. Simplifying product-level disclosures

In general, we agree with the current approach of the SFDR, which only imposes standardised disclosure obligations for financial products that have sustainability-related investment strategies and/or make sustainability-related claims. However, the current disclosure requirements under SFDR are in need of significant improvements to deliver clear and understandable information to retail investors. Disclosure requirements for financial products should support financial market participants' ability to communicate each investment product's strategy and characteristics, including whether the product has any sustainability-related objectives. An effective disclosure framework will promote investor understanding of the variety of sustainable investing strategies and objectives available and empower investors to make informed choices based on their own sustainability preferences.

i. Distinguishing between professional and retail investors will reduce burdens while maintaining investor protection

The SFDR disclosure requirements should take into account differences between retail and professional investors in order to facilitate better and more meaningful disclosures for all types of investors.

Standardised disclosure templates should only be required for sustainability-related products offered to retail investors and permitted to be used voluntarily or provided upon request to professional clients. Retail investors benefit from standardised disclosures if they are clear and informative. The current SFDR templates are of limited value to retail investors due to their length and complexity. Resolving the excessive length and complexity of disclosures requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing. The distinction between disclosure requirements for retail and professional investors is already recognised in other areas of the regulatory framework, such as MiFID and the Retail Investment Strategy.

Professional investors, with mandates tailored to their respective needs, typically utilise custom-made reporting solutions. Standardised reporting templates, as required under the current SFDR framework, offer limited value to professional investors as they do not accurately reflect individualised components of the mandates. We do recommend, however, that the SFDR should permit the use of standardised disclosure templates voluntarily or by request for products offered to professional clients.

To better protect professional investors' proprietary and sensitive client information, website disclosures should not be required for products that are not offered to retail investors. We question the benefit of website disclosures for products designed for professional investors with bespoke investment mandates. Publicly disclosing information about these mandates on the asset manager's website is not appropriate given the tailored nature of the investment strategy, and creates legal challenges when meeting the disclosure obligations risks divulging proprietary or client information. In contrast to retail investors, asset

managers already have a number of channels to communicate directly with their professional clients. These established channels are more appropriate and effective for communicating with professional investors.

The SFDR disclosure requirements should not apply to separate accounts (i.e., segregated mandates), which are tailor-made for clients by design. Application of the SFDR to separate accounts is unnecessary because standardised disclosures do not reflect the tailored aspects of the product. These products are already subject to MiFID suitability requirements related to sustainability preferences, which ensure that client preferences are integrated by financial market participants at the product level. Moreover, applying the SFDR disclosure obligations to these products creates duplicative disclosure burdens across the investment chain; in particular, when both parties are subject to the SFDR (e.g., through sub-advisory agreements). Subjecting both financial market participants to the SFDR in this manner has created ambiguity and potential conflicts of disclosures where the same product could be disclosing information in different ways (Article 8 or 9).

In particular, investment products that take the form of a wrapper and for which the final allocation depends on the investment profile of the client and their sustainability preferences (i.e., portfolio management services that take the form of advisory service) should not fall into scope of SFDR disclosures or product classification. The wrapper is a legal contract between the investor and her fiduciary (e.g., the investment manager or the bank). It is important that the fiduciary is able to address the investor's preferences while complying with their investment profile through ad hoc financial advice and appropriate disclosures of the underlying options available to the client. These product wrappers should be excluded from SFDR disclosures at the mandate level, but available for clients through a link to the disclosures of underlying options.

ii. Disclosures should relate directly to the product's investment strategy

Disclosure requirements for financial products offered to retail investors should be clear, concise, and precisely related to the product's investment strategy. **ICI therefore strongly recommends against imposing uniform disclosure requirements for financial products offered in the EU that are unrelated to their sustainability-related investment strategies.** The only appropriate threshold to trigger additional sustainability-related product disclosure beyond the consideration of sustainability risks (Art. 6) is when products market themselves as having a sustainability-related investment strategy. The Commission should carefully consider whether any benefits would be derived from such requirements, given the significant concerns and costs the requirements would present.

Uniform sustainability-related disclosure for financial products that do not make sustainability claims would result in irrelevant and confusing information for investors. For example, these disclosures could give investors an incorrect and misleading impression of the role of sustainability in the investment process and its relative importance to other factors. Required quantitative disclosures are particularly dangerous because they present the illusion of certainty. We strongly believe that all disclosure obligations should be meaningful and clearly related to the product's investment strategy.

The term "sustainability performance", similar to "sustainable investment", is not an agreed

term and cannot be distilled to one singular metric. Products that have sustainability-related investment goals may use a variety of different tools and key performance indicators (KPIs) to measure performance. Disclosure requirements should seek to provide transparency about these tools and KPIs while preserving the ability of products to innovate in ways that are not unnecessarily constrained by narrowly defined concepts.

Data-driven quantitative disclosure obligations (e.g., Taxonomy alignment, PAI indicators, or GHG emissions) will impose significant costs on investment products that do not make sustainability-related claims and require them to devote resources to securing new data solutions and building out technology platforms to enable reporting. Raising costs, particularly without tangible benefit, across all EU investment products jeopardises the Savings and Investments Union (SIU) objective of stimulating retail investor participation in the capital markets. Moreover, imposing additional disclosure requirements on all financial products runs counter to the Commission's broader objectives of streamlining disclosure obligations and reducing reporting burdens.

All financial products covered under SFDR are already required to disclose information about how ESG-related information is used in the investment process, unless sustainability risks are not relevant. SFDR Art. 6 requires, in pre-contractual disclosures, a description of the manner in which sustainability risks are integrated into investment decisions. We support maintaining Art. 6 as it facilitates transparency to retail investors and promotes the integration of material sustainability-related information into the investment process across all financial products. However, in order for it to be effeictive, it is imperative that Art. 6 be simplified and streamlined.

Specifically, we recommend removing the requirement to describe, in pre-contractual disclosures, the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products under the Art. 6. Sustainability risks are generally assessed in a similar fashion to other types of risks, such as interest rate or credit risks, on an investment-by-investment basis. None of these risks are able to be weighed against the potential returns of a financial product (which are also dependent on numerous factors), independent of other financial risks. Moreover, financial market participants are not required to make similar disclosures for other types of material risks, such as interest rate or credit risks, and we are concerned with any regulatory requirements that treat sustainability-related risks differently than other types of risks that are equally important to the investment process.

iii. Disclosures should focus on transparency to facilitate investor choice

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. Requirements should facilitate disclosures about the investment process, including any KPIs that are material to implementing the investment strategy. Effective disclosures would enable distributors and investors to identify commonalities among certain products and understand important differences.

Disclosure requirements should avoid relying on vague or novel standards, or overly complex terminology and concepts. Specifically, the definition of "sustainable investment" (Article 2(17)) should not form the basis for any mandatory disclosure requirements, unless a

product elects to use that particular assessment in order to select its investments. Taxonomy alignment or "sustainable investment" as defined by Art. 2(17) could each be considered a credible standard used to select investments to fulfil a particular sustainability-related strategy, but it is critical that the EU regulatory framework acknowledges that these concepts are not the only credible standards in existence, now or in the future. The review of the SFDR should aim for rules with sufficient flexibility to facilitate the use of robust proprietary standards developed by financial market participants, as well as future innovation. The novel concepts and definitions set out in the current SFDR are poorly suited for assessing investments related to transition finance or products with social objectives. It is important for the revised SFDR to be able to adapt to evolving market practices and investors' sustainability preferences.

Should the Commission consider product-level PAI reporting, it 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. Disclosure requirements should seek to highlight each financial product's unique characteristics, rather than striving for uniform comparability using metrics that may or may not relate to the product's investment strategy. Requirements should facilitate disclosures about the investment process, including any KPIs that are material to implementing the investment strategy.

C. Streamlining coordinated disclosure locations

The current breakdown of sustainability-related information among pre-contractual documents, periodic reports, and website disclosures is neither appropriate nor user-friendly. Duplicative and overly burdensome disclosure requirements across various locations have magnified compliance costs of SFDR, prevented investors from accessing the information in a clear and concise manner, and made consistent monitoring and enforcement of SFDR compliance more challenging for regulators. ICI recommends streamlining the disclosures across pre-contractual documents, periodic reports, and websites in order to facilitate the delivery of key sustainability-related information for investors.

Disclosure requirements should avoid duplicative disclosures among pre-contractual documents, periodic reports, and websites in order to ensure that these disclosures each fulfil a clear purpose, and together provide the right amount of information to investors. Pre-contractual disclosures are used to describe the investment objectives and strategies of financial products, and information about the investment process (i.e., looking ahead at what the product intends to do). Periodic reporting should instead focus on the performance of such products at a particular point in time against the stated goals set out in the precontractual documents.

The SFDR should not require distinct website disclosures, and instead should utilise the pre-contractual and periodic reporting templates, which are designed to promote clear and concise disclosure for fund investors. Access to pre-contractual and periodic reporting templates on the asset managers' websites will highlight key information that is particularly important for retail investors to assess and monitor their fund investments. This approach would ensure that investors can easily access important information while avoiding duplicative and burdensome requirements. In general, we support a streamlined and coordinated disclosure approach that provides investors the opportunity to dig as deeply as they wish into the

sustainability-related information of financial products, while avoiding any duplication.

Moreover, we question the benefit of website disclosures for products only offered to professional investors with bespoke investment mandates. Publicly disclosing information about these mandates on the asset manager's website is not appropriate given the tailored nature of the investment strategy, and creates legal challenges when meeting the disclosure obligations risks divulging proprietary or client information. In contrast to retail investors, asset managers already have a number of channels to communicate directly with their professional clients. These established channels are more appropriate and effective for communicating with professional investors.

Translation requirements under SFDR should be aligned with the PRIIPs Regulation. The PRIIPs Regulation permits disclosures to be made in the official languages of a Member State, "or in another language accepted by the competent authorities of that Member State." Without this alignment, market participants are required to incur additional translation expenses for SFDR disclosures as compared to PRIIPs disclosures, with no policy rationale.

Standardised 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. The distinction between disclosure requirements for retail and professional investors is already recognised in other areas of the regulatory framework, such as MiFID and the Retail Investment Strategy. A premium should be placed on the brevity and clarity of standardised disclosures. Too much information can obscure key information and confuse the audience. The current SFDR templates are of limited value to retail investors due to their length and complexity. Resolving this requires a better understanding of information that is meaningful for retail investors, which could be facilitated by consumer testing.

II. Coordination with other sustainable finance legislation

The SFDR is one component of the EU sustainable finance regulatory ecosystem. Strong regulatory coherence is needed for this ecosystem to function properly.

A. Alignment with corporate reporting

Aligning the SFDR's disclosure requirements with those of the CSRD to remove duplications and unnecessary burdens would improve the disclosures made to investors and enhance competitiveness of the EU markets—objectives also shared by the SIU and Retail Investment Strategy. The Commission's SFDR review should take a complementary approach to the treatment of corporate reporting obligations under CSRD (Omnibus I) and focus on streamlining disclosure obligations and reducing reporting burdens on financial market participants at both the entity and product level.

As noted above, we strongly recommend exempting financial market participants from making entity-level SFDR disclosures (Art. 3, 4, 5) if they are within scope, at the group or subsidiary level, of the CSRD framework. The similar and duplicative entity-level reporting requirements for entities covered by both frameworks have disproportionately burdened European financial institutions with higher regulatory and data costs.

The SFDR product-level disclosure obligations should also reflect the current state of sustainability-related data available to financial market participants, and avoid relying on future or aspirational data availability of the European Sustainability Reporting Standards (ESRS) and Taxonomy Regulation. It should be proportional to the current data landscape, yet flexible, to adapt as data availability improves over time. While the Commission has correctly noted that SFDR disclosures rely on the information reported under the CSRD, it fails to recognise that data gaps will persist despite the significant steps being taken within the EU and worldwide to improve corporate sustainability reporting.

For example, there are companies—both within and outside of the EU—neither subject to the CSRD nor similar corporate reporting obligations in other jurisdictions. In addition, the inconsistencies between the ESRS and the SFDR regarding materiality assessments amplify the data availability challenge as financial market participants are required to report all sustainability-related information in an aggregated manner regardless of materiality, while only having access to material sustainability-related information reported by companies covered under the CSRD.

B. Alignment with MiFID

Amendments to the SFDR should ensure better alignment with MiFID, by: (i) eliminating duplicative requirements for separate accounts that are already subject to MiFID suitability requirements; and (ii) triggering a timely revision of the definition of sustainability preferences with respect to MiFID suitability assessment rules.

First, the SFDR disclosure requirements should not apply to separate accounts (i.e., segregated mandates), which are tailor-made for clients by design. Application of the SFDR to separate accounts is meaningless, because standardised disclosures do not reflect the tailored aspects of the product. These products are already subject to MiFID suitability requirements related to sustainability preferences, which ensure that client preferences are integrated by financial market participants at the product level. Moreover, applying the SFDR disclosure obligations to these products creates duplicative disclosure burdens across the investment chain, in particular when both parties are subject to the SFDR (e.g., through sub-advisory agreements). Subjecting both financial market participants to the SFDR in this manner has created ambiguity and potential conflicts of disclosures where the same product could be disclosing information in different ways (Article 8 or 9).

Second, amendments to the MiFID sustainability preferences will need to follow and align with amendments to the SFDR. Regulatory alignment across distribution and disclosure obligations is critical to the EU's investor protection and retail investment objectives. In practice, the three criteria constituting the "sustainability preferences" under MiFID do not align with retail investors' actual sustainability preferences. For the current criteria to be effective, retail investors would need to have a sophisticated understanding of the regulatory parameters of PAIs, "sustainable investments" as defined by the SFDR, and Taxonomy alignment.

The narrow approach in defining sustainability preferences in MiFID constrains the universe of ESG- and sustainability-related investment products available to investors, running counter to the EU's objective of facilitating a broader range of retail products that appeal to EU

investors. These criteria have also been challenging to apply due to significant data limitations and a lack of consistency and clarity among financial market participants and supervisors.

III. Consideration of a categorisation system

If the Commission develops a categorisation system for sustainability-related products, it should be designed with the ultimate goal of facilitating retail investors' choice among products with sustainability-related investment strategies and objectives. Any potential categorisation system should be voluntary and complementary to the SFDR disclosure regime. Only products that claim to fall under a given product category should be required to meet corresponding disclosure requirements. Moreover, the development of any categorisation system should be done in an efficient manner, taking into account redundant costs incurred by market participants to continually implement and adapt to changing SFDR obligations.

A. Product categories should facilitate investors' choice and market innovation

At the outset, it is important to approach the development of a categorisation system with the aim of facilitating investors' choice and future market innovations. It would need to readily adapt to evolving market dynamics, data availability, and consumer preferences—as the current discussion around defence investments has shown. A voluntary categorisation system that is static and unable to evolve with market practices, investors' sustainability preferences, and future product innovation, may impede the ability of the framework to promote retail investor understanding and empower investor choice.

Categories should be designed to reflect the diversity of retail investors' actual sustainability preferences. The Commission should avoid novel concepts when developing a categorisation system. Steering investors toward certain financial products or creating a hierarchy among products will ultimately impede investors' choice. The Commission should conduct market (e.g., advisors and distributors) and consumer testing to inform the development of a categorisation system. The experience of the ill-fated EU Ecolabel for Retail Financial Products illustrates the importance of designing categories based in a real-world context rather than a notional outcome. If calibrated correctly, product categories that are easy to understand could potentially facilitate retail investors' ability to navigate the existing landscape of sustainability-related investment products. Consideration should be given to current market practices, international frameworks, classification regimes of other jurisdictions (e.g., UK SDR) and the broad range of sustainability-related investment strategies that align with consumer interests, to ensure that any future EU categorisation system captures the current breadth of available products (e.g., impact, SRI, exclusion, etc.).

Categories should relate to the clearly articulated investment goals, intentions, and/or objectives of the product (i.e., what the product is seeking to achieve). Funds with similar overall investment goals (e.g., "transition focus") may employ different strategies, data, KPIs, or tools to seek to achieve those goals. Aligning product categories with broad sustainability-related investment goals allows for the categorisations system to adapt over time to market innovation that will coincide with improving data availability.

Category definitions and any associated criteria must remain flexible to allow for a variety of investment strategies and tools to be used to achieve the product's overall

sustainability-related investment goals. Funds may employ different strategies, data, or tools to achieve similar overall investment goals. Asset managers are best placed to determine the appropriate strategies to use, which may differ on an investment-by-investment basis, or by asset class. The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category.

Category definitions and any associated criteria should work with all asset classes. Asset managers are best placed to determine the appropriate strategies and tools to use to achieve the goals or objectives of the fund, which may differ on an investment-by-investment basis, or by asset class. The categorisation system should be agnostic as to the strategies used to achieve the investment goals aligned with a given category. Criteria that narrowly prescribe the use of a particular strategy or tool could potentially result in the exclusion of certain asset classes for certain product categories, or the exclusion of multi-asset portfolios from the categorisation system altogether. An unintended consequence could be funds using certain categories would carry additional concentration risks.

Product names and communications should not be restricted by any voluntary categorisation system. Without the benefit of knowing whether and how the Commission develops a categorisation system within the SFDR, it is impossible at this time to opine on how any such categorisation system may be impacted by additional naming and marketing rules. In our view, 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. The existing robust rules have served to protect investors while remaining agnostic to various types of investment strategies.

The SFDR review should consider recent changes to market practices based on the ESMA Fund Name Guidelines, and ensure that changes to the SFDR will not create additional frictions, inconsistencies, or unnecessary market disruptions. Restrictions on the use of certain names or terms in marketing materials depending on voluntary use of a category could have the negative consequence of hindering retail investors' exposure to and understanding of funds' investment processes and sustainability characteristics.

The MiFID sustainability preferences and suitability requirements should accommodate products that may fall outside of the categorisation system. The use of voluntary categories should be a distinguishing factor among funds that elect to align with the categories, and not a limiting factor that could deter retail investors from accessing a diversity of sustainable investing strategies that meet their preferences.

The Commission's consideration of a voluntary categorisation system should include ways to address growing fragmentation among member states. Growing fragmentation among Member States with respect to labelling, marketing and distribution rules is resulting in significant and costly customisation of funds to meet local requirements, meaning smaller funds with higher costs to investors. Consistent with this, ICI research has shown that UCITS distributed in several member states tend to be more expensive than those sold in only one member state. This is diminishing the progress of the UCITS regime in a manner that impedes the objectives of the Retail Investment Strategy.

ICI strongly recommends that the Commission not require quantitative minimum

criteria to be met in order for a financial product to fall under any product category. This includes, for example, Taxonomy alignment, or criteria aimed at measuring how sustainability considerations can constrain investment choices (for instance, a minimum year-on-year improvement of chosen KPIs, or a minimum exclusion rate of the investable universe).

Rather than attempting to assess the robustness of an investment process by quantifying how it constrains investment choices, we believe it would be more effective to consider utilising 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. This could be done, for example, by providing qualitative disclosures that: (i) clearly articulate the sustainability-related investment goals, intentions, or objectives of the product, which are aligned with a particular category; (ii) describe how data is used in the investment process to select and/or exclude investments; (iii) describe whether and how stewardship activities are used in the investment process; and (iv) describe whether and how any KPIs are used to measure, track, and report performance of sustainability-related features.

We note that quantitative thresholds measuring Taxonomy alignment, or the extent to which the investable universe has been constrained, have little relation to a given strategy's ability to achieve a stated sustainability-related investment goal. Prescribing such thresholds would impede retail investors' understanding of the actual sustainability characteristics of the products. We would also have significant concerns with quantitative criteria requiring year-on-year improvement of KPIs, as this could lead to short-term investment decisions that are misaligned with long-term financial growth and sustainability-related investment goals.

In some cases, it may be appropriate for a product using a category to choose to disclose information related to Taxonomy alignment and/or exclusions, depending on the specific investment strategy. For example, a product electing to select investments that are Taxonomy aligned could use Taxonomy alignment disclosure to demonstrate how it achieves its stated investment goals. However, disclosing Taxonomy alignment is only appropriate if it relates directly to the investment strategy.

B. Marketing communications and product names

If the Commission develops a product categorisation system, it is essential that product names and communications are not restricted by any such system. **Products should be permitted to use names and terminology in marketing materials that are fair, clear, and not misleading, regardless of whether they fall into a certain category or elect to use the categorisation system at all.**

Restrictions on the use of certain names or terms in marketing materials depending on voluntary use of a categorisation system could have the negative consequence of hindering retail investors' exposure to and understanding of funds' investment processes and sustainability-related investment strategies. Investor education about these topics should be top of mind for regulators. The fund industry is responding to retail investors' increased interest in sustainability-related products by, among other things, creating funds that explicitly tailor their investments to a broad range of environmental and/or social preferences. Continued innovation in the fund industry reflects the diversity of clients' actual sustainability preferences, and a

categorisation system developed in the EU should not hinder or limit the fund industry's ability to develop, offer, and inform EU investors about the characteristics of any particular product.

Moreover, additional naming and communications rules for sustainability-related products are unnecessary. Existing sectoral legislation in the EU ensures that product names and communications are fair, clear, and not misleading. There is no solid rationale for subjecting products with sustainability-related investment strategies to different and more restrictive regulatory requirements than other products offered in the EU, regardless of whether they may elect to use a voluntary categorisation system.

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We appreciate your consideration of our feedback on the review of the SFDR. If you have any questions or would like to discuss our comments further, please contact me at Elizabeth.Lance@ici.org.

Sincerely,

/s/ Elizabeth Lance

Elizabeth Lance
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