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Call for Evidence - Revision of the Sustainable Finance Disclosure Regulation: IIGCC Response

IIGCC supports the broad aims of the SFDR review, which should help to address usability and implementation challenges while also preserving the Regulation's objectives to promote transparency and channel finance towards sustainability-focused investment strategies.

Interaction with wider EU sustainable finance regulations

With regards to data availability, it will be essential to ensure that this review is not treated in isolation from wider initiatives, most notably the proposals to streamline datapoints in the European Sustainability Reporting Standards (ESRS) as set out in the Omnibus I package. To meet their reporting obligations under SFDR, investors are heavily dependent on the data provided by their investees. Any modifications to the ESRS will therefore need to be accounted for and fully reflected in the SFDR review. In this context, IIGCC strongly emphasises the need to make the case for preserving access to the most material datapoints and disclosures in the ESRS that are needed to support disclosures under SFDR. This includes datapoints which correspond with mandatory principal adverse impact indicators, or which are relevant for the criteria needed to develop sustainability-focused investment strategies and products. In particular, we believe that the disclosures under ESRS E1 should be preserved in their entirety, given the materiality of climate-related risks and opportunities for investors and their importance for assessing the credibility and ambition of investee transition efforts.

Clarity on key concepts and terminology

A revised SFDR should provide more clarity and specificity on key concepts, particularly the definition of 'sustainable investments', which must account for and acknowledge the critical role of investment in transitioning assets. Additionally, the review must address inconsistencies and ensure full alignment of terminology and indicators with other relevant components of the sustainable finance disclosure architecture.

Consolidation and simplification of entity-level disclosures

Entity-level disclosures under SFDR should be simplified, covering only the information that is meaningful to report at that level. For example, reporting on entity-level policies (e.g. engagement, due diligence), processes and transition plans. We question the relevance and usefulness of principal adverse impact disclosures at this level. Entity-level disclosures under CSRD and SFDR should be consolidated to avoid duplication and improve coherence.

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Introduction of product categories

IIGCC welcomes proposals to introduce dedicated product categories under the regime, which should be underpinned by clear and comparable minimum criteria and thresholds (e.g. incorporating ESMA's 80% threshold into the rules). It will be important to ensure an appropriate balance between clear criteria that facilitate comparability while also allowing flexibility for innovation. A principles-based approach should be the aspiration.

We remain supportive of the Commission's proposed categories for products pursuing sustainable impact ('Category A'); products investing in assets that meet credible sustainability standards and/or which pursue a specific sustainability theme ('Category B'); and investment in transitioning assets ('Category D').

Categories should be underpinned by measurable, evidence-based KPIs that support assessment of sustainability performance, including stewardship criteria for each category. For example, a transition-focused category should prioritise criteria that facilitate real economy decarbonisation, particularly transition plan and targets, the Taxonomy and relevant market-led methodologies e.g. the Net Zero Investment Framework.

For non-labelled products, we recommend minimum baseline disclosures on ESG integration, exclusions and a limited subset of the most material PAI indicators (e.g. GHG emissions) to facilitate comparison and a level playing field, subject to an impact assessment.

Interoperability

To facilitate interoperability, efforts should be made to align approaches with the UK FCA's SDR regime while learning from the implementation challenges investors have encountered when seeking to use labels.