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cepStudy on the planned review of the Sustainable Finance Disclosure Regulation (SFDR)

Executive Summary ([Go to cepStudy in German](#))

For some time now, there has been a growing number of voices that consider EU sustainable finance legislation to be too complex, inconsistent and ineffective. The Sustainable Finance Disclosure Regulation (SFDR) has come under particular scrutiny here. The Commission therefore now wants to revise the SFDR soon.

The cepStudy published today identifies existing weaknesses, examines reform options and develops solutions for the upcoming review. It concludes that a general overhaul of the relevant legal acts on Sustainable Finance and in particular the SFDR appears to be urgently required. In practice, numerous inadequacies, pitfalls, redundancies and inconsistencies have emerged, which should be given top priority at EU level in the legislative period that is now beginning. The EU Commission should now tackle the review of the SFDR as soon as possible. However, it would also be useful to revise the other sustainable finance legislation - e.g. Green Taxonomy Regulation, MiFID, IDD and PRIIPR - in parallel, if possible, in order to achieve a coherent and consistent legal framework for sustainable finance in the medium term that also fulfils its postulated objectives.

When revising the legal frameworks on sustainable finance, it is necessary

- to overcome the discrepancies in the sustainability concepts according to SFDR and the Green Taxonomy. Firstly, the SFDR approach, which requires interpretation and is not very concrete, should be given a clearer foundation based on criteria. Secondly, the differences in the understanding of 'social' sustainability should be addressed. And finally, a standardised approach is needed to assess whether an investment leads to impairments in the achievement of sustainability goals.
- to close or minimise data gaps that have arisen, for example, due to different periods of application or areas of application of the various sustainable finance legal acts. Consideration should also be given to expanding the scope of application of the CSRD. Instead of basing sustainability reporting obligations primarily on the size of a company, standardised, proportionate minimum reporting requirements should apply to all companies. In line with a risk-based approach, companies with 'problematic' sustainability profiles should then be required to provide additional information.
- to achieve alignment between CSRD and SFDR by clarifying that financial markets participants can limit themselves analogue to CSRD to the disclosure of truly 'material' information, data points and indicators and thus to information, data points and indicators that are actually relevant to decision-making.
- to overcome the existing structural regulatory inequality in the treatment of investment products depending on their level of sustainability. For all investment products, regardless of their sustainability performance, a few meaningful and easily understandable disclosures should be mandatory ('minimum disclosures'). Providers of both products with and without a sustainability promise should also be allowed to make additional sustainability-related disclosures on a voluntary basis. Financial markets participants that offer products with sustainability features should also be required to disclose a small amount of additional sustainability-related information.

- to thoroughly revise and partially reconsider the SFDR transparency requirements. Only when the EU Commission comes to the conclusion that even revised SFDR disclosures are not sufficient should it examine the introduction of a categorisation system of sustainable products as envisaged. However, such a categorisation system can only ever be a 'second best' instrument. Should the EU Commission wish to introduce a categorisation system, it should satisfy the fourteen criteria and conditions developed as part of the study.
- link the revision of the SFDR with an adjustment of the requirements in MiFID and the IDD regarding the expression of sustainability preferences. The aim should be that investment advice that takes sustainability preferences into account should not take significantly longer than that which does not. Furthermore, it should not have to refer to sustainability concepts that are difficult or impossible for retail investors to understand. Pre-contractual SFDR disclosures at product level should be consistent with the provision of sustainability preferences in the advice process. If a categorisation system for sustainable investment products is introduced, this should also be taken into account in the investment advice process.
- only integrate sustainability-related information and/or a possible EU label for sustainable investment products into the PRIIP key information documents once the SFDR disclosure requirements have been revised, the EU label has been established and the MiFID and IDD requirements for the disclosure of sustainability preferences have been aligned accordingly with these new adjustments.

The complete **cepStudy** is currently only available in German. Please do not hesitate to contact us if you are interested in further details about the study beyond the information provided above.

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