

**SUSTAINABLE FINANCE ADVISORY COMMITTEE OF THE GERMAN FEDERAL GOVERNMENT (SFB) &
THE FRENCH SUSTAINABLE FINANCE INSTITUTE (IFD)**

**JOINT STATEMENT ON THE REVIEW OF THE
SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)**

Paris and Berlin, June 13th, 2024

In line with their respective missions and in the spirit of their co-operation established in October 2023, the SFB and the IFD have a common objective, which is to foster the development of Sustainable Finance in their respective countries as well as in Europe and to contribute to the international dialogues in this field.

Against this background, the SFB and IFD would like to underline common observations and recommendations to the European Commission with regard to the ongoing SFDR review, to which both have already contributed individually in December 2023.¹

1 – GENERAL

The SFB and IFD support the efforts of the European co-legislators to develop European regulations promoting a more sustainable economy. This ambitious framework should be designed, among other things, to redirect capital flows towards sustainable activities and to finance the just ecological transition.

The Sustainable Finance Disclosure Regulation (SFDR), which came into effect on March 10, 2021, laid the initial groundwork for a regulatory framework aimed at ensuring greater transparency in financial markets through standardizing information disclosure, enabling better comparability of financial products. While retaining this initial ambition, the implementation details of the SFDR need to be reconsidered as they have raised several difficulties and concerns among financial market participants and their clients.

In general, we welcome the European Commission's deliberations on the revision of SFDR Level 1, which should be part of a broader review of the architecture and content of regulatory texts related to sustainable finance. The priority will be to ensure better coherence between the texts, improved transparency of data from economic and financial sectors, and access for financial actors and savers to more robust instruments for aligning their financing decisions with sustainability preferences.

¹ See IFD position paper here: https://institutdelafinancedurable.com/app/uploads/2024/05/IFD_PAPIER-DE-POSITION-SUR-LA-CONSULTATION-DE-LA-COMMISSION-EUROPENNE-RELATIVE-A-LA-REVISION-DE-SFDR.pdf

See SFB position paper here: https://sustainable-finance-beirat.de/wp-content/uploads/2024/06/SFB_Eingabe_SFDR_Konsultation.pdf

2 – CONSISTENCY IN THE REGULATORY FRAMEWORK

The SFDR as the cornerstone regulation for the sustainable finance policy framework should with its disclosure requirements facilitate the necessary transparency on data points and processes such that they are consistent with other interlinked regulatory demands without creating double or additional reporting requirements.

In particular, SFB and IFD stress:

- Better coherence should be ensured between the SFDR regulation and the European Taxonomy, the CSRD directive, ESRS (European Sustainability Reporting Standards) delegated acts, as well as the Benchmark Regulation (BMR). A good alignment between SFDR product categorization and the MiFID II/IDD/PRIIPS framework is also crucial.
- Specifically, it is of utmost importance that reporting on the CSRD and on the SFDR are consistent. This means that the SFDR must not initiate additional reporting requests from financial market participants to companies. As such, for example, the list of mandatory PAI indicators should be consistent and aligned with the disclosure requirements under the ESRS. In addition, we advise not to introduce more mandatory PAIs for financial market participants.
- To ensure consistency for social and governance aspects across all sustainable finance regulatory texts, the UN Guiding Principles (UNGP) should be the only reference for social indicators and the OECD guidelines the only reference for governance indicators, not least because the UNGP and the OECD guidelines are the basis for the CSRD, the ESRS and the CSDDD.

3 – TRANSPARENCY AND CLARITY OF DEFINITIONS

The SFB and IFD maintain that the SFDR is suitable in principle to compare financial products and entities on their sustainability credentials. However, the current room for interpretation of concepts and disclosure requirements under the SFDR is perceived to be too broad to allow financial market participants to implement the regulation with confidence. In combination with the overly complex requirements of MiFID / IDD regarding sustainability preferences the uncertainty at the point of sale, particularly facing retail investors, has resulted in unnecessary hurdles for the selling of sustainability products and has stifled the channelling of funds towards sustainable purposes – this should, however, be the ultimate goal of the sustainable finance regulation. Inconsistencies and unclear definitions, like the vague definition of environmental and social sustainability, or excessively complex like the DNSH criteria, need to be tackled to allow for true comparability of products and to ensure legal certainty for all financial market participants.

In particular, SFB and IFD stress:

- In order to establish a better level-playing field, transparency rules should apply to all financial products, with a selection of minimum essential information² reflecting the sustainability content of these products, thereby ending the one-sided reporting burden for products with sustainability elements and enabling financial advisors as well as retail investors more easily to compare any financial product on key sustainability metrics.
- The concept of 'sustainable investment' in Article 2 (17) SFDR appears as too general and has resulted in different application methods in the market place, thus creating uncertainty. This definition should be rethought and the concepts used by the SFDR should be adapted in order to properly support financial market players.
- The concept of 'transition' is not clearly included in the SFDR. We consider 'transition' a central concept that should be explicitly integrated into investment strategies through clear definitions and objectives. This aligns with the recommendation published in June 2023 by the European Commission, expanding the approach beyond elements specified in the Taxonomy and recognizing the central role of transition plans.
- Regarding the question of product categories it is of utmost importance that the product categories are easy to understand and can be clearly differentiated. They should also be referred to in the sustainability preference queries under MiFID and IDD.

The SFD and IFD are committed to the legislative and regulatory initiatives aimed at ensuring greater transparency and achieving the goals of the European Green Deal. In striving for efficient and effective regulation with a real impact we are both open to continue a constructive dialogue with legislators, supervisory authorities, market players and other stakeholders.

² This should be a small number of KPIs that are fairly easily available for all product providers (e.g. the SFB suggests an indicative subset of five mandatory PAIs related to GHG emissions, fossil fuel exposure and human rights – PAIs 1, 3, 4, 10, 11)

About the SFB

The “Sustainable Finance Beirat” (Sustainable Finance Advisory Committee – SFB) was first convened in Berlin in 2019 and established anew in 2022 as an advisory body to the German federal government under the joint leadership of the Federal Ministry of Finance (BMF) and the Federal Ministry for the Environment (BMUV) and in close consultation with the Federal Ministry for Economic Affairs (BMWK) and the Federal Ministry of Justice (BMJ). The SFB operates as an independent and effective multi stakeholder dialogue platform with individual members from the real economy, the financial sector, civil society and academia and advises the German government on the further development and implementation of its sustainable finance agenda. The honorary members are supported by observers and further external experts.

About the IFD

The “Institut de la finance durable” (Sustainable Finance Institute – IFD) was established in Paris in November 2022, as a part of Paris Europlace, following the first steps accomplished by Finance for Tomorrow. The objective is to promote Green and Sustainable Finance at the national level as well as at the European and international levels. The IFD gathers all stakeholders: representatives of Public Authorities, Corporates, Financial Institutions and experts. It monitors, in cooperation with the French Treasury, the agenda of the CFTE (Comité de place pour le Financement de la Transition Ecologique), a dedicated committee chaired by the French Finance Minister.