EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION

Financial markets
Asset management

TARGETED CONSULTATION DOCUMENT

IMPLEMENTATION OF THE SUSTAINABLE FINANCE DISCLOSURES REGULATION (SFDR)

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

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You are invited to reply **by 15 December 2023** at the latest to the **online questionnaire** available on the following webpage:
https://finance.ec.europa.eu/regulation-and-supervision/consultations/finance-2023-sfdr-implementation_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

This consultation follows the normal rules of the European Commission for targeted consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
https://finance.ec.europa.eu/regulation-and-supervision/consultations/finance-2023-sfdr-implementation_en

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-sfdr@ec.europa.eu.

INTRODUCTION

The Sustainable Finance Disclosures Regulation (SFDR) started applying in March 2021 and requires financial market participants and financial advisers to disclose how they integrate sustainability risks and principal adverse impacts in their processes at both entity and product levels. It also introduces additional product disclosures for financial products making sustainability claims.

This targeted consultation aims at gathering information from a wide range of stakeholders, including financial practitioners, non-governmental organisations, national competent authorities, as well as professional and retail investors, on their experiences with the implementation of the SFDR. The Commission is interested in understanding how the SFDR has been implemented and any potential shortcomings, including in its interaction with the other parts of the European framework for sustainable finance, and inexploring possible options to improve the framework.

The main topics to be covered in this questionnaire are:

1. ***Current requirements of the SFDR***
2. ***Interaction with other sustainable finance legislation***
3. ***Potential changes to the disclosure requirements for financial market participants***
4. ***Potential establishment of a categorisation system for financial products***

Sections 1 and 2 cover the SFDR as it is today, exploring how the regulation is working in practice and the potential issues stakeholders might be facing in implementing it.

Sections 3 and 4 look to the future, assessing possible options to address any potential shortcomings. As there are crosslinks between aspects covered in the different sections, respondents are encouraged to look at the questionnaire in its entirety and adjust their replies accordingly.

CONSULTATION QUESTIONS

1. CURRENT REQUIREMENTS OF THE SFDR

The EU's sustainable finance policy is designed to attract private investment to support the transition to a sustainable, climate-neutral economy. The SFDR is designed to contribute to this objective by providing transparency to investors about the sustainabilityrisks that can affect the value of and return on their investments ('outside-in' effect) and the adverse impacts that such investments have on the environment and society ('inside- out'). This is known as double materiality. This section of the questionnaire seeks to assess to what extent respondents consider that the SFDR is meeting its objectives in an effective and efficient manner and to identify their views about potential issues in the implementation of the regulation.

We are seeking the views of respondents on how the SFDR works in practice. Inparticular, we would like to know more about potential issues stakeholders might have encountered regarding the concepts it establishes and the disclosures it requires.

Question 1.1: The SFDR seeks to strengthen transparency through sustainability-related disclosures in the financial services sector to support the EU's shift to a sustainable, climate neutral economy. In your view, is this broad objective of the regulation still relevant?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.2: Do you think the SFDR disclosure framework is effective in achieving the following specific objectives (included in its Explanatory Memorandum and mentioned in its recitals)[1]:

	1	2	3	4	5	Don't know
Increasing transparency towards end investors with regard to the integration of sustainability risks[2]			x			
Increasing transparency towards end investors with regard to the consideration of adverse sustainability impacts			x			
Strengthening protection of end investors and making it easier for them to benefit from and compare among			x			

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0354

[2] In this questionnaire we refer to the term 'end investor' (retail or professional) to designate the ultimate beneficiary of the investments in financial products (as defined under the SFDR) made by a person for their own account.

a wide range of financial products and services, including those with sustainability claims						
Channelling capital towards investments considered sustainable, including transitional investments ('investments considered sustainable' should be understood in a broad sense, not limited to the definition of sustainable investment set out in Article 2(17) of SFDR)		x				
Ensuring that ESG considerations are integrated into the investment and advisory process in a consistent manner across the different financial services sectors			x			
Ensuring that remuneration policies of financial market participants and financial advisors are consistent with the integration of sustainability risks and, where relevant, sustainable investment targets and designed to contribute to long-term sustainable growth		x				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 1.3: Do you agree that opting for a disclosure framework at EU level was more effective and efficient in seeking to achieve the objectives mentioned in Question 1.2 than if national measures had been taken at Member State level?

1	2	3	4	5	Don't know
				x	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 1.4: Do you agree with the following statement?

	1	2	3	4	5	Don't know
The costs of disclosure under the SFDR framework are proportionate to the benefits it generates (informing end investors, channelling capital towards sustainable investments)				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 1.5: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
The SFDR has raised awareness in the financial services sector of the potential negative impacts that investment decisions can have on the environment and/or people				x		
Financial market participants have changed the way they make investment decisions and design products since they have been required to disclose sustainability risks and adverse impacts at entity and product level under the SFDR.				x		
The SFDR has had indirect positive effects by increasing pressure on investee companies to act in a more sustainable manner.				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

We would also like to know more about potential issues stakeholders might have encountered regarding the concepts that the SFDR establishes and the disclosures it requires.

<u>Question 1.6Q</u>: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
Some disclosures required by the SFDR are not sufficiently useful to investors					x	
Some legal requirements and concepts in the SFDR, such as 'sustainable investment', arenot sufficiently clear					x	
The SFDR is not used as a disclosure framework as intended, but as a labelling and marketing tool (in particular Articles 8 and 9)					x	
Data gaps make it challenging for market participants to disclose fully in line with the legal requirements under the SFDR					x	
Re-use of data for disclosures is hampered by a lack of a common machine-readable format that presents data in a way that makes it easy						x

to extract						
There are other deficiencies with the SFDR rules (please specify in text box following question 1.7)					x	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 1.7</u>: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
The issues raised in question 1.6 create legal uncertainty for financial market participants and financial advisers				x		
The issues raised in question 1.6 create reputational risks for financial market participants and financial advisers				x		
The issues raised in question 1.6 do not allow distributors to have a sufficient or robust enough knowledge of the sustainability profile of the products they distribute				x		
The issues raised in question 1.6 create a risk of greenwashing and mis-selling				x		
The issues raised in question 1.6 prevent capital from being allocated to sustainable investments as effectively as it could be				x		
The current framework does not effectively capture investments in transition assets					x	
The current framework does not effectively support a robust enough use of shareholder engagement as a means to support the transition						x
Others						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any additional explanations as necessary for questions 1.5, 1.6 and 1.7:

The Real Estate PAIs are not fit for purpose and create confusion. The biggest challenges are the lack of clarity on how to report against the fossil fuel exposure PAI and the reference to the EPC and NZEB in the inefficient buildings PAI. These don't apply outside of Europe and are not consistent within Europe, so guidance on how to apply the inefficient buildings PAI where NZEB or the EPC isn't available is required. The same problems and others mean that the Sustainable Investment definition is very opaque for real estate, which creates a lack of consistency and transparency as well as potential inadvertent greenwashing.

1.1. Disclosures of principal adverse impacts (PAIs)

There are several disclosures concerning PAIs in the SFDR. As a general rule, the SFDR requires financial market participants who consider PAIs to disclose them at entity level on their website. It also includes a mandatory requirement for financial market participants to provide such disclosures when they have more than 500 employees (Article 4). The Delegated Regulation[3] of the SFDR includes a list of these PAI indicators. These entity level PAI indicators are divided into three tables in the Delegated Regulation. Indicators listed in table 1 are mandatory for all participants, and indicators in tables 2 and 3 are subject to a materiality assessment by the financial market participant (at least one indicator from table 2 and one from table 3 must be included in every PAI statement).

Second, the SFDR requires financial market participants who consider PAIs at entity level to indicate in the pre-contractual documentation whether their financial products consider PAIs (Article 7) and to report the impacts in the corresponding periodic disclosures (Article 11). When reporting these impacts, financial market participants may rely on the PAI indicators defined at entity level in the Delegated Regulation.

Finally, in accordance with the empowerment given in Article 2a of SFDR, the Delegated Regulation requires that the do no significant harm (DNSH) assessment of the sustainable investment definition is carried out by taking into account the PAI indicators defined at entity level in Annex I of the Delegated Regulation.

In this context:

Question 1.8: To what extent do you agree with the following statements about entity level disclosures?

	1	2	3	4	5	Don't know
I find it appropriate that certain indicators are always considered material (i.e. "principal") to the financial market participant for its entity level disclosures, while having other indicators subject to a materiality assessment by the financial market participant(approach taken in Annex I of the SFDR Delegated Regulation).				x		
I would find it appropriate that all indicators are always considered material (i.e. "principal") to the financial market participant for its entity level disclosures.	x					

[3] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022

I would find it appropriate that all indicators are always subject to a materiality assessment by the financial market participant for its entity level disclosures.			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 1.8.1</u>: When following the approach described in the first statement of question 1.8 above, do you agree that the areas covered by the current indicators listed in table 1 of the Delegated Regulation are the right ones to be considered material in all cases?

1	2	3	4	5	Don't know
		x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 1.9</u>: To what extent do you agree with the following statements about product level disclosures?

	1	2	3	4	5	Don't know
The requirement to 'take account of' PAI indicators listed in Annex I of the Delegated Regulation for the DNSH assessment, does not create methodological challenges.		x				
In the context of product disclosures for the do no significant harm (DNSH) assessment, it is clear how materiality of principal adverse impact (PAI) indicators listed in Annex I of the Delegated Regulation should be applied.		x				
The possibility to consider the PAI indicators listed in Annex I of the Delegated Regulation for product level disclosures of Article 7 do not create methodological challenges.		x				
It is clear how the disclosure requirements of Article 7 as regards principal adverse impacts interact with the requirement to disclose information according to Article 8 when the product promotes environmental and/or social characteristics and with the requirement to disclose information according to Article 9 when the product has sustainable investment as its objective.		x				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any additional explanations as necessary for questions 1.8, 1.8.1 and 1.9:

Despite recently updated guidance, significant uncertainty remains regarding how to account for fossil fuels and how real estate assets located in countries where EPC labels are not used should be dealt with. In addition, requirements for EPC labels for real estate assets do not work well for funds with transition strategies that purposefully acquire non-sustainable assets with a view toward retrofitting them to be sustainable.

Questions 1.10, 1.10.1 and 1.11 are intended for financial market participants and financial advisors subject to the SFDR.

1.2. The cost of disclosures under the SFDR today

The following two questions aim to assess the costs of the SFDR disclosure requirements distinguishing between one-off and recurring costs. One-off costs are incurred only once to implement a new reporting requirement, e.g. getting familiarised with the legal act and the associated regulatory or implementing technical standards, setting-up data collection processes or adjusting IT-systems. Recurring costs occur repeatedly every year once the new reporting is in place, e.g. costs of annual data collection and report preparation. In the specific case of precontractual disclosures for example, there are one-off costs to set up the process of publishing precontractual disclosures when a new product is launched, and recurring annual costs to repeat the process of publishing pre-contractual disclosures each time a new product is launched (depends on the number of products launched on average each year). These two questions apply both to entity and product level disclosures.

<u>Question 1.10</u>: Could you provide estimates of the one-off and recurring annual costs associated with complying with the SFDR disclosure requirements (EUR)? Please split these estimates between internal costs incurred by the financial market participant and any external services contracted to assist in complying with the requirements (services from third-party data providers, advisory services …). If such a breakdown is not possible, please provide the total figures.

EUR	Estimated one off costs	Estimated recurring annual costs	Don't know
Internal costs			x
Thereof personnel costs			x
Thereof IT costs			x
External costs			x
Thereof data providers			x
Thereof advisory services			x
Total costs of SFDR disclosure requirements			x

Question 1.10.1: Could you split the total costs between product level and entity level disclosures?

%	Product-level disclosures	Entity-level disclosures	Don't know
Estimated percentage of costs			x

If you wish to provide additional details, please use the box below:

Question 1.11: In order to have a better understanding of internal costs, could you provide an estimate of how many full-time-equivalents (FTEs - FTEs - 1 FTE corresponds to 1 employee working full-time the whole year) are involved in preparing SFDR disclosures?

INREV members indicate that, on average, more than 10 FTEs are involved in preparing SFDR disclosures.

Could you please provide a split between:

%	Retrieving the data	Analysing the data	Reporting SFDR disclosures	Other	Don't know
Estimated percentage	40%	40%	20%		

1.3. Data and estimates

Financial market participants' and financial advisers' ability to fulfil their ESG transparency requirements depends in part on other disclosure requirements under the EU framework. In particular, they will rely to a significant extent on the Corporate Sustainability Reporting Directive (CSRD). However, entities are not reporting yet under those new disclosure requirements, or they may not be within the scope of the CSRD. Besides, even when data is already available today, it may not always be of good quality.

Question 1.12: Are you facing difficulties in obtaining good-quality data?

Yes	No	Don't know
x		

Question 1.12.1: If so, do you struggle to find information about the following elements?

	1	2	3	4	5	Don't know
The entity level principal adverse impacts				x		
The proportion of taxonomy-aligned investments (product level)				x		
The contribution to an environmental or social objective, element of the definition of 'sustainable investment' (product level)				x		
The product's principal adverse impacts, including when assessed in the context of the 'do no significant harm' test which requires the consideration of PAI entity level indicators listed in Annex I of the Delegated Regulation and is an element of the definition of 'sustainable investment' (product level)			x			
The good governance practices of investee companies (product level)				x		
Other						x

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.12.2: Is the SFDR sufficiently flexible to allow for the use of estimates?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.12.3: Is it clear what kind of estimates are allowed by the SFDR?

1	2	3	4	5	Don't know
	x				

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.12.4: If you use estimates, what kind of estimates do you use to fill the data gap?

	Entity level principal adverse impacts	Taxonomy aligned investments (product level)	Sustainable investments (product level)	Other
Estimates from data providers, based on data coming from the investee companies	Don't know	Don't know	1	1
Estimates from data providers, based on data coming from other sources	Don't know	Don't know	3	2
In-house estimates	Don't know	Don't know	3	1
Internal ESG score models	Don't know	Don't know	1	1
External ESG score models	Don't know	Don't know	1	1
Other	Don't know	Don't know	Don't know	Don't know

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 1.12.5: Do you engage with investee companies to encourage reporting of the missing data?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please also provide further explanations to your replies to questions 1.12 to 1.12.5.

Question 1.13: Have you increased your offer of financial products that make sustainability claims since the disclosure requirements of Articles 8 and 9 of the SFDR began to apply (i.e. since 2021, have you been offering more products that you categorise as Articles 8 and 9 than those you offered before the regulation was in place and for which you also claimed a certain sustainability performance)?

1	2	3	4	5	Don’t know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

<u>Question 1.13.1</u>: Please specify how the share of financial products making sustainability claims has evolved in the past years. (Please express it as a percentage of the total financial products you offered each year.)

2020	2021	2022	2023
0%	11%	18%	30%

<u>Question 1.13.2</u>:Q.1. If you have increased your offering of financial products making sustainability claims, in your view, has any of the following factors influenced this increase?

	1	2	3	4	5	Don’t know
SFDR requirements				x		
Retail investor interest			x			
Professional investor interest				x		
Market competitiveness				x		
Other factors			x			

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

If other, please specify. Please also provide further explanations to your replies toquestions 1.13, 1.13.1 and 1.13.2.

2. INTERACTION WITH OTHER SUSTAINABLE FINANCE LEGISLATION

The SFDR interacts with other parts of the EU’s sustainable finance framework. Questions in this section will therefore seek respondents’ views about the current interactions, as well as potential inconsistencies or misalignments that might exist between the SFDR and other sustainable finance legislation. There is a need to assess the potential implications for other sustainable finance legal acts if the SFDR legal framework was changed in the future. Questions as regards these potential implications are included in section 4 of this questionnaire, when consulting on the potential establishment of a categorisation system for products, and they do not prejudge future positions that might be taken by the Commission.

The SFDR mainly interacts with the following legislation and their related delegated and implementing acts:

- the Taxonomy Regulation
- the Benchmarks Regulation
- the Corporate Sustainability Reporting Directive (CSRD)
- the Markets in Financial Instruments Directive (MiFID 2) and the Insurance Distribution Directive (IDD)
- the Regulation on Packaged Retail Investment and Insurance Products (PRIIPs)

Other legal acts that are currently being negotiated may also interact with the SFDR in the future. They are not covered in this questionnaire as the detailed requirements of these legal acts have not yet been agreed. At this stage, it would be speculative to seek to assess how their interaction with SFDR would function.
Both the SFDR and the Taxonomy Regulation introduce key concepts to the sustainable finance framework. Notably, they introduce definitions of 'sustainable investment' (SFDR) and 'environmentally sustainable' economic activities (Taxonomy). Both definitions require, inter alia, a contribution to a sustainable objective and a do no significant harm (DNSH) test. But while these definitions are similar, there are differences between them which could create practical challenges for market participants.

Question 2.1: The Commission recently adopted a FAQ clarifying that investments in Taxonomy-aligned 'environmentally sustainable' economic activities can automatically qualify as 'sustainable investments' in those activities under the SFDR. To what extent do you agree that this FAQ offers sufficient clarity to market participants on how to treat Taxonomy-aligned investment in the SFDR product level disclosures?

1	2	3	4	5	Don't know
	x				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

The Benchmarks Regulation introduces two categories of climate benchmarks – the EU climate transition benchmark (EU CTB) and the EU Paris-aligned benchmark (EU PAB) - and requires benchmark administrators to disclose on ESG related matters for all benchmarks (except interest rate and foreign exchange benchmarks). The SFDR makes reference to the CTB and PAB in connection with financial products that have the reduction of carbon emissions as their objective. Both legal frameworks are closely linked as products disclosing under the SFDR can for example passively track a CTB or a PAB or use one of them as a reference benchmark in an active investment strategy. More broadly, passive products rely on the design choices made by the benchmark administrators.

Question 2.2: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
The questions & answers published by the Commission in April 2023 specifying that the SFDR deems products passively tracking CTB and PAB to be making 'sustainable investments' as defined in the SFDR provide sufficient clarity to market participants			x			
The approach to DNSH and good governance in the SFDR is consistent with the environmental, social and governance exclusions under the PAB/CTB			x			
The ESG information provided by benchmark administrators is sufficient and is aligned with the information required by the SFDR for products tracking or referencing these benchmarks			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Both the SFDR and the Corporate Sustainability Reporting Directive (CSRD) introduce entity level disclosure requirements with a double-materiality approach.[4] The CSRD sets out sustainability reporting requirements mainly for all large and all listed undertakings with limited liability (except listed micro-enterprises),[5] while the SFDR introduces sustainability disclosure requirements at entity level for financial market participants and financial advisers as regards the consideration of sustainability related factors in their investment decision-making process. Moreover, in order for financial market participants and financial advisers to meet their product and entity level disclosure obligations under

[4] Transparency requirements relate to the sustainability risks that can affect the value of investments (SFDR) or companies (CSRD) ('outside-in' effect) and the adverse impacts that such investments or companies have on the environment and society ('inside-out').

[5] Credit institutions and insurance undertakings with unlimited liability are also in scope subject to the same size criteria. Non-EU undertakings listed on the EU regulated markets and non-EU undertakings with a net turnover above EUR 150 million that carry out business in the EU will also have to publish certain sustainability-related information through their EU subsidiaries that are subject to CSRD (or - in the absence of such EU subsidiaries – through their EU branches with net turnover above EUR 40 million).

the SFDR, they will rely to a significant extent, on the information reported according to the CSRD and its European Sustainability Reporting Standards (ESRS)[6].

Question 2.3: To what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know
The SFDR disclosures are consistent with the CSRD requirements, in particular with the European Sustainability Reporting Standards			x			
There is room to streamline the entity level disclosure requirements of the SFDR and the CSRD				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Financial advisors (under MiFID 2) and distributors of insurance-based investment products (under IDD) have to conduct suitability assessments based on the sustainability preferences of customers. These assessments rely in part on sustainability-related information made available by market participants reporting under the SFDR.

Question 2.4: To what extent do you agree that the product disclosures required in the SFDR and its Delegated Regulation (e.g. the proportion of sustainable investments or taxonomy aligned investments, or information about principal adverse impacts) are sufficiently useful and comparable to allow distributors to determine whether a product can fit investors' sustainability preferences under MiFID2 and the IDD?

1	2	3	4	5	Don't know
		x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 2.5: MIFID and IDD require financial advisors to take into account sustainability preferences of clients when providing certain services to them. Do you believe that, on top of this behavioural obligation, the following disclosure requirements for financial advisors of the SFDR are useful?

	1	2	3	4	5	Don't know
Article 3, entity level disclosures about the integration of sustainability risks policies in investment or insurance advice			x			

[6] Provided positive scrutiny of co-legislators of the ESRS delegated act.

Article 4, entity level disclosures about consideration of principal adverse impacts			x			
Article 5, entity level disclosures about remuneration policies in relation to the integration of sustainability risks		x				
Article 6, product level pre-contractual disclosures about the integration of sustainability risks in investment or insurance advice		x				
Article 12, requirement to keep information disclosed according to Articles 3 and 5 up to date			x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 2.6: Have the requirements on distributors to consider sustainability preferences of clients impacted the quality and consistency of disclosures made under SFDR?

Yes	No	Don't know
		x

Question 2.6.1: If so, how?

PRIIPs requires market participants to provide retail investors with key information documents (KIDs). As part of the retail investment strategy[7], the Commission has recently proposed to include a new sustainability section in the KID to make sustainability-related information of investment products more visible, comparable and understandable for retail investors. Section 4 of this questionnaire includes questions related to PRIIPs, to seek stakeholders' views as regards potential impacts on the content of the KID if a product categorisation system was established.

Please clarify your replies to questions in section 2 as necessary:

INREV believes that retail investors should also be given more information regarding PAI considerations. The requirement to consider sustainability preferences has led to distributors paying more attention to the sustainability information that they disclose and they are also more careful towards greenwashing, using data where possible to back their claims. There is also more integration of information regarding sustainability risks.

[7] https://finance.ec.europa.eu/publications/retail-investment-strategy_en

3. POTENTIAL CHANGES TO DISCLOSURE REQUIREMENTS FOR FINANCIAL MARKET PARTICIPANTS

3.1. ENTITY LEVEL DISCLOSURES

The SFDR contains entity level disclosure requirements for financial market participants and financial advisers. They shall disclose on their website their policies on the integration of sustainability risks in their investment decision-making process or their investment or insurance advice (Article 3). In addition, they shall disclose whether, and ifso, how, they consider the principal adverse impacts of their investment decisions on sustainability factors. For financial market participants with 500 or more employees, the disclosure of a due diligence statement, including information of adverse impacts, is mandatory (Article 4). In addition, financial market participants and financial advisers shall disclose how their remuneration policies are consistent with the integration of sustainability risks (Article 5).

Question 3.1.1: Are these disclosures useful?

	1	2	3	4	5	Don't know
Article 3			x			
Article 4			x			
Article 5			x			

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Please explain your replies to question 3.1.1 as necessary:

INREV believes that articles 3 and 4 are more relevant at product level. Article 5 is too vague to be that impactful.

Complementing the consultation by the European Supervisory Authorities (ESAs) on the revision of the Regulatory Technical Standards of the SFDR[8], the Commission is interested in respondents' views as regards the principal adverse impact indicators required by the current Delegated Regulation.

Question 3.1.2: Among the specific entity level principal adverse impact indicators required by the Delegated Regulation of the SFDR adopted pursuant to Article 4 (tables 1, 2 and 3 of Annex I), which indicators do you find the most (and least) useful?

INREV believes greenhouse gas emissions is the most useful indicator in terms of measuring the environmental impact of real estate assets. To comply with INREV ESG Reporting Guidelines, our members should report on eight required KPIs specific to GHG emissions. Depending on data availability, members can provide both actual and estimated data to comply (*ref: ENV14 – ENV21*). Raw materials consumption is also an important indicator in the case of new construction and major renovation projects. .

However, we consider biodiversity, raw materials consumption and exposure to fossil fuels indicators for standing real estate assets to be the least useful. Raw materials consumption is simply not relevant for standing real estate assets not undergoing renovation or re-development, while reporting exposure to fossil fuels for real assets is not useful due to the difficulty of determining how it applies.

[8] https://www.esma.europa.eu/press-news/consultations/joint-consultation-review-sfdr-delegated-regulation – placeholder see what in right hyperlink in September when we launch OPC.

Several pieces of EU legislation require entity level disclosures, whether through transparency requirements on sustainability for businesses (for example the CSRD) or disclosure requirements regarding own ESG exposures (such as the Capital Requirements Regulation (CRR) and its Delegated Regulation).

Question 3.1.3: In this context, is the SFDR the right place to include entity level disclosures?

1	2	3	4	5	Don't know
	x				

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Question 3.1.4: To what extent is there room for streamlining sustainability-related entity level requirements across different pieces of legislation?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain your replies to questions in section 3.1 as necessary

If a categorisation or labelling system is developed, INREV believes it should focus on the product.

If entity level disclosures beyond describing how entity policies apply to investment products are desired, they should be required pursuant to CSRD, which is a better vehicle for them. However, requiring too many metrics and KPIs as part of the disclosures should be avoided. SFDR should focus on the commitments of FMPs toward their investment products, whereas NFRD/CSRD should focus on the company.

3.2. PRODUCT LEVEL DISCLOSURES

The SFDR includes product level disclosure requirements (Articles 6, 7, 8, 9, 10 and 11) that mainly concern risk and adverse impact related information, as well as information about the sustainability performance of a given financial product. The regulation determines which information should be included in precontractual and periodic documentation and on websites.

The SFDR was designed as a disclosure regime, but is being used as a labelling scheme, suggesting that there might be a demand for establishing sustainability product categories. Before assessing whether there might be merit in setting up such product categories in Section 4, Section 3 includes questions analysing the need for possible changes to disclosures, as well as any potential link between product categories and disclosures. The need to ask about potential links between disclosures and sustainability product categories is the reason why this section contains some references to 'products making sustainability claims'. However, this does not pre-empt in any way a decision about how a potential categorisation system and an updated disclosure regime would interact if these were established. The Commission services are openly consulting on all these issues to further assess potential ways forward as regards the SFDR.

The Commission services would therefore like to collect feedback on what transparency requirements stakeholders consider useful and necessary. We would also like to know respondents' views on whether and how these transparency requirements should link to different potential categories of products.

The general principle of the SFDR is that products that make sustainability claims need to disclose information to back up those claims and combat greenwashing. This could be viewed as placing additional burden on products that factor in sustainability considerations. This is why, in the following questions, the Commission services ask respondents about the usefulness of uniform disclosure requirements for products across the board, regardless of related sustainability claims, departing from the general philosophy of the SFDR as regards product disclosures. Providing proportionate information on the sustainability profile of a product which does not make sustainability claims could make it easier for some investors to understand products' sustainability performance, as they would get information also about products that are not designed to achieve any sustainability-related outcome. This section also contains questionsexploring whether it could be useful to require financial market participants who make sustainability claims about certain products to disclose additional information (i.e. in casea categorisation system is introduced in the EU framework, the need to require additionalinformation about products that would fall under a category).

Question 3.2.1: Standardised product disclosures - Should the EU impose uniform disclosure requirements for **all** financial products offered in the EU, regardless of their sustainability-related claims or any other consideration?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 3.2.1. a): If the EU was to impose uniform disclosure requirements for **all** financial products offered in the EU, should disclosures on a limited number of principal adverse impact indicators be required for all financial products offered in the EU?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please specify which ones:

GHG emissions.

Question 3.2.1 b): Please see a list of examples of disclosures that could also be required about **all** financial products for transparency purposes. In your view, should these disclosures be mandatory, and/or should any other information be required about **all** financial products for transparency purposes?

	1	2	3	4	5	Don't know
Taxonomy-related disclosures			x			
Engagement strategies		x				
Exclusions	x					
Information about how ESG-related information is used in the investment process				x		
Other information						x

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

If you selected 'Other information' please specify:

Please explain as necessary your replies to questions 3.2.1 and its sub-questions:

INREV believes that standardisation at the label level could be more beneficial than standardisation across all labels, as sustainability strategies can differ widely between labels.

To minimise high compliance costs with corresponding benefits, we believe that single mandates where investors and fund managers agree on specific sustainability reporting that fits their needs, could be exempted from the requirement.

Question 3.2.2: Standardised product disclosures - Would uniform disclosure requirements for **some** financial products be a more appropriate approach, regardless of their sustainability-related claims (e.g. products whose assets under management, orequivalent, would exceed a certain threshold to be defined, products intended solely for retail investors…)? Please note that next question 3.2.3 asks specifically about the need for disclosures in cases of products making sustainability claims.

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 3.2.2 a): If the EU was to impose uniform disclosure requirements for **some** financial products, what would be the criterion/criteria that would trigger the reporting obligations?

INREV is not fundamentally opposed to the principle of imposing uniform disclosure requirements for some financial products, but further clarification is needed regarding which disclosures and which products are contemplated. Additionally, this proposal should only apply to funds that are still in the process of raising capital.

Question 3.2.2. b): If the EU was to impose uniform disclosure requirements for **some** financial products, should a limited number of principal adverse impact indicators be required?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please specify which ones:

INREV believes that PAIs for exposure to energy-inefficient real estate assets should be applicable to assets outside of Europe as well. Furthermore, greenhouse gas emissions and energy consumption could also be required.

The requirements should also take into account the fact that there is not a one-size-fits-all list of relevant disclosures for different asset classes, especially not for real estate, where asset types can differ considerably.

Question 3.2.2. c): Please see a list of examples of disclosures that could also be required about the group of financial products that would be subject to standardised disclosure obligations for transparency purposes (in line with your answer to Q 3.2.2 above). In your view, should these disclosures be mandatory, and/or should any other information be required about that group of financial products?

	1	2	3	4	5	Don't know
Taxonomy-related disclosures			x			
Engagement strategies			x			
Exclusions		x				
Information about how ESG-related information is used in the investment process				x		
Other information						x

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

If you selected 'Other information' please specify:

Please explain as necessary your replies to questions 3.2.2 and its sub-questions:

While some of the indicators do not apply to real estate funds, in principle INREV is not against the idea of mandatory indicators and full data disclosures that are relevant to the real estate sector.

The following and last section of this questionnaire (section 4) includes questions about the potential establishment of a sustainability product categorisation system at EU level based on certain criteria that products would have to meet. It presents questions about different ways of setting up such system, including whether additional category specific disclosure requirements should be envisaged. There are therefore certain links between questions in this section (section 3) and questions in the last section of the questionnaire (section 4).

Question 3.2.3: If requirements were imposed as per question 3.2.1 and/or 3.2.2, should there be some additional disclosure requirements when a product makes a sustainability claim?

1	2	3	4	5	Don't know
			x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain as necessary your replies to question 3.2.3:

INREV strongly urges the Commission to avoid additional disclosure requirements that do not fit real estate and, instead, to require disclosure of the methodology of obtaining sustainability criteria and outcomes to avoid vague claims.

A principles-based approach in which managers provide more information about the investment strategy for their products, along with the timeline for achieving the strategy goals, could be a best practice rather than a mandatory additional disclosure. This would still enhance transparency to a great extent.

Sustainability product information disclosed according to the current requirements of the SFDR can be found in precontractual and periodic documentation and on financialmarket participants' websites, as required by Articles 6, 7, 8, 9, 10 and 11.

Question 3.2.4: In general, is it appropriate to have product related information spread across these three places, i.e. in precontractual disclosures, in periodic documentation and on websites?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 3.2.5: More specifically, is the current breakdown of information between precontractual, periodic documentation and website disclosures appropriate and user friendly?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please explain as necessary your replies to question 3.2.4 and 3.2.5:

Consolidating all product-related information in one place would be a more user-friendly approach, rather than spreading them across precontractual disclosures, periodic disclosures andwebsite disclosures. Consistent precontractual and periodic disclosures would be adequate, at least for funds marketing to institutional investors, as institutional investors would never rely on disclosures found on websites.

Additionally, the Commission should provide for private investment funds that may not desire to disclose confidential information publicly.

Current website disclosures make it mandatory for product sustainability information to be publicly available. This includes portfolios managed under a portfolio management mandate, which can mean a large number of disclosures, as each of the managed portfolios is considered a financial product under the SFDR. A Q&A published by the Commission in July 2021[9] clarified that where a financial market participant makes useof standard portfolio management strategies replicated for clients with similar investmentprofiles, transparency at the level of those standard strategies can be considered a way of complying with requirements on websites disclosures. This approach facilitates the compliance with Union and national law governing the data protection, and where relevant, it also ensures confidentiality owed to clients.

Question 3.2.6: To what extent do you agree with the following statements? (second recording)

	1	2	3	4	5	Don't know
It is useful that product disclosures under SFDR are publicly available (e.g. because they have the potential to bring wider societal benefits)			x			
Confidentiality aspects need to be taken into account when specifying the information that should be made available to the public under the SFDR					x	
Sustainability information about financial products should be made available to potential investors, investors or the public according to rules in sectoral legislation (e.g.: UCITS, AIFM, IORPs directives); the SFDR should not impose rules in this regard				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain as necessary your replies to question 3.2.6:

It is important to consider confidentiality concerns when it comes to private funds and their disclosures. While SFDR is helpful in promoting uniform disclosures for products to investors, private funds should not be required to publicly disclose their investment strategy.

Current product-level disclosures have been designed to allow for comparability between financial products. The SFDR requires pre-contractual disclosures to be made in various documents for the different financial products in scope of the regulation. The disclosure requirements are the same, even though these documents have widely varying levels of detail or complexity, i.e. a UCITS prospectus can be several hundred pages long, while the

Pan-European Pension Product Key Information Document (PEPP KID) comprises a few pages.

<u>Question 3.2.7</u>: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
The same sustainability disclosure topics and the exact same level of granularity of sustainability information (i.e. same number of datapoints) should be required in all types of precontractual documentation to allow for comparability			x			
The same sustainability disclosure topics should be required in all types of precontractual documentation to allow for comparability			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain as necessary your replies to question 3.2.7:

If categories or labels are introduced, it is crucial to ensure comparability. Even if a categorisation or labelling system is not adopted, funds would still be required to comply with disclosure requirements under SFDR Article 8 or Article 9, at least during a transition period. As a result, a certain degree of standardisation would still be necessary to ensure comparability.

However, it is important to note that while the same level of granularity might help with comparability within certain asset classes, it may not be feasible to compare how the categories apply across all asset classes at the same level of granularity.

<u>Question 3.2.8</u>: Do you believe that sustainability related disclosure requirements at product level should be independent from any entity level disclosure requirements, (i.e. product disclosures should not be conditional on entity disclosures, and vice-versa)?

Yes	No	Don't know
x		

Please explain as necessary your replies to question 3.2.8:

The SFDR is intended to facilitate comparisons between financial products based on their sustainability considerations. In practice, investors, and especially retail investors, may not

[9] See question 3 of section V of the consolidated questions and answers (Q&A) on the SFDR and its Delegated Regulation published on the ESAs websites.

always have the necessary expertise and knowledge to interpret SFDR product-level disclosures, whether it is about comparing these disclosures to industry averages or credible transition trajectories.

Question 3.2.9: Do you think that some product-level disclosures should be expressed on a scale (e.g. if the disclosure results for similar products were put on a scale, in which decile would the product fall)?

Yes	No	Don't know
		x

Question 3.2.9.1: If so, how should those scales be established and which information should be expressed on a scale?

Having more clarity on the scale would be helpful.

Question 3.2.10: If you are a professional investor, where do you obtain the sustainability information you find relevant?

	1	2	3	4	5	Don't know
From direct enquiries to market participants			x			
Via SFDR disclosures provided by market participants			x			

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 3.2.11: If you are a professional investor, do you find the SFDR requirements have improved the quality of information and transparency provided by financial market participants about the sustainability features of the products they offer?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Please explain as necessary your replies to question 3.2.10 and 3.2.11:

In response to Question 3.2.10, a combination of the two options could be beneficial, as it depends on the investors' level of sophistication and their ability to obtain information. At present, SFDR disclosures are not very comparable, so clear standards for disclosures applicable to different product types would be useful.

For disclosures to be effective, they need to be accessible and useable to end investors. We are seeking respondents' views about the need to further improve the accessibilityand usability of this information, in particular in a digital context.[10]

<u>Question 3.2.12:</u> To what extent do you agree or disagree with the following statements?

[10] These questions are intended to complement Question 42 in the ESAs' joint consultation paper on the review of the SFDR Delegated Regulation (JC 2023 09) which asks for criteria for machine readability of the SFDR Delegated Regulation disclosures.

	1	2	3	4	5	Don't know
Article 2(2) of the SFDR Delegated Regulation already requires financial market participants to make disclosures under the SFDR in a searchable electronic format, unless otherwise required by sectoral legislation. This is sufficient to ensure accessibility and usability of the disclosed information.				x		
It would be useful for all product information disclosed under the SFDR to be machine-readable, searchable and ready for digital use.				x		
It would be useful for some of the product information disclosed under the SFDR to be machine-readable and ready for digital use.			x			
It would be useful to prescribe a specific machine-readable format for all (or some parts) of the reporting under the SFDR (e.g. iXBRL).		x				
It would be useful to make <u>all</u> product information disclosed under the SFDR available in the upcoming European Single Access Point as soon as possible.				x		
Entity and product disclosures on websites should be interactive and offer a layered approach enabling investors to access additional information easily on demand.		x				
It would be useful that a potential regulatory attempt to digitalise sustainability disclosures by financial market participants building on the European ESG Template (EET) which has been developed by the financial industry to facilitate the exchange of data between financial market participants and stakeholders regarding sustainability disclosures.			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 3.2.13: Do you think the costs of introducing a machine-readable format for the disclosed information would be proportionate to the benefits it would entail?

1	2	3	4	5	Don't know
		x			

(1= not at all, 2= not really, 3= partially, 4= mostly, 5= totally)

Please provide any comments or explanations to explain your answers to questions 3.2.12 and 3.2.13:

Article 2(2) of the SFDR Delegated Regulation already requires financial market participants to make disclosures in a searchable electronic format, unless sectoral legislation requires otherwise. While INREV generally agrees that this is sufficient, there is still a need for more clarity on this matter.

Additionally, there seems to be a lack of clarity on what exactly constitutes a machine-readable format. Regarding the European Single Access Point, it is important that confidentiality concerns are taken into account and respected, as noted above.

Current product-level disclosures have been designed to allow for comparability between financial products. These financial products and the types of investments they pursue can present differences.

Question 3.2.14: To what extent do you agree with the following statement? "When determining what disclosures should be required at product level it should be taken into account: ..."

	1	2	3	4	5	Don't know
Whether the product is a wrapper offering choices between underlying investment options like a Multi-Option Product						x
Whether some of the underlying investments are outside the EU				x		
Whether some of the underlying investments are in an emerging economy				x		
Whether some of the underlying investments are in SMEs						x
Whether the underlying investments are in certain economic activities or in companies active in certain sectors				x		
Other considerations as regards the type of product or underlying investments				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree,

5= totally agree)

Please explain your reply to question 3.2.14:

INREV mostly agrees that when deciding on what disclosures should be required at the product level, it is important to take into account all of the suggested options mentioned above. However, this may vary depending on the type of product or underlying investments. Therefore, a one-size-fits-all approach may not be feasible.

4. POTENTIAL ESTABLISHMENT OF A CATEGORISATION SYSTEM FOR FINANCIALPRODUCTS

4.1. POTENTIAL OPTIONS

The fact that Articles 8 and 9 of the SFDR are being used as de facto product labels, together with the proliferation of national ESG/sustainability labels, suggests that there is a market demand for such tools in order to communicate the ESG/sustainability performance of financial products. However, there are persistent concerns that the current market use of the SFDR as a labelling scheme might lead to risks of greenwashing (the Commission services seek respondents' views on this in section 1). This is partly because the existing concepts and definitions in the regulation were not conceived for that purpose. Instead, the intention behind them was to encompass as wide a range of products as possible, so that any sustainability claims had to be substantiated. In addition, a proliferation of national labels risks fragmenting the European market and thereby undermining the development of the capital markets union.

The Commission services therefore seek views on the merits of developing a more precise EU-level product categorisation system based on precise criteria. This section of the questionnaire asks for stakeholders' views about both the advantages of establishing sustainability product categories and about how these categories should work. When asking about sustainability product categories, the Commission is referring to a possible distinction between products depending on their sustainability objectives or sustainability performances.

Replies to questions in this section will help assess which type of investor would find product categories useful. Some questions relate to different possibilities as to how the system could be set-up, including whether disclosure requirements about products making sustainability claims should play a role. There are therefore certain links betweenquestions in this section and section 3 on disclosures. Accordingly, respondents areinvited to reply to questions in both sections, so that the Commission services can get insights into how they view disclosures and product categories separately, but also how they see the interlinkages between the two.

Given the high demand for sustainability products, questions in this section assume that any potential categorisation system would be voluntary. This is because financial market participants would likely have an interest in offering products with a sustainability claim. The questions in this section presume that only products that claim to fall under a given sustainability product category would be required to meet the corresponding requirements. However, this should not be seen as the Commission's preferred policy approach, as the Commission is only consulting on these topics at this stage.

If the Commission was to propose the development of a more precise product categorisation system, two broad strategies could be envisaged. On the one hand, the product categorisation system could build on and develop the distinction between Articles 8 and 9 and the existing concepts embedded in them (such as environmental/social characteristics, sustainable investment or do no significant harm), complemented by additional (minimum) criteria that more clearly define the products falling within the scope of each article. On the other hand, the product categorisation system could be based on a different approach, for instance focused on the type of investment strategy (promise of positive contribution to certain sustainability objectives, transition focus, etc.), based on criteria that do not necessarily relate to those existing concepts. In such a scenario, concepts such as environmental/social characteristics or sustainable investment and the distinction between current Articles 8 and 9 of SFDR maydisappear altogether from the transparency framework.

<u>Question 4.1.1</u>: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
Sustainability product categories regulated at EU level would facilitate retail investor understanding of products' sustainability-related strategies and objectives				x		
Sustainability product categories regulated at EU level would facilitate professional investor understanding of products' sustainability-related strategies and objectives					x	
Sustainability product categories regulated at EU level are necessary to combat greenwashing				x		
Sustainability product categories regulated at EU level are necessary to avoid fragmenting the capital markets union.				x		
Sustainability product categories regulated at EU level are necessary to have efficient distribution systems based on investors' sustainability preferences.			x			
There is no need for product categories. Pure disclosure requirements of sustainability information are sufficient.			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 4.1.2</u>: If a categorisation system was established, how do you think categories should be designed?

	1	2	3	4	5	Don't know

Approach 1: Splitting categories in a different way than according to existing concepts used in Articles 8 and 9, for example, focusing on the type of investment strategy of the product (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to those existing concepts.					x	
Approach 2: Converting Articles 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment, do no significant harm, etc.		x				

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your reply to questions 4.1.1 and 4.1.2:

INREV believes SFDR and Article 8 and Article 9 are useful for regulating transparency and disclosure requirements and for fighting against greenwashing. However, they are not the best basis for formal product categories as they do not accommodate transition strategies well. Particularly for real estate.

We believe the categorisation/labelling system should follow suggested Approach 1: 'Splitting categories in a different way than according to existing concepts used in Articles 8 and 9, focusing on the type of investment strategy of the product (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to those existing concepts.'

It is crucial that a clear and well-defined categorising/labelling system is implemented. The disclosure requirements of Article 8 and Article 9 should focus solely on disclosing the sustainability strategy of a fund, rather than describing it. We would therefore advocate eliminating Article 8 and Article 9 after a transition period. During the transition period, both systems could coexist but, in the long run, having SFDR stand alongside a categorisation based on the type of investment strategy would likely lead to two labelling systems and risk creating confusion for investors.

Ultimately, it would be most helpful to have a clear explanation of the difference between the classification and disclosure regimes, and how they complement each other.

INREV notes and supports the labels indicated in the 28 November 2023 UK FCA Sustainability Disclosure Requirements Policy Statement PS23/16 (SDR PS) relating to investment labels. In the SDR PS the FCA states:

> *"(Paragraph 2.15) We also received feedback on the importance of ensuring compatibility with other regimes, most notably the Sustainable Finance Disclosure Regulation (SFDR) in the European Union (EU). We continue to engage with counterparts in the EU and other jurisdictions to encourage interoperability and compatibility as they consider their sustainability regimes.*
>
> *(Paragraph 2.16) We have included a revised mapping to the SFDR requirements in Annex 3 to help firms that will face obligations under both regimes. We note the European Commission's ongoing review of the SFDR, and its consultation published in September 2023. Among the Commission's consultation proposals is the consideration of a labelling regime to help consumers navigate the market. As our regime is among the first to consider introducing investment labels, we stand ready to work with the EU authorities on this important issue. We are also engaged with developments in other international jurisdictions, and will continue to do so".*

INREV urges the Commission to engage with the FCA as it considers a labelling regime under SFDR with the important aim to achieve coherence with the United Kingdom's SDR.

If a categorisation system was established according to approach 1 of question 4.1.2

<u>Question 4.1.3</u>: To what extent do you agree that, under approach 1, if a sustainability disclosure framework is maintained in parallel to a categorisation system, the current distinction between Articles 8 and 9 should disappear from that disclosure framework?

1	2	3	4	5	Don't know
			x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 4.1.4</u>: To what extent would you find the following categories of sustainability products useful?

	1	2	3	4	5	Don't know
A - Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet, e.g. investments in firms generating and distributing renewable energy, or in companies building social housing or regenerating urban areas.					x	
B - Products aiming to meet credible sustainability standards or adhering to a specific sustainability-related theme, e.g. investments in companies with evidence of solid waste and water management, or strong representation of women in decision-making.				x		
C - Products that exclude activities and/or investees involved in activities with negative effects on people and/or the planet	x					
D - Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in, e.g. investments in economic activities becoming taxonomy-aligned or in transitional economic activities that are taxonomy aligned, investments in companies, economic activities or portfolios with credible targets and/or plans to decarbonise, improve workers' rights, reduce environmental impacts.[11] [11] In line with the transition to a climate neutral and sustainable economy.					x	
Other						

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

If you think there are other possible useful categories, please specify which ones:

Categories A, B and D would be very welcome for real estate; however, category C would not be especially relevant.

<u>Question 4.1.5:</u> To what extent do you think it is useful to distinguish between sustainability product category A and B described above?

1	2	3	4	5	Don't know
			x		

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

<u>Question 4.1.6:</u> Do you see merits in distinguishing between products with a social and environmental focus?

1	2	3	4	5	Don't know
		x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 4.1.7</u>: How many sustainability product categories in total do you think there should be?

1	2	3	4	5	More than 5	Don't know
						x

<u>Question 4.1.8</u>: Do you think product categories should be mutually exclusive, i.e. financial market participants should choose only one category to which the product belongs to in cases where the product meets the criteria of several categories (independently from subsequent potential verification or supervision of the claim)?

Yes	No	There is another possible approach	Don't know
	x		

In case you have selected "There is another possible approach", please specify below.

Please explain your replies to questions 4.1.5, 4.1.6, 4.1.7 and 4.1.8.

INREV suggests including impact strategies such as real estate social impact and Net Zero buildings which are important categories, especially for real estate. We also believe it should be clarified that the categories should not be mutually exclusive.

Question 4.1.9: If a categorisation system was established that builds on new criteria and not on the existing concepts embedded in Articles 8 and 9, is there is a need for measures to support the transition to this new regime?

1	2	3	4	5	Don't know
				x	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your replies to questions 4.1.9 as necessary:

INREV believes a transition to a new regime is critically important. In addition, we urge that more clarity be provided, including definitions. Consideration should also be given to grandfathering certain types of funds from the new regime, for example closed end funds that are no longer raising capital or open to new investors.

Question 4.1.10: What should be the minimum criteria to be met in order for a financial product to fall under the different product categories? Could these minimum criteria consist of:

For product category A of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment			x			
Engagement strategies			x			
Exclusions			x			
Pre-defined, measurable, positive environmental, social or governance-related outcome				x		
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

INREV agrees that more clarity around the concept of sustainability standards would be useful and would support a commitment to report on those outcomes. This is currently used for the sustainable debt market with green bonds where impact reports are used, although these are different than those used for impact strategies.

For product category B of question 4.1.4

	1	2	3	4	5	Don't know

Taxonomy alignment			x			
Engagement strategies		x				
Exclusions		x				
Pre-defined, measurable, positive environmental, social or governance-related outcome				x		
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

Further clarification on the concept of sustainability standards in relation to category B would be helpful.

Setting a minimum alignment with taxonomy would be challenging because real estate funds invest both inside and outside of Europe. However, INREV supports pre-defined, measurable, positive environmental, social or governance-related outcomes, and believe that certifications are an excellent method to show these.

We advocate a minimum threshold of at least 50% of the assets. In this context, we suggest that real estate certifications – such as the BREEAM certification used in Europe and LEED used widely in North America - be viewed as extremely beneficial in addition to establishing a certain degree of standardisation.

For product category C of question 4.1.4

	1	2	3	4	5	Don't know
Taxonomy alignment		x				
Engagement strategies		x				
Exclusions				x		
Pre-defined, measurable, positive environmental, social or governance-related outcome		x				
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

Category C is not appropriate for real estate funds and we therefore do not support its adoption.

For product category D of question 4.1.4

D

	1	2	3	4	5	Don't know
Taxonomy alignment				x		
Engagement strategies			x			
Exclusions			x			
Pre-defined, measurable, positive environmental, social or governance-related outcome					x	
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please specify reply:

Although it depends in part on the strategy, INREV believes that relevant minimum criteria could be appropriate for taxonomy alignment, engagement strategies, and pre-defined, measurable, positive environmental, social, or governance-related outcomes. For instance, without minimum criteria, it might be very challenging for legitimate transition funds whose assets are located outside of the EU.

We believe that the concept of sustainability standards needs further clarification, particularly as some of the minimal requirements may be sector-specific.

Question 4.1.11: Should criteria focus to any extent on the processes implemented by the product manufacturer to demonstrate how sustainability considerations can constrain investment choices (for instance, a minimum year-on-year improvement of chosen key performance indicators (KPIs), or a minimum exclusion rate of the investable universe)?

	1	2	3	4	5	Don't know
Category A of question 4.1.4						x
Category B of question 4.1.4						x
Category C of question 4.1.4						x
Category D of question 4.1.4						x

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 4.1.11 a): If so, what process criteria would you deem most relevant to demonstrate the stringency of the strategy implemented?

If a categorisation system was established according to approach 2 of question 4.1.2

Question 4.1.12: If a categorisation system was established based on existing Articles 8 and 9, are the following concepts of the SFDR fit for that purpose?

	1	2	3	4	5	Don't know
The current concept of 'environmental and/or social characteristics'				x		
The current concept of 'sustainable investment'		x				
The current element of 'contribution to an environmental or social objective' of the sustainable investment concept		x				
The current element 'do no significant harm' of the sustainable investment concept, and its link with the entity level principal adverse impact indicators listed in tables 1, 2 and 3 of Annex I of the Delegated Regulation	x					
The current element of 'investee companies' good governance practices' of the sustainable investment concept	x					

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Question 4.1.12 a): If you consider that the elements listed in question 4.1.12 are not fit for purpose, how would you further specify the different elements of the 'sustainable investment' concept, what should be the minimum criteria required for each of them?

'contribution to an environmental or social objective', element of the sustainable investment concept	INREV believes this is the essence of sustainability. However, a principle-based approach about what a 'minimum contribution' is would be welcome. 'Sustainable investments' are supposed to be delivering higher sustainability outcomes, and so there needs to be a measurable and significant contribution for it to be meaningful.
'do no significant harm', element of the sustainable investment concept	Keeping some elements of the second block is how genuine sustainable investing and potential greenwashing can be distinguished. However, INREV believes that the way the DNSH assessment is currently structured is not fit for purpose, which is mainly due to how the PAIs were designed, as we argued in the SFDR Real Estate Solutions Paper. Furthermore, a significant challenge for DNSH is timing, which is an issue for real estate, as well as for all other asset classes. For example, acquiring a building for the purpose of decarbonising it, even though at acquisition stage its EPC rating may have been very low, should not be considered as a 'harmful' activity, per se. The focus of DNSH should be more on how the

	renovation work is conducted in a way that is not harmful to the environment rather than focusing on the asset itself. Therefore we urge more clarity and flexibility on when the requirements would need to be met.
'investee companies' good governance practices', element of the sustainable investment concept	Risk based on DNSH criteria would be sufficient for ensuring good governance rather than having an explicit good governance requirement. Requiring good governance from early in an investment might be difficult, especially when investing in real estate through mid-size, smaller or newly set-up companies.

<u>Question 4.1.12 b)</u>: Should the good governance concept be adapted to include investments in government bonds?

Yes	No	Don't know
		x

If yes, what should be the minimum criteria required for this element?

<u>Question 4.1.12 c)</u>: Should the good governance concept be adapted to include investments in real estate investments?

Yes	No	Don't know
x		

If yes, what should be the minimum criteria required for this element?

INREV believes good governance is important; however we recommend the Commission take into account how current regulatory requirements applicable to FMPs already meet the good governance requirement, which can vary depending on the asset class.

Real estate funds can be broadly categorised as: 1) direct real estate 2) real estate debt and 3) real estate securities.

For category (1) we believe that good governance should account for current regulatory frameworks applicable to the FMP. For example, if the FMP is subject to AIFMD requirements and outsourcing/delegation rules, we believe that this should cover good governance requirements throughout the value chain of the fund.

For categories (2) and (3), further clarity should be provided regarding how borrower (sponsor)/real estate security subject to a regulatory regime that has detailed governance requirements can act as a safe harbour to comply with the good governance criterion. This safe harbour could apply in cases where no information is identified suggesting non-compliance by the borrower (sponsor)/real estate security. Furthermore, the good governance requirements in respect of real estate debt should be tied to the companies using the proceeds of the loans/debt financing, which are often specified in the facility agreement.

Question 4.1.13: How would you further specify what promotion of 'environmental/social characteristics' means, what should be the minimum criteria required for such characteristics and what should be the trigger for a product to be considered as promoting those characteristics?

Promotion of environmental and social characteristics, which is extremely important for real estate, should be part of the investment strategy. INREV and other real estate associations have developed proposed metrics for social characteristics, an updated version of which will be publicly available in December. INREV has also recently released an ESG SDDS (Standard data Delivery Sheet) which contains environmental and social characteristics (available here). Both can help inform the current discussion.

While environmental characteristics can be measured at the portfolio level regarding reducing energy consumption, water consumption, etc., and can be tracked and quantified, metrics applicable to the social dimension, such as affordable housing, are limited. Concerning the threshold applied to those characteristics, we would propose 50% or higher; however, more clarity on the definition of environmental and social characteristics would also be needed.

With regard to the minimum criteria, we would also encourage the use of EPCs where available or, when not available, Energy Efficiency indicators (Energy Intensity, Primary Energy Demand) or other certifications, for example certifications used outside the EU, to demonstrate business plans to decarbonise for both real estate equity and debt funds. We believe that it would also be helpful to have a list of different criteria that need to be met as minimum criteria.

Further thinking also needs to be done regarding comparability of building certifications; specifically, how to treat systems outside of Europe that might use somewhat different KPIs and apply different requirements.

Question 4.1.14: Do you think that a minimum proportion of investments in taxonomy aligned activities shall be required as a criterion to:

	Yes	No	Don't know
…fall under the potential new product category of Article 8?		x	
…fall under the potential new product category of Article 9?		x	

Question 4.1.14 a): If yes, what should be this minimum proportion for Article 8?

Question 4.1.14 b): If yes, what should be this minimum proportion for Article 9?

Question 4.1.15: Apart from the need to promote environmental/social characteristics and to invest in companies that follow good governance practices for Article 8 products and the need to have sustainable investments as an objective for Article 9 products, should any other criterion be considered for a product to fall under one of the categories?

If a product falls under Article 8 or Article 9, INREV believes that no other criteria should be considered. However, if Articles 8 and 9 are used as product categories, clearer definitions are needed.

1.1. GENERAL QUESTIONS ABOUT THE POTENTIAL ESTABLISHMENT OF SUSTAINABILITY PRODUCTS CATEGORIES

Question 4.2.1: In addition to these criteria, and to other possible cross- cutting/horizontal disclosure requirements on financial products, should there be some additional disclosure requirements when a product falls within a specific sustainability product category? This question presents clear links with question 3.2.3 in section 3.

1	2	3	4	5	Don't know
					x

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 4.2.1 a): Please see a list of examples of disclosures that could be required when a product falls within a specific sustainability product category. Should this information be required when a product falls within a specific sustainability product category, and/or should any other information be required about those products?

	1	2	3	4	5	Don't know
Taxonomy-related disclosures						x
Engagement strategies						x
Exclusions	x					
Information about how the criteria required to fall within a specific sustainability product category have been met						x
Other information						

(1= not at all, 2= to a limited extent, 3= to some extent, 4= to a large extent, 5= to a very large extent)

Please specify any other information:

Question 4.2.2: If a product categorisation system was set up, what governance system should be created?

	1	2	3	4	5	Don't know
Third-party verification of categories should be mandatory (i.e. assurance engagements to verify the alignment of candidate products with a sustainability product category and assurance engagements to monitor on-going compliance with the product category criteria)			x			
Market participants should be able to use this categorisation system based on a self-declaration by the product manufacturer supervised by national competent authorities			x			
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your answer to question 4.2.2:

INREV believes third-party verification should be optional, and possibly even encouraged for certain types of strategies; however, it should not be mandatory in every case. If third-party verification is adopted, it should be proportionate.

Question 4.2.3: If a categorisation system was established, to what extent do you agree with the following statement? "When determining the criteria for product categories it should be taken into account: ..."

	1	2	3	4	5	Don't know
Whether the product is a wrapper offering choices between underlying investment options like a Multi-Option Product			x			
Whether the underlying investments are outside the EU				x		
Whether the underlying investments are in an emerging economy				x		
Whether the underlying investments are in SMEs				x		
Whether the underlying investments are in certain economic activities			x			
Other considerations as regards the type of product or underlying investments			x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your reply to question 4.2.3:

INREV suggests the Commission consider the need to apply a materiality standard as these cannot be applied equally in every case.

1.2. CONSEQUENCES OF THE ESTABLISHMENT OF A SUSTAINABILITY PRODUCTS CATEGORISATION SYSTEM

As highlighted in Section 2, any potential changes to the current disclosure regime and the creation of a categorisation system would need to take into account the interactions between the SFDR and other sustainable finance legislation. The following questions address these interactions for different legal acts, in such a scenario of regulatory changes in the arena of financial product disclosures and categorisation.

Question 4.3.1: The objective of the PRIIPs KID is to provide short and simple information to retail investors. Do you think that if a product categorisation system was established under the SFDR, the category that a particular product falls in should be included in the PRIIPS KID?

Yes	No	Don't know
x		

Please explain your answer to question 4.3.1:

INREV believes retail investors may use those labels as a way of categorising investments; however, it is important to note that it may not be very helpful. It is important to exercise caution and ensure that the labelling is not misleading.

Question 4.3.2: If new ESG Benchmarks were developed at EU level (in addition to the existing Paris-aligned benchmarks (PAB) and climate transition benchmarks (CTB), howshould their criteria interact with a new product categorisation system?

	1	2	3	4	5	Don't know
The criteria set for the ESG benchmarks and the criteria defined for sustainability product categories should be closely aligned				x		
Other						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

If you chose other, please specify how should these criteria interact:

Question 4.3.3: Do you think that products passively tracking a PAB or a CTB should automatically be deemed to satisfy the criteria of a future sustainability product category?

Yes	No	Don't know
		x

Question 4.3.4: To what extent do you agree that, if a categorisation system is established, sustainability preferences under MiFID 2/IDD should refer to those possible sustainability product categories?

1	2	3	4	5	Don't know
		x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

1.3. MARKETING COMMUNICATIONS AND PRODUCT NAMES

Market participants are increasingly informing their clients about sustainability, both in the context of the SFDR and voluntarily in marketing communications and names.Potentially, any expression related to sustainability provided by market participants to describe and promote the entity or its products and services could mislead clients and other stakeholders if it does not appropriately consider the reasonable expectations.

The SFDR does address the issue of marketing communications in Article 13, prohibiting contradictions between such marketing communications and disclosures under the regulation. Article 13 also includes an empowerment for the European Supervisory Authorities to draft implementing technical standards on how marketing communication should be presented. This empowerment has not been used up to now.

Question 4.4.1: Do you agree that the SFDR is the appropriate legal instrument to deal with the accuracy and fairness of marketing communications and the use of sustainability related names for financial products?

Yes	No	Don't know
	x	

Question 4.4.2: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know

The introduction of product categories should be accompanied by specific rules on how market participants must label and communicate on their products				x		
The use of terms such as ‘sustainable’, ‘ESG’, ‘SDG’, ‘green’, ‘responsible’, ‘net zero’ should be prohibited for products that do not fall under at least one of the product categories defined above, as appropriate.				x		
Certain terms should be linked to a specific product category and should be reserved for the respective category.				x		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

<u>Question 4.4.3:</u> Would naming and marketing communication rules be sufficient toavoid misleading communications from products that do not fall under a product sustainability category?

1	2	3	4	5	Don’t know
		x			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please explain your replies to questions 4.4.1, 4.4.2 and 4.4.3:

SFDR is not the appropriate legal instrument to deal with marketing communications. While SFDR is a suitable instrument for disclosure requirements, INREV believes that marketing rules related to sustainable investments should be included together with other marketing rules, for example in AIFMD. However, high level rules would be sufficient, and we caution against sustainability-related marketing rules that are too strict.