SFDR REVIEW: CONSULTATION RESPONSE NETHERLANDS

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Introduction

The Sustainable Finance Disclosure Regulation (SFDR) has proved to be an important first step in developing the EU sustainable finance framework.[1] The building blocks are nearly all in place, now it is time to improve the effectiveness and efficiency of the framework in order for it to achieve its intended goals of reorienting capital flows towards sustainable investments, managing financial risks and fostering transparency and long-termism. This is crucial for the EU to improve its resilience and competitiveness thereby setting it on a pathway to sustainable economic growth.

Problem analysis

1. **Misuse of Articles 8 and 9 as Sustainability Labels:** The categorization of financial products along the lines of SFDR Articles 8 and 9 funds has led to their misuse as sustainability labels in the market. However, these categories are not intended to be used as product labels and are not suitable for this purpose. This misuse can lead to greenwashing, as the distinction between products that promote sustainable characteristics and products with sustainable goal is not clear.
2. **Definition of Sustainable Investments:** The definition of sustainable investments under SFDR is an open norm that allows for a broad interpretation that does not always align with investor expectations. This leads to a wide variation of investments and investment strategies being considered "sustainable," while these considerations are not always in line with investor expectations.
3. **Difficulty in Differentiating Between Products:** Consumers find it difficult to distinguish between products with sustainable characteristics and products that have sustainable investment objectives. Research by the AFM already showed that sustainable funds vary widely in how they define sustainability, making it harder for investors to select a financial product that meets their sustainability preferences.
4. **Data Availability:** The availability and quality of data remain an issue for financial market participants in complying with the SFDR.
5. **Complexity of Disclosure**: The disclosed information based on the SFDR is extensive and often not easy to understand and compare, especially for retail investors. It is difficult for these investors to assess the actual degree of sustainability of a financial product based on the SFDR disclosures in the mandatory product information template.
6. **Additional Obligations for Sustainable Products**: The SFDR sets additional reporting requirements for sustainable financial products, which adds to the reporting burden making them less competitive compared to non-sustainable alternatives. However, also for non-sustainable financial products it is important to have information on its sustainability impact and risks, perhaps even more so.

[1] Together with the EU Taxonomy, Corporate Sustainability Reporting Directive, EU climate and Paris benchmarks and the upcoming CSDDD and ESG rating regulation.

Overview of identified problems and potential solutions

#	Identified Problems	Potential Solutions
1	Misuse of Articles 8 and 9 as Sustainability Labels	Include a labelling regime. E.g. three different labels: (1) transition label (2) sustainable label, and (3) mixed sustainable fund. Each with minimum requirements and limited additional disclosure obligations. The naming of funds should be aligned with the classification and investment strategy of the funds.
2	Definition of Sustainable Investments	Refinement of the definition of sustainable investments to align more closely with investor expectations and the need for financing the transition.
3	Difficulty in Differentiating Between Products	Development of clear guidelines and indicators to differentiate between various types of sustainable products.
4	Data Availability Issues	Promotion of better data collection and quality, and ensuring consistency in reporting requirements.
5	Complexity of Disclosure	Simplification and clarification of information templates for better accessibility and understanding by retail investors.
6	Additional Obligations for Non-Sustainable Products	Include disclosure requirements for all financial products offered in the EU, regardless of their sustainability-related claims. This ensures a better level-playing field and comparability between products: • include minimum principal adverse impact disclosures (e.g. greenhouse gas emission) for all investment products (sustainable and not sustainable). • Additional disclosure requirements when a product makes a sustainability claim. E.g. information about engagement by a transition product.