



ABBL response to Call for Evidence regarding the revision of the Sustainable Finance Disclosure Regulation (SFDR)

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A clear and unified framework for sustainability-related disclosures has been a central aim of the Sustainable Finance Disclosure Regulation (SFDR) since its inception. The original objectives of the SFDR—to harmonise sustainability disclosures across the EU financial sector and to provide clarity and comparability for investors—remain as relevant today as when the regulation was first introduced.

However, despite the important objectives set out by the SFDR, practical implementation has revealed significant challenges that hinder its effectiveness.

1. Complexity and Evolving Definitions

One of the primary concerns is the complexity of the SFDR itself; the regulation is difficult for both professionals and clients to understand and explain, especially as key definitions continue to evolve. Professionals often struggle to keep up with the evolving definitions, let alone explain them clearly to clients. This complexity isn't just theoretical—it's something they encounter in day-to-day conversations. The definitions should work in practice and people should be able to understand them. Another challenge is the lack of alignment between the SFDR and other regulations, such as MiFID.

2. Lack of Alignment with Other Regulations

Financial institutions must navigate differing requirements and definitions when advising clients. For example, while MiFID requires firms to consider clients' ESG preferences, the categories and terminology under SFDR do not always match those in MiFID. This inconsistency can make it difficult to map a client's sustainability preferences directly to the disclosures required by SFDR.

As a result, financial advisors may find it hard to recommend products that truly reflect their clients' values, leading to confusion and potentially undermining trust in sustainable finance offerings. For instance, a client may want products that “do no significant harm” under MiFID, but SFDR disclosures may not provide enough detail to support this preference. This misalignment ultimately limits the SFDR's effectiveness in reflecting investor values and complicates efforts to channel capital towards genuinely sustainable investments. Addressing these inconsistencies is essential to ensure that regulatory frameworks work together to support both investor needs and the broader objectives of sustainable finance.

3. Interoperability and Integration Issues

The low adaptation of MiFID sustainability preferences is a consequence of the lack of interoperability between the SFDR and MiFID criteria and its inherent complexity. For illustration, the only direct link between the SFDR and MiFID criteria is the PAIs. The EU taxonomy is one of the criteria to determine sustainability preferences, but this regulation is too complex for retail investors.

Additionally, integrating the SFDR with the EU Taxonomy has proven impracticable in many cases. The taxonomy-related indicators—such as OPEX, CAPEX, and the Green Asset Ratio (GAR)—are highly technical and difficult to explain to clients in a way that is meaningful. This complexity risks confusing investors and undermining the goal of increasing transparency and trust in sustainable finance products.

Given these challenges, we are **supportive of a thorough review** of the SFDR framework. A targeted revision is needed to make the regulation simpler and better aligned with existing frameworks like CSDR and MiFID. This revision should also consider ongoing discussions about CSRD, Taxonomy, and CSDDD.

The main goal is to ensure that sustainability disclosures are both **useful** for financial institutions and **meaningful** for clients. The review should provide helpful guidance without increasing the implementation burden or being too prescriptive. It should avoid a “one size fits all” approach and recognise the differences between various asset classes.

We concretely recommend focusing on three key areas:

1. Simplify precontractual and periodic templates

Information in these documents should be made much simpler, as current disclosures are often too complex for retail investors to understand, i.e. transitional and enabling activities are difficult to understand and to be explained to investors. We suggest:

- **Precontractual documentation:**
 - Limit documents to three pages.
 - Add an ESG section to PRIIPs KIDs, showing the product’s ESG intensity, but only include binding ESG objectives if they are very significant.
 - Only present the main binding objective and key PAI indicators, without excessive technical detail.

2. Aligning PAI and KPI Reporting with New ESRS Standards

- We recommend updating the current Principal Adverse Impact (PAI) indicators to align with a new set of Key Performance Indicators (KPIs) based on the upcoming European Sustainability Reporting Standards (ESRS). The ongoing Omnibus package consultation will define the revised scope for the Corporate Sustainability Reporting Directive (CSRD) and introduce new ESRS KPIs. PAIs should be harmonized using a concise list of preselected ESRS standards.
- Allow FMPs to source sustainable-related data directly from the CSRD-compliant disclosures.

- Address redundant disclosures to reduce administrative burden e.g. double-reporting for bank-managed portfolios containing only one Art. 8 or 9 fund
- For companies not covered by the CSRD, we recommend using the NACE Code classification system. Proxy proportionality should be applied based on the revenue generated under each NACE Code to ensure appropriate sustainability reporting.
- **At product level** – We propose removing the Article 10 “Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites” as the required information is often outdated or not regularly updated online. Furthermore, the disclosures reported under the Article 10 are very similar to information reported in the pre-contractual disclosures.
- **At entity-level** –
 - We suggest removing the Article 4 “Transparency of adverse sustainability impacts at entity level” as all relevant information will be reported under the CSRD, making Article 4 redundant.
 - Producing PAI reports at the entity level can be problematic, as they may not accurately reflect the outcomes of individual investment strategies. For example, third-party management companies may have a strategy for one set of funds while delegating management of others, leading to inconsistencies that do not represent a single, unified strategy.

3. Restrict promotion of unclassified Financial Products

Financial products that are not classified; labelled as “unclassified”, should not be permitted to promote sustainability, transition, or ESG features. This would allow that only products meeting, clear, robust sustainable criteria to be marketed as sustainable or ESG-aligned. Restricting sustainability and ESG marketing claims to only those financial products that are properly classified according to robust and transparent criteria is essential for protecting investors, preventing greenwashing, and maintaining the integrity of the sustainable finance market.

Conclusion

The SFDR review presents an opportunity to enhance the regulation’s clarity, usability, and effectiveness, we observe strong support for:

- Clearer definitions and supervisory alignment
- Streamlined and interoperable disclosure requirements and focus on adaptability rather than disruption
- A pragmatic, investor-friendly product classification system that can be understood by every market participant.

Furthermore, it is essential to provide clarity on how the possible new classification will reflect the previous Article 8 and 9 requirements, and to consider how local regulators could implement a realignment process.