PRI RESPONSE

EUROPEAN COMMISSION'S REVISION OF SUSTAINABLE FINANCE DISCLOSURES REGULATION (SFDR)

May 2025

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To inform this paper, the following group has been consulted: Global Policy Reference Group

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the European Commission's call for feedback on the SFDR revision.

ABOUT THIS CONSULTATION

On 2 May, the European Commission launched a call for evidence on the revision of EU rules on sustainable finance disclosure, aiming to improve legal clarity and alignment across the sustainable finance framework.

This response builds on the PRI's previous contributions to the Commission's SFDR consultation in December 2023, aligns with the priorities outlined in the PRI EU 2030 policy roadmap and is based on continuous engagement with PRI signatories to gather their views on SFDR.

This paper will inform PRI's engagement with the Commission as it develops its proposal to revise SFDR and EU policymakers throughout the co-decision process, representing the voice of responsible investors and users of ESG data to support an effective, streamlined, and ambitious disclosure framework for financial market participants.

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KEY RECOMMENDATIONS

PRI welcomes the European Commission's upcoming review of the Sustainable Finance Disclosure Regulation (SFDR). As a central component of the EU sustainable finance framework, it is essential that the regulation functions effectively and delivers on its objectives.

This consultation represents an important opportunity to identify challenges and enhance regulatory clarity. As the Commission focuses on streamlining important pieces of regulation under Omnibus I, it is a timely moment to address the initial sequencing challenges related to SFDR implementation and ensure that policy revisions recognise the need for stability in ESRS before revising SFDR.

The PRI's key recommendations are:

- **Simplify SFDR disclosure requirements in line with revised CSRD and ESRS**
    - Refine entity level disclosure in Article 4
    - Ensure consistency with the wider EU framework
- **Establish clear disclosures and categories for financial products**
    - Develop a baseline of sustainability disclosures for all financial products, subject to an impact assessment
- **Clarify key concepts under SFDR, especially sustainable investment**
- **Improve data availability and provide guidance on the use of estimates**
- **Enhance interoperability with other leading international standards and frameworks**

DETAILED RESPONSE

The SFDR, adopted in 2019 and applied since 2021, has been an important but challenging piece of the EU's sustainable finance policy framework. Its disclosure requirements seek to provide transparency on how investors manage the sustainability risks of their investment portfolios and how they identify, assess and mitigate the potential adverse impacts of their investments on society and the environment. This is consistent with the direction of the broader sustainable finance agenda, as investors work towards understanding the social and environmental outcomes of their investment activities[1].

Building on previous consultation responses and in line with our recommendations under Omnibus I, this paper outlines below PRI's key recommendations to the European Commission.

Simplify SFDR disclosure requirements in line with revised CSRD and ESRS

With the Omnibus I review currently in progress, it is important to ensure effective alignment and proper sequencing between the revision of ESRS Set 1 and the upcoming review of the SFDR.

The Commission should finalise the current revision of the ESRS and other proposed changes under the Omnibus I (including to the scope of CSRD) before fully revising SFDR. This will be key to ensure that investor disclosures are appropriately aligned with updated corporate reporting requirements.

Particular attention should be given to the treatment of Principal Adverse Impacts (PAIs) indicators, to promote coherence between the disclosure requirements applicable to investee companies and those imposed on financial market participants. Specifically, the PAI indicators should be refined and prioritised based on their ability to provide meaningful information to end investors and their alignment with the revised ESRS. This effort should focus on indicators that are aligned with international sustainability reporting standards (notably the International Sustainability Standards Board (ISSB), Global Reporting Initiative (GRI), and the Taskforce on Nature-related Financial Disclosures (TNFD) standards) and based on widely available corporate data. Such consistency would facilitate and increase the usefulness of the final disclosures for investors, data interoperability, enhance the usability of reported information, and contribute to the overall effectiveness of the EU sustainable finance regulatory framework.

Reporting deadlines for investors under SFDR should also be sequenced with corporate reporting rules so that investors are able to access up-to-date information from the companies they invest in, notably by considering revised timelines following the Commission's stop-the-clock proposal.

- **Refine entity level disclosure in Article 4**

[1] Three quarters of PRI signatories (77%) reporting in 2024, said they identify real-world sustainability outcomes connected to their investments. See PRI (2025) - Global responsible investment trends 2025: inside PRI reporting data

Entity-level disclosure should aim at enhancing investors and stakeholders' understanding on how sustainability risks and impacts are incorporated into investment processes and the performance of these processes.

We recommend that the Article 4 requirements are simplified to remove entity level PAIs. PRI's ongoing research[2] and engagement with investors on Meaningful Reporting has indicated that this aggregated information on sustainability performance is less decision-useful for institutional investors or end-users. They instead require sustainability performance information at a product (or asset) level, as this reflects the scale at which they make decisions on the selection and/or engagement on the fund.

Our findings also indicate that decision-useful disclosure at entity level should include reporting on commitments, processes (e.g. investment strategy and risk management) and policies (e.g. on governance), allowing flexibility on the templates. This information is used by institutional investors (like asset owners) to assess the alignment of managers with their agreed mandates and thereby inform the selection and monitoring of these managers.

To enhance consistency, the Commission should ensure that investors in scope of both CSRD and SFDR Art. 4 do not have to provide multiple entity-level sustainability/PAI reports - for example by allowing investors to cross-reference their different disclosures.

- **Ensure consistency with the wider EU framework**

There are other areas of misalignment between SFDR and other EU sustainable finance policy that add complexity to the overall framework and increase reporting burden for investors, including:

- Between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under CSRD, CSDDD and SRD II.
- Overlap between the SFDR and the Taxonomy, particularly related to do no significant harm (DNSH) assessments for sustainable and Taxonomy-aligned investments, the underlying metrics used for PAI indicators and Taxonomy criteria.
- Alignment of baseline investor disclosure expectations with investor duties under AIFMD, UCITS, MiFID II, Solvency II, Investment Firms Directive (IFD) and Regulation (IFR)

As mentioned above, PAI indicators should be streamlined to reflect information that is material for a product's investment strategy, decision-useful for end-investors and do not exceed in terms of data points the ones that will be foreseen in the revised ESRS Set 1. In this revision of the PAI indicators at product level the experience of users of sustainability data will allow for data that are relevant and available These changes, which also impact the Taxonomy, should be integrated into the rules for assessing sustainability preferences as defined by the MiFID II and IDD directive.

See PRI's EU Policy 2030 Roadmap for more details on how policy coherence could be achieved within the EU sustainable finance policy framework.

[2] The PRI will publish a White Paper summarising the insights of our research in late summer 2025.

Establish clear disclosures and categories for financial products

The SFDR regime was intended to increase the transparency of sustainability information of investment products across a wide range of investment strategies. However, in practice, SFDR has evolved into a de facto labelling scheme, with Articles 6, 8, and 9 becoming shorthand in the market for funds with varying degrees of ESG ambition. For example, the requirement under Article 9 to invest only in sustainable investments (defined in Article 2.17) blurs the lines between a disclosure framework and a product standard or label.

In light of this, the European Commission should develop a categorisation scheme[3] for products making sustainability claims in a way that builds upon existing market best practices and the important experience gained via the implementation of the existing framework. Given the wide variety of sustainability claims, it is important to ensure that the disclosure templates allow investors to substantiate their claims according to the product's objectives and characteristics. The disclosed information should be clear and applicable to different audiences, particularly retail and professional or institutional investors as well as able to adjust to the underlying strategy, regardless of the asset class. The review should prioritise investor-relevant information, potentially reflecting wider sustainable finance developments.

For products that promote environmental or social characteristics or contribute to sustainability objectives, **the Commission should define simple, clear and unambiguous criteria** for these categories of funds (which still capture the majority of existing article 8 and 9 products in the market). The PRI does not have a preferred approach at this stage and will further consult its signatories, but would like to recognise the two following options:

1. Set such criteria for the existing Article 8 and 9 categories, given these designations are now widely established and recognised in the market, or
2. Create new categories with corresponding disclosures for products that promote environmental or social characteristics or claim to contribute to sustainability objectives (building on recent proposals by ESMA or the EU Platform on Sustainable Finance, including transition focused products.

Should the Commission opt for a new categorisation framework, PRI would support the EU Platform on Sustainable Finance's proposal, which distinguishes between Sustainable, Transition, and ESG Collection products[4]. The proposed binding criteria should be re-evaluated in the context of the Omnibus I review, particularly in relation to its implications for the availability, quality, and consistency of sustainability-related information.

[3] As suggested by the PSF report "Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance", December 2024, pp.5-6

[4] The Platform recommends categorising products with the following sustainability strategies: 1) Sustainable: Contributions through Taxonomy-aligned Investments or Sustainable Investments with no significant harmful activities, or assets based on a more concise definition consistent with the EU Taxonomy. 2) Transition: Investments or portfolios supporting the transition to net zero and a sustainable economy, avoiding carbon lock-ins, in line with the European Commission's recommendations on facilitating finance for the transition to a sustainable economy. 3) ESG collection: Excluding significantly harmful investments/activities, investing in assets with better environmental and/or social criteria or applying various sustainability features. See EU Platform on Sustainable Finance (2024) – Briefing on product categorisation.

In addition, there would be value in learning the lessons from the implementation of the UK's SDR framework[5] and promoting compatibility or greater convergence for categories pursuing similar objectives. This would facilitate cross-border coherence, minimise administrative burdens for market actors, and improve the accessibility and relevance of disclosures for end-users. To ensure that any new categories introduced by the Commission are as internationally interoperable as possible, we encourage the Commission not to diverge significantly from the FCA's existing framework.

Besides, it is important that any new categorisation system provides safeguards and efficient transition for funds under the existing framework to the new categories. As article 8/9 products represent the majority of investment products in the EU[6], it is critical for the end-investors to ensure that most of these funds with existing commitments and ESG characteristics or objectives can effectively transition and accommodate under the new categorisation regime. These categories should also be integrated into the rules for sustainability preferences as defined by MIFiD II and IDD.

The categories should allow for a variety of responsible investment strategies (positive/negative screening, thematic, impact investing, etc.) and investor levers (capital allocation, divestment, stewardship) to be used in combination to achieve the product's objectives. To ensure clarity and consistency for end-investors, a product's sustainability objective (what it aims to achieve) should be the key element to differentiate between product categories. Investors should then be able to demonstrate in the disclosures how different strategies and practices are used to achieve the objective over the life of the product. An additional layer could be added to the categories to reflect the specific sustainability issues targeted by the product (e.g. climate, biodiversity, workers' rights, human rights).

Each product type should be designed to deliver a non-hierarchical, different asset profile and risk appetite to meet consumer preferences. This approach would enable a level of flexibility in the design and reporting of investment products under SFDR, allow the space for innovation on the design of these products, whilst also responding to those consumers' that seek to understand a product's positive environmental and social characteristics.

Investors should be given sufficient time to implement the new requirements and potential product categories, given the cost of regularly updating processes to comply with the legislation. If new product categories are introduced, existing art.8 and 9 funds should benefit from a grandfather clause.

Finally, the European Commission should ensure that the minimum criteria are proportionate and adapted to different asset classes, including sovereign bonds, and investment approaches suitable for globally diversified portfolios.

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[5] The SDR regime includes voluntary labels, ranging from sustainability focus, sustainability improvers, sustainability impact, and sustainability mixed goals. Each product type is designed to deliver a non-hierarchical, different asset profile and risk appetite to meet consumer preferences. The FCA refers to a 'robust, evidence-based standard that is an absolute measure of sustainability' as the threshold for qualifying for a label. Each label is underpinned by a set of criteria covering investment policy and strategy, key performance indicators, firm-level attributes, and investor stewardship. This approach supports investor choice, whilst also responding to consumers' expectation to understand a product's positive environmental and social characteristics.

[6] Platform on Sustainable Finance (2025) Financing a Clean and Competitive Transition, Monitoring Capital Flows to Sustainable Investment, Final Report (p. 52)

- **Develop a baseline of sustainability disclosures for all financial products, subject to an impact assessment**

The European Commission should develop a baseline of sustainability disclosures for all financial products, regardless of their sustainability claims. This would contribute to creating a level playing field on sustainability reporting obligations and increase the comparability across financial products in the EU. This approach would also help investors to monitor the decarbonisation of their managers' portfolios and their own contribution to mobilising capital flows towards environmentally sustainable investments. The disclosure templates should be simple and concise to avoid excessive reporting burden and should complement the entity level disclosures.

This baseline disclosure could include:

- Exclusions applied to the product (if relevant);
- how sustainability risks are integrated into the investment process (more detail than the current Article 6) or, if they are not integrated, why not; and whether the product pursues positive sustainability outcomes, if so, how (e.g., what investment levers or approaches are used) and why;
- a limited number of PAI indicators consistent with the revised ESRS and VSME (e.g., total greenhouse gas (GHG) emissions, human rights violations). This could apply to larger listed funds to ensure there is sufficient data availability following the Omnibus I. To ensure the proportionality and practicality of such a measure, its implementation should be subject to the planned impact assessment by the Commission, which would help determine its feasibility and whether it should apply universally or be tailored based on criteria such as assets under management (AUM) thresholds or specific fund types (based on categorisation or asset class).

Disclosing standard ESG information for transparency reasons should not result in funds that do not have sustainability ambitions to be categorised or marketed as sustainable.

Clarify key concepts under the SFDR framework, especially sustainable investment

Currently, some legal requirements and concepts in the SFDR are not sufficiently clear. Lack of clarity over definitions of "consideration of PAI indicators" (under Article 7 SFDR), "promotion of environmental and social characteristics" (under Article 8 SFDR) and particularly "sustainable investments" (Article 2.17 SFDR) risk leading to diverging interpretations and expectations among investors across the value chain, including retail and institutional investors.

We recommend the European Commission works with the ESAs and the future renewed PSF to ensure a coherent vision for sustainable investments and DNSH assessment within the SFDR. For such a framework to be workable and coherent, the Commission would need to:

- Clarify expectations for assessing and calculating sustainable investments under SFDR.
- Where relevant and feasible, align the underlying metrics and methodologies of environmental PAIs with the Taxonomy criteria. The PSF's report on data and usability provides more detailed examples of how this could be done (pp.143-146).

- Further align social and governance PAIs with the CSRD/ESRS, CSDDD and the Taxonomy's minimum social safeguards based on international standards (OECD guidelines for MNEs, the UNGPs). We welcome the ESA's recent proposals in this direction.

As an illustration, to support implementation of the SDR framework[7] the FCA have published examples of compliance with the regime, to provide a basis for firms on how to evidence sustainability claims. These could be used by firms to establish a safe harbour approach to certain naming conventions and uses, which would have the effect of increasing the likely level of compliance with the Commission's requirements. The Commission could look to do this as a measure for firms to have a greater understanding of the Commission's requirements and facilitate a stronger uptake of the revised SFDR.

Improve data availability and provide guidance on the use of estimates

Financial market participants have had to meet reporting obligations under SFDR before being able to access publicly reported corporate data under the CSRD and the Taxonomy Regulation. This has led to the widespread use of third-party data providers and estimates to address these gaps, often affecting both the quality and comparability of reported data. Furthermore, the proposed scope reduction under Omnibus I for the CSRD and the Taxonomy risks widening existing data gaps[8]. This context makes it challenging for market participants to disclose fully in line with the legal requirements under the SFDR.

We recommend that the European Commission work with the ESAs and the future PSF to develop guidance with criteria for the use of estimated data and proxies in a way that is consistent with the wider EU sustainable finance framework. The guidance should:

- Clarify the acceptable parameters for conducting estimates for both PAI and Taxonomy reporting (including how to apply the precautionary principle), and what constitutes a 'reasonable assumption'.
- As a starting point, employ the advice of the PSF in its data and usability report (see page 45 of the PSF's report).
- Detail which estimation methods can be used (e.g., regression, sector median, extrapolation) when data is not available.

[7] The FCA's SDR regime sets clear regulatory standards to support investor disclosure of sustainability claims. Since the phased roll-out of the SDR regime, approximately 130 funds have been granted labels, coupled with many more currently in the application process. Other firms are changing the names of their funds to comply with the naming and marketing rules, reflecting more accurate disclosures for firms able to evidence their claims.

[8] The Omnibus I proposal to align the scope with CSDDD will significantly reduce the number of companies subject to the CSRD (from 50,000 down to 7,000 companies in the EU). Removing 80% of companies from the scope of sustainability reporting (according to the Commission's own estimates) will have significant implications for investors and companies. According to analysis by the London Stock Exchange Group, about 14,000 publicly listed companies (EU and non-EU) would have had to report under the current CSRD thresholds. The number of public companies in scope would fall by 57%, to approximately 6,000 companies. This includes 30% of EU-listed companies, 25% companies listed in the United States, and 12% in Japan. The number of private companies in scope would drop by 73% from around 20,000 companies to 5,500. This includes EU and non-EU companies.

- Specify whether estimation methodologies should be published when estimated data constitutes a significant portion of aggregated portfolio data.
- Clarify whether investors should gain assurance and verification for estimated data to ensure credibility.

Having the data available in a standardised machine-readable format in one place would enhance comparability, facilitate access to the information for end-investors, and would likely lead to a decrease in the cost of reporting and implementation of SFDR requirements in the long-term.

Enhance international interoperability with other leading international standards and frameworks

PRI recommends that the European Commission works with IOSCO to ensure a baseline of discloses and principles for cross-border compatibility of sustainability-related product categories. International developments surrounding sustainability-related disclosures are evolving rapidly, and numerous regulatory efforts have emerged to address market fragmentation in the use of naming and standards in various jurisdictions and regions. Global adoption of ISSB will help harmonise how jurisdictions measure sustainability risks, which will lead to more decision-useful and comparable reporting.

We encourage the Commission to continue to work closely with IOSCO and other national regulators such as the FCA to promote solutions that are coherent internationally. This collaboration should enable the Commission to aim for interoperability, share best practices, and avoid market fragmentation.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the European Commission further to the improvements in the SFDR framework in the EU.

Please send any questions or comments to policy@unpri.org.

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