

CALL FOR EVIDENCE FOR AN IMPACT ASSESSMENT

This document aims to inform the public and stakeholders about the Commission's work so they can provide feedback on the intended initiative and participate effectively in consultation activities.

We ask these groups to: (i) provide their views on the Commission's understanding of the problem and possible solutions; and (ii) give us any relevant information they may have, including on the possible impacts of the different options.

TITLE OF THE INITIATIVE	Revision of the Sustainable Finance Disclosure Regulation
LEAD DG – RESPONSIBLE UNIT	DG FISMA, Unit C4 Asset management
LIKELY TYPE OF INITIATIVE	Legislative initiative
INDICATIVE PLANNING	Q4 2025
ADDITIONAL INFORMATION	Sustainability-related disclosures in the financial services sector - European Commission

A. Political context, problem definition & subsidiarity check

Political context

The Sustainable Finance Disclosures Regulation (SFDR) has been in application since March 2021. It is part of a broader package of sustainability disclosure rules adopted to deliver on the objectives of the Green Deal. The SFDR interacts closely with the Taxonomy Regulation and the Corporate Sustainability Reporting Directive. More specifically, the SFDR sets out how financial market participants should disclose sustainability information to investors, in order to help the latter make informed choices about their investments. The SFDR therefore has two broader aims of: (i) helping to attract private funding to facilitate the transition towards greater sustainability; and (ii) helping European companies to seize competitive opportunities in this area. The feedback on the SFDR suggests that many consider it has been effective in increasing transparency and giving investors access to detailed ESG information. Nevertheless, financial market participants also say that implementation of the SFDR is complex and costly. Stakeholders have reported various challenges related to implementation of the SFDR and suggested possible adjustments to improve the effectiveness of the framework and ease its implementation. These suggested adjustments will be examined in the revision of the SFDR planned in the Commission work programme for Q4 2025, in line with the objectives of the Commission's proposals to simplify sustainability reporting for companies.

Problem the initiative aims to tackle

The comprehensive assessment launched in 2023 under Article 19 of the SFDR has included: (i) two consultations (one public and one targeted); (ii) several technical workshops with industry; and (iii) engagement with Member States, supervisors and representatives of civil society. The overarching objective of these activities was to gather feedback on any shortcomings in the current rules and on how to improve the functioning of the SFDR – both for financial market participants and for end-investors. The feedback gathered to date shows continued widespread support for both the broad objectives of the SFDR and the added value of a common sustainability disclosure framework at EU level. Nevertheless, a large majority of stakeholders said there were limitations in the SFDR which prevented the objectives of the framework from being fully achieved. These limitations include: (i) a lack of legal clarity on key concepts; (ii) the limited relevance of certain disclosure requirements; (iii) overlaps and inconsistencies with other parts of the sustainable finance framework; and (iv) issues linked to data availability. These limitations have led to various implementation challenges and undue operational costs for financial market participants. They have also led to a lack of clarity and comparability regarding the sustainability of different financial products offered to investors in the EU. This in turn has given rise to both a risk of greenwashing and the unwarranted exclusion of some sectors because of how some rules are applied in practice. This has made the rules less effective in helping to mobilise private investment into: (i) the transition toward sustainable business practices; and (ii) Europe's strategic objectives. These shortcomings would persist without targeted simplifications and adjustments, which will be explored according to the President's mission letter for Commissioner Albuquerque to facilitate implementation of the sustainable finance framework and 'promote the development and transparent categorisation of financial products and services with sustainability features'.

Basis for EU action (legal basis and subsidiarity check)
Legal basis
The legal basis is the same as for the existing Regulation, namely Article 114 of the Treaty on the Functioning of the European Union.
Practical need for EU action
The need for a coherent common framework for sustainability-related disclosures for financial products across the EU was established as part of the original SFDR. These original objectives remain fully valid. Without effective Union-level action, the problems identified would persist, hindering the flow of private finance to scale up and help fund competitive opportunities in the green transition across the EU amid new and evolving competing strategic priorities for stretched public funds. To avoid a fragmented, inefficient single market for sustainable finance, the necessary simplification and adjustment of the existing framework can only be achieved at EU level.
B. Objectives and policy options
The overarching objective of the review is to improve the functioning of the SFDR. The focus will be on addressing undue burdens and simplifying and streamlining requirements. This focus includes reducing the burden of ESG reporting for financial market participants to focus instead on the information that is most meaningful for investors. The review should increase legal clarity and ensure overall coherence of the rules within the sustainable finance framework, including the <u>proposed measures to simplify sustainability reporting for companies</u> . The review will therefore aim to adapt the framework to the potential changes to corporate reporting obligations under the Corporate Sustainability Reporting Directive and EU Taxonomy rules, also taking into account voluntary reporting standards for smaller companies. Based on the feedback gathered to date, there is broad support for a revised SFDR that would: (i) cater for different investor groups and types of financial products; (ii) make it easier for retail investors to understand investment products; (iii) take better account of the international reach and exposures of investments; and (iv) help to direct investment towards diverse sustainability-oriented aims while avoiding greenwashing (including not only activities which are already green but also investments in companies which are at earlier stages of the transition, and investments that support other objectives such as security). To this end, the review of the SFDR should aim to clarify the framework for both financial market participants and end-investors. This should entail: (i) simplifying key concepts; (ii) streamlining and reducing disclosure requirements focusing on the most essential information for investors; and (iii) exploring the case for categorising financial products that make sustainability-related claims. Potential product categories should: (i) be easily understandable by retail investors; (ii) accommodate different sustainability objectives reflecting EU goals; and (iii) appropriately take into consideration current market practices in terms of available data and sustainability-oriented financial products on offer. Possible options to be examined for a revised SFDR include: (i) targeted changes and clarifications to the existing disclosures; or (ii) more far-reaching changes involving the establishment of a number of categories reflecting different sustainability objectives of financial products, underpinned by common criteria (e.g. products contributing to a sustainability objective, products contributing to the transition, or products contributing to other ESG strategies). Finally, the options should interact coherently with EU rules for the distribution of financial products to investors.
C. Likely impacts
Improving clarity, removing inconsistencies and addressing data-availability issues would simplify requirements. This would in turn: (i) considerably reduce operational and compliance costs in the EU market; (ii) help to better achieve the objectives of the legislation; and (iii) facilitate sustainable investing. The potential creation of product categories could give investors an easier-to-understand overview of available products, with a lower risk of greenwashing. The initiative could also help deepen capital markets and boost funding opportunities for EU companies in the transition toward a sustainable economy. Any new administrative burden is expected to be limited and outweighed by the benefits of simplified disclosure requirements.
D. Better Regulation instruments
Impact assessment
An impact assessment will be conducted to support the preparation of this initiative. The report will be accompanied by an evaluation annex. In addition to the public feedback, the preparation work is also informed by further detailed reports and inputs on possible changes to the rules, for example from <u>financial supervisors</u> and <u>market experts</u> .
Consultation strategy
The <u>comprehensive assessment</u> of the SFDR that launched in December 2022 included: (i) a <u>targeted</u> and a <u>public consultation</u> (lasting 12 weeks); (ii) several technical workshops with industry; and (iii) engagement with

Member States, supervisors and representatives of civil society. No further public consultation will be conducted. The results of this call for evidence and other consultation activities will inform the impact assessment. In finalising its proposals, the Commission may carry out further targeted outreach with stakeholder representatives, supervisors and other experts.