

PRI RESPONSE

TARGETED CONSULTATION ON THE IMPLEMENTATION OF THE SUSTAINABLE FINANCE DISCLOSURES REGULATION

15 December

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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 Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR) launched by the European Commission.

ABOUT THIS CONSULTATION

The [European Commission launched a consultation to assess the implementation of the SFDR framework](#). The European Commission seeks insights on SFDR implementation, potential limitations, and its alignment with the European framework for sustainable finance. This consultation will inform a potential review of the regulation under the new mandate of the European Commission. The following topics are covered:

- Current requirements of the SFDR
- Interaction with other sustainable finance legislation
- Potential changes to the disclosure requirements for financial market participants
- Potential establishment of a categorisation system for financial products

The policy recommendations in this document were developed based on signatory engagement, previous consultation responses, and PRI's own evidence-based research. More specifically:

- PRI signatory workshops, including the PRI's [Global Policy Reference Group](#) (GPRG).
- Recent PRI consultation responses on [SFDR Regulatory Technical Standards \(RTS\)](#), [fund name guidance](#), and [greenwashing in the financial sector](#).
- PRI's thought leadership projects, in particular [A Legal Framework for Impact](#)¹.

For more information contact:

Elise Attal
Head of EU policy
elise.attal@unpri.org

Alina Neculae
Policy Specialist
alina.neculae@unpri.org

¹ The 2021 Legal Framework for Impact report, authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI and the Generation Foundation, is a ground-breaking legal study on whether the law in 11 jurisdictions around the world permits or even requires investors to tackle some of the world's most urgent sustainability challenges, by setting and pursuing sustainability impact goals.

KEY RECOMMENDATIONS

PRI welcomes the European Commission's [comprehensive assessment](#) of the functioning of the SFDR. While SFDR has played an important role in structuring investors' ESG strategies and reporting with common metrics, it is unclear whether the regulation is achieving its overarching objective of mobilising capital towards sustainable activities. This consultation represents a timely opportunity to assess the effectiveness and usability of the regulation. It covers the key policy issues and implementation challenges faced by investors to comply with the rules. The PRI's key recommendations are:

1. Establish clear disclosures and categories for financial products

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 regarding sustainability reporting obligations and increase comparability across financial products in the EU. This baseline could include:

- how sustainability risks are integrated into the investment process (more detail than the current Article 6) or, if they are not integrated, explain why;
- whether the product pursues positive sustainability outcomes, how (e.g. what investment levers or approaches are used) and why²;
- the share of taxonomy-aligned environmentally sustainable investments (comply or explain);
- the share of sustainable investments (where the activity or objective is not listed under the Taxonomy, investors should articulate the methods and criteria used to assess contribution to an objective);
- a limited number of Principal adverse impact (PAI) indicators (e.g., total greenhouse gas (GHG) emissions, human rights violations).

The PRI also supports the **development of minimum sustainability criteria to better distinguish financial product categories under SFDR**. The European Commission could set such criteria for the existing Article 8 and 9 categories, given these designations are now widely established and recognised in the market, or create new categories with corresponding disclosures for products that claim to contribute to sustainability objectives (options 1 and 2 presented in Section 4 of the consultation).

Regardless of the chosen approach:

- The European Commission should clarify the **intended audience** of the product categories and associated disclosures – retail investors, institutional investors, or both.
- The **product's sustainability objective** (i.e. what it aims to achieve) should be the key element to differentiate between product categories, not the investment process. Investors can then demonstrate through disclosures how different strategies and practices are used to achieve the objective (in terms of sustainability performance) over the life of the product.
- The European Commission should **avoid creating a hierarchy** between different categories based on current levels of sustainability performance. This could unintentionally discourage investments in sectors that need funding to transition away from harmful levels of performance.

² The Legal Framework for Impact report published in 2021 developed the concept of investing for sustainability impact (IFSI) and presents two types: "instrumental IFSI" is where achieving the relevant sustainability goal is "instrumental" in realising the investor's financial return objectives; and "ultimate ends IFSI" is where achieving the relevant sustainability goal – and the associated overarching sustainability outcome it supports – is a distinct goal, pursued alongside the investor's financial return objectives, but not wholly as a means of achieving them.

- Minimum criteria applied to product categories should be proportionate and adapted to **different asset classes**.
- It will be important to link any new product categorisation system with the existing rules for integrating client sustainability preferences under the Markets in Financial Instruments Directive (MiFID 2) and the Insurance Distribution Directive (IDD).
- To simplify global distribution and reduce the costs for financial market participants, the European Commission should aim to **enhance interoperability with financial product categorisation regimes under development from other markets** (notably in the UK and in the US).

2. Develop meaningful entity-level disclosures evidencing the quality of investor due diligence and stewardship practices

Entity-level indicators should be accompanied by **disclosures that evidence the quality of an investor's sustainability due diligence and stewardship processes and activities**. However, it will be important to avoid duplication between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under other relevant EU files.

3. Develop guidance on the use of estimates for PAI and Taxonomy reporting

The European Commission should work with the ESAs and the EU Platform on Sustainable Finance to develop **guidance with criteria for the use of estimated data and proxies** in a way that is consistent within the wider EU sustainable finance framework. While PRI welcomes the [Commission's recent clarification](#), further guidance is needed to 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"³.

4. Ensure consistency with the EU Taxonomy

The European Commission should work with the ESAs and the EU Platform on Sustainable Finance to ensure a coherent vision for sustainable investments and DNSH within the SFDR. In the short-term, the Commission must **clarify expectations for assessing and calculating sustainable investments under SFDR** to improve consistency and comparability of disclosures ahead of a potential review of the regulation.

³ See Article 7.2. [SFDR Delegated Regulation](#).

DETAILED RESPONSE

SECTION 1: CURRENT REQUIREMENTS OF THE SFDR

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	

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)⁴:

	1	2	3	4	5	Don't know
Increasing transparency towards end investors with regard to the integration of sustainability risks			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 a wide range of financial products and services, including those with sustainability claims		X				
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			

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	

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0354>

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			

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			

Question 1.6: 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", are not 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 to extract				X		
There are other deficiencies with the SFDR rules (please specify in text box following question 1.7)						X

PRI response

Some legal requirements and concepts in the SFDR, such as "sustainable investment" are not sufficiently clear.

Lack of clarity over definitions of "consideration of PAI indicators" (under Article 7 SFDR), "promotion of environmental and social characteristics"⁵ (under Article 8 SFDR) and "sustainable investments" (Article 2.17 SFDR) risk leading to diverging interpretations and expectations among investors across the value chain, including retail and institutional investors.

⁵ For example, environmental and/or social characteristics could be interpreted as characteristics of the investment product (how ESG factors affect investment decisions - exclusion, screening, etc) or the characteristics of the underlying investee companies (sectoral or thematic exposure).

Clarifying the definition of sustainable investments will be particularly important due to its central importance within the SFDR (particularly for Article 9) and other requirements for the integration of client sustainability preferences under MiFID 2 and IDD. Due to uncertainties over the application of the definition and expectations for methods of calculating sustainable investments⁶, investors subject to SFDR may be exposed to allegations of mis-selling or greenwashing and may face reputational, legal and financial risks.

Whilst the Commission's FAQ⁷ clarified that investors have flexibility to determine their own methodologies for accounting for sustainable investments, we believe further guidance will be necessary to ensure the integrity and comparability of disclosures, as well as consistency with the Taxonomy. Ideally, such guidance should be published ahead of a future review of SFDR under the next European Commission.

It will be particularly important to clarify how the share of sustainable investments should be accounted for. Investors can currently make a binary assessment of an investee company's overall sustainability performance or count the specific share of its sustainable revenues or activities. Existing disclosures suggest most products are using a binary approach⁸⁹.

Looking at specific asset classes, it is important to clarify how sovereign bonds should be treated under the sustainable investment definition, given that such assets play a key role in portfolios of insurers and pension funds. The European Commission should evaluate existing frameworks for assessing the Paris alignment of sovereign bond issuers (e.g. [ASCOR project](#)) with the aim of developing guidance that clarifies how these issuers can be assessed for sustainable investments beyond green bonds.

Moreover, where products or services imply an intention to generate positive sustainability outcomes, disclosure requirements and concepts under SFDR need to be based on a clear distinction between (a) the impact on sustainability factors of the investee company and (b) the impact that the investor has on that company (or other third parties) in bringing about a positive change. Only when both aspects are present, does the investor aim to achieve a positive sustainability impact. To that end, it should not be assumed that simply investing in a company meeting certain sustainability criteria guarantees an improvement in its sustainability impact.

Data gaps make it challenging for market participants to disclose fully in line with the legal requirements under the SFDR.

The adoption of the Corporate Sustainability Reporting Directive (CSRD) and accompanying European Sustainability Reporting Standards (ESRS) will play a pivotal role in improving investors' access to the data they need to assess sustainability risks, opportunities and impacts of investee companies, and meet their own SFDR requirements. However, some data gaps will remain, in particular for investments outside the scope of the CSRD, such as certain non-EU companies and unlisted SMEs. PRI welcomes the European Commission's clarification that the use of estimates for companies not in scope or not yet reporting under the CSRD or the Taxonomy Regulation is permitted. However, more guidance is needed as soon as possible.

⁶ For example, it is unclear whether sustainable investments should be calculated in a binary way at entity-level or as a percentage of an investee entity's (sustainable) activities.

⁷ Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288). Page 6.

⁸ Morningstar – SFDR Article 8 and 9 Funds: Q4 2022 in Review. Page 22.

⁹ In their recent report on data and usability of the EU taxonomy, the EU Platform on Sustainable Finance recommends the European Commission clarify that only the actual sustainable investment share (e.g., 20%) in an investee company can be disclosed as SI and not the whole entity (i.e., 100%) even if the whole entity needs to meet the DNSH and good governance requirements indicated in Article 2 (17) of SFDR. See page 137.

Question 1.7: 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						X

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				
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				

PRI response

To clarify the treatment of principal adverse impacts, a key starting point is to recognise the distinction between the sustainability impacts of entities or investees in a portfolio and the influence that investors can exert on these impacts. While portfolio entities may have negative sustainability impacts, it should not be assumed that an investor is also having those impacts simply by holding shares of that entity. The primary focus should be on whether the investor is aggravating sustainability impacts due to its own activities, rather than solely based on the sustainability profile of investees. The risk of a regime that focuses solely on the sustainability profile of portfolio companies, without considering the activities of the firm managing the portfolio, is that it could incentivise the managing firm to reduce exposure to those companies rather than actively working to improve their sustainability performance.

PRI rated 2 the following point "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" for the following reasons:

Considering the proposal to make all issue-specific disclosure requirements subject to a materiality assessment under the ESRS, the Commission should consider how to accommodate issues with respect to availability of data. In addition to guidance on the use of estimates, this could be done by making it optional to report on certain PAI indicators of a sectoral nature which are particularly challenging for investors to estimate (for example PAI 9 on hazardous and radioactive waste ratio)¹⁰.

Question 1.8.1: 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

Question 1.9: 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				

Question 1.10: 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.

No PRI response.

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

No PRI response.

¹⁰ See PRI's response to the ESA consultation on the review of SFDR Delegated Regulation (July 2023). Page 11.

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?

No PRI response.

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

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			

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				

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

No PRI response.

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

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

PRI response

More guidance on estimates is needed

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.

The recent adoption of the ESRS is an important milestone, and their upcoming application will be crucial to address issues of data availability and quality. But some gaps will remain, in particular for investments outside the scope of the CSRD, such as certain non-EU companies and unlisted SMEs.

PRI welcomes the European Commission's recent clarification¹¹ that estimates for companies not in scope or not yet reporting under the CSRD and the Taxonomy Regulation is permitted. However, more detailed guidance is needed as soon as possible.

Therefore, PRI recommends the European Commission to work with the ESAs and the EU Platform on Sustainable Finance 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".
- Use as a starting point the advice of the EU Platform on Sustainable Finance in its data and usability report¹² (see page 45).
- Detail which estimation methods can be used (e.g. regression, sector median, extrapolation) when data is not available.
- 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

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

¹¹ European Commission Staff Working Document - Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework (June 2023). "The use of estimates is only permitted in cases where FMPs cannot reasonably access information about economic activities carried out by undertakings that are not reporting (or not reporting yet) under the Taxonomy Disclosures Delegated Act, such as unlisted SMEs. This clarification was provided in the SFDR Q&A published in April 2023. The aim is to simplify the disclosure obligations and alleviate burdens on both companies and FMPs when facing difficulties in accessing sustainability data". Page 11.

¹² Platform on Sustainable Finance's recommendations on data and usability of the EU taxonomy (europa.eu)

SECTION 2: INTERACTION WITH OTHER SUSTAINABLE FINANCE LEGISLATION

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			

PRI response

PRI welcomes the European [Commission's recent clarification](#) that investments in “environmentally sustainable economic activities” within the meaning of the Taxonomy Regulation can be qualified as “sustainable investments” under SFDR. However, as highlighted in comments above (see the response to question 1.6), issues around the concept of “sustainable investment” and DNSH assessments still remain.

Whilst the idea of an optional safe harbour for environmental DNSH may be suited for certain use of proceeds instruments, operational implementation for other investments will remain complex (as it will only cover a portion of an investee company's activities). Therefore, the safe harbour alone will not offer sufficient clarity to market participants on how to treat taxonomy-aligned investment in the SFDR product level disclosures.

PRI sees merit in a framework that would allow an assessment of an investment's sustainability performance at both activity (using the Taxonomy where possible) and entity-level (using the PAI indicators and ESRS standards). We encourage the European Commission to work with ESAs and the EU Platform on Sustainable Finance to ensure a coherent vision for sustainable investments and DNSH within the SFDR and its RTS.

For such a framework to be workable and coherent, the following conditions would need to be fulfilled:

- Aligning the underlying metrics and methodologies of environmental PAIs with the Taxonomy criteria. The Platform's report on data and usability provides more detailed examples of how this could be done (page 143-146).
- Aligning social and governance PAIs to the Taxonomy's minimum social safeguards based on international standards (OECD guidelines for MNEs, UNGPs). PRI welcomes the ESAs recent proposals that go in this direction. Guidance should be based on the EU Platform's recommendations on the application of minimum safeguards.
- In addition, for a complete assessment of sustainability performance at activity-level, the European Commission should take forward the EU Platform's proposals for:
- A social taxonomy, or a framework for social investments in the EU, so that that substantial contribution to social objectives could be assessed at the economic activity level.
- An extension of the environmental taxonomy to allow for a broader understanding of environmental performance and transitional activities. This would be particularly important for identifying and encouraging investments in activities that need to urgently transition away from significantly harmful levels of environmental performance.

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			

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			

PRI response

PAI data availability and quality

Policymakers need to maintain consistency between PAI indicators and ESRS standards to ensure investors have the data needed to calculate these PAI indicators, as per their SFDR obligations. Whilst the inclusion of information related to the PAI indicators within the ESRS is welcomed, the European Commission's decision to subject all issue-specific reporting to a materiality assessment means the ESRS may not guarantee investors access to this data, which is also required to assess the sustainability risks, opportunities, and impacts of their investments.

Consistency of terminology related to adverse impacts

The SFDR and CSRD cover the concept of negative or adverse impact. As a financial institution, and directly or indirectly their investees, could fall under both pieces of legislation, there must be coherent terminology. Specifically, there should be harmonisation between the meanings of "principal adverse impact" under the SFDR and "material negative impact" under the ESRS to avoid unnecessary confusion.

Entity level disclosure requirements

The European Commission should ensure consistency between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under CSRD, CSDD and SRD II. With regards to CSRD, it will be particularly important to ensure any investor entity-level requirements under SFDR do not overlap with, or duplicate future obligations under a financial sector ESRS standard.

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 MiFID 2 and the IDD?

1	2	3	4	5	Don't know
	X				

PRI response

Due to uncertainties over the definition of "sustainable investment" under SFDR, the lack of guidance for calculating sustainable investments¹³ and the lack of DNSH thresholds or tolerance levels for PAI indicators, the sustainability options offered through MiFID 2 and IDD do not provide comparable information and are likely to be misleading to investors when selecting products. Distributors may also be exposed to allegations of mis-selling or greenwashing and may face reputational, legal and financial risks.

Question 2.5: MiFID 2 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		
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 disclose according to Articles 3 and 5 up to date				X		

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

¹³ For example, it is unclear whether sustainable investments should be calculated in a binary way at entity-level or as a percentage of an investee entity's (sustainable) activities.

SECTION 3: POTENTIAL CHANGES TO DISCLOSURE REQUIREMENTS FOR FINANCIAL MARKET PARTICIPANTS

ENTITY LEVEL DISCLOSURES

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			

Please explain your replies to question 3.1.1 as necessary.

PRI response

Article 4 - Ensure meaningful entity-level disclosures evidencing quality of investor due diligence and stewardship practices

Currently, under Article 4 of SFDR, larger institutional investors must disclose how they consider and mitigate adverse impacts of investment activities at entity-level. This includes reporting against all mandatory PAI indicators aggregated at the level of the investor's entire portfolio.

Indicators at the portfolio or entity level typically focus on decisions made at the highest level: policy, governance, stewardship and due diligence. This can be supplemented by quantified impact measures, but the aggregation must be done carefully and respecting the processes surrounding management of individual funds. Many of the PAI indicators in Annexes I, II and III of the SFDR Delegated Regulation could be suitable for assessing the performance of an individual issuer but can become misleading when aggregated to the entity level. This is due to a wide variation in how investors aggregate PAIs and therefore results in very limited comparability. They also present significant methodological and data collection challenges, leading to a substantial reporting burden for limited additional value.

Most investors are exposed to financial risks (and opportunities) associated with undiversifiable, system-level sustainability issues such as climate change, biodiversity collapse or social instability. To manage such exposure in line with their fiduciary duties, many investors are pursuing positive sustainability outcomes to directly address the drivers of these system-level risks and create long-term value. Therefore, what is of much more significance is how far the relevant entity embeds the pursuit of positive sustainability outcomes across its product and service offering, how and why. This applies as much to products and services that are explicitly branded as "sustainable" as those that are not, since sustainability risks may have adverse impacts even on products and services with only financial returns as an objective.

Stewardship is an important mechanism for investors to exercise their influence, whether as an independent tool, or in combination with investment decisions. Investors that rely on external investment managers for their stewardship activities need to understand the extent to which these managers use stewardship for sustainability outcomes, and try to align their priorities and actions where necessary, and possible. To help investors do so, the PRI has created a tool to evaluate and compare managers' stewardship practices for sustainability outcomes, and a due diligence questionnaire (DDQ) which they can use as a basis for discussion with investment managers¹⁴. These sources can provide valuable information on how entity-level

¹⁴ [Guidance on evaluating manager stewardship for sustainability | PRI \(unpri.org\)](#)

disclosures could be improved to provide the relevant information for selection and monitoring of investment managers.

Therefore, we recommend the European Commission ensures entity-level indicators are accompanied by entity-level disclosures which evidence the quality of an investor's sustainability due diligence and stewardship processes and activities. However, the European Commission will need to ensure consistency between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under CSRD, CSDD and SRD II. With regards to CSRD, it will be particularly important to ensure any investor entity-level requirements under SFDR do not overlap with or duplicate future obligations under a financial sector ESRS standard. The European Commission could consider streamlining investor entity level reporting under SFDR with CSRD, as many large investors are also in scope of the latter. This option should be assessed in light of the future financial sector ESRS standard to ensure disclosures are adapted to the specificities of investors.

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?

No PRI response.

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			

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		

Please explain your replies to questions in section 3.1 as necessary.

PRI response

The European Commission should ensure consistency between entity-level investor disclosure obligations under SFDR and corresponding existing and potential disclosure, due diligence and stewardship requirements under CSRD, CSDD and SRD II. With regards to CSRD, it will be particularly important to ensure any investor entity-level requirements under SFDR do not overlap with or duplicate future obligations under a financial sector ESRS standard.

PRODUCT LEVEL DISCLOSURES

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		

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		

Please specify which ones.

PRI response

Disclosure of a limited number of PAI indicators where data coverage is high could be added to the list of mandatory disclosures for all products, particularly indicators related to GHG emissions and human rights violations.

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

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

PRI response

The European Commission should ensure basic disclosures for all financial products, regardless of their sustainability claim, including:

- how sustainability risks are integrated into the investment process (more detail than the current Article 6) or, if they are not integrated, explain why;
- whether the product pursues positive sustainability outcomes, how (e.g. what investment levers or approaches are used) and why¹⁵;
- the share of taxonomy-aligned environmentally sustainable investments (comply or explain);

¹⁵ The Legal Framework for Impact report published in 2021 developed the concept of investing for sustainability impact (IFSI) and presents two types: "instrumental IFSI" is where achieving the relevant sustainability goal is "instrumental" in realising the investor's financial return objectives; and "ultimate ends IFSI" is where achieving the relevant sustainability goal – and the associated overarching sustainability outcome it supports – is a distinct goal, pursued alongside the investor's financial return objectives, but not wholly as a means of achieving them.

- the share of sustainable investments (where the activity or objective is not listed under the Taxonomy, investors should articulate the methods and criteria used to assess contribution)
- a limited number of PAI indicators (e.g., total GHG emissions, human rights violations).

This would contribute to creating a level playing field regarding sustainability reporting obligations and increase comparability across financial products in the EU. This baseline would help highlight the sustainability outperformance of sustainable products compared to others. For example, reporting of Taxonomy eligibility and alignment (notably for the turnover and capex KPIs) across all financial products would serve to highlight any notable outperformance on Taxonomy metrics for article 8 or 9 products compared to those categorised under article 6 of the SFDR. This approach would also help investors to monitor the decarbonisation of their portfolios and mobilise capital flows towards environmentally sustainable investments. Moreover, the disclosure templates should be simple and concise to avoid excessive reporting burden.

The following considerations should be taken into account when developing this baseline:

- 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.
- The effectiveness and meaningfulness of Taxonomy disclosures at financial product level will be dependent on the availability of corporate Taxonomy data. Any future requirement in this area should assess the state of quality and coverage Taxonomy reporting under the Taxonomy Disclosures Delegated Act and the CSRD. In the absence of publicly disclosed data from companies, clear guidance for estimates is needed by the market.

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, or equivalent, 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				

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?

No PRI response.

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		

PRI response

Disclosure of a limited number of PAI indicators where data coverage is high could be added to the list of mandatory disclosures, particularly GHG emissions and human rights violations.

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

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

PRI response

The PRI supports the approach outlined in question 3.2.1.

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		

PRI response

The European Commission should develop a more specific set of disclosures for products making sustainability claims. 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. This information should be tailored to different audiences such as retail and professional or institutional investors.

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			

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

No PRI response.

Question 3.2.6: To what extent do you agree with the following statements?

	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				
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Question 3.2.7: 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				

PRI response

Whilst we support a baseline of sustainability disclosures for all products (see the response to question 3.2.1), we also recommend more detailed disclosure requirements for products making sustainability claims (in line with current disclosure requirements under Articles 8 and 9). For those products, the European Commission could develop criteria or guidance to ensure a minimum level of investment practice and sustainability performance, in line with potential product categories (see section 4).

Question 3.2.8: 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

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?

PRI response

The European Commission should avoid creating a hierarchy between different categories of financial products as this approach could unintentionally discourage investments in sectors that need funding to transition away from harmful levels of sustainability performance.

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

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

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

	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	

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		

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

PRI response

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.

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 (MOP)				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

PRI response

It is important to have a separate disclosure regime for insurance-based investment products with underlying investment options (MOPs). This regime should enable the disclosure of information in accordance with the templates of Annex II, III, IV & V¹⁶ at the level of the underlying investment option rather than the insurance wrapper. This separation is necessary because the underlying funds typically follow distinct strategies that cannot be aggregated into a single uniform sustainability strategy or theme at the wrapper level.

¹⁶ [SFDR Level 2 \(DR\) text.pdf](#)

SECTION 4: POTENTIAL ESTABLISHMENT OF A CATEGORISATION SYSTEM FOR FINANCIAL PRODUCTS

Question 4.1.1: 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				

PRI response

While we agree that sustainability product categories regulated at EU level would enhance end-investors' understanding of a product's sustainability-related strategies and objectives, the categories and corresponding disclosures should be adapted to the needs of retail investors by:

- **Simplifying the existing Article 8 and 9 disclosure templates** and ensuring the information is digitally tagged (i.e., via ESAP).
- **Developing a two-page pre-contractual disclosure template for retail investors**, whilst ensuring consistency with Key Information Documents and EU Retail Investment Strategy.
- **Linking client sustainability preferences under MiFID 2 and IDD to the revised sustainability product categories and corresponding disclosures.**

Question 4.1.2: 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		

PRI response

We recommend that the European Commission consider the merits and drawbacks of the two proposed approaches, including the following key considerations:

- **Clarify the intended audience of the product categories.**

The Commission should clarify whether retail or institutional investors are the intended primary audience of the product categories. Whilst the categories could apply to both retail and institutional investors, it is particularly important that the product categories are simple and easy to understand, as retail investors are less likely to grasp the nuance of the corresponding disclosures.

- **Differentiate the categories based on the product's sustainability objective, not investment process and practice.**

The Commission's proposed categories (under option 1) combine a variety of concepts that refer to investment processes and strategies (exclusions), company strategies (transition) and economic sectors (solutions).

In practice, most existing financial products combine different strategies. Designing the categories based on investment practices and processes may therefore be inappropriate. 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, the PRI believes that 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).

- **Avoid hierarchies between the product categories.**

The Commission should avoid creating a hierarchy between different categories based on current levels of sustainability performance. This could unintentionally discourage investments in sectors that urgently need funding to transition away from harmful levels of performance. Moreover, the Commission should clarify how different product categories contribute to the overarching objective of mobilising capital towards sustainable activities.

- **Link product categories to the sustainability preferences of end-investors.**

It will be important to link any new product categorisation system with the existing rules for integrating client sustainability preferences under MiFID 2 and IDD. While relevant for the product disclosures, the criteria to select products under the current rules (taxonomy alignment, sustainable investments, consideration of PAIs) relate to complex concepts that are arguably ill-suited to the needs of retail investors. Moreover, the categorisation system should be designed to enhance the advisory process and improve retail investor understanding of the sustainability-related strategies and objectives of financial products.

- **Work to enhance global interoperability of sustainable product categories.**

The European Commission must continue to engage in global forums to work towards greater interoperability with sustainability-related product categories from other markets (notably in the UK and the US). To simplify global distribution and reduce costs for financial market participants, the European Commission and the ESAs should work with IOSCO to ensure a baseline of disclosures (based on the [IOSCO 2021 guidelines](#)) and principles for the cross-border compatibility of sustainability-related product categories.

Other considerations for the design of product categories:

- **Implementation costs:** Regardless of the chosen approach, the Commission should be mindful of the associated implementation costs and provide a clear explanation of how these changes align with existing frameworks and concepts (e.g. existing labels and benchmarks).
- **Voluntary or mandatory** for specific claims: Categories could be voluntary or mandatory for products making sustainability claims. Such claims (in the fund name or marketing material) could trigger a requirement to select one of the categories and explain the investor's approach through the corresponding disclosures.
- **Verification and assurance:** The Commission should also consider the merits and drawback of developing a third-party assurance mechanism to verify that products are meeting the criteria.
- **Minimum criteria:** The European Commission should ensure that minimum criteria are proportionate and adapted to different asset classes and investment approaches. Therefore, the categorisation system should be suitable for broadly diversified portfolios, and apply across all types of asset classes, including government bonds.

IF A CATEGORISATION SYSTEM WAS ESTABLISHED ACCORDING TO APPROACH 1 OF QUESTION 4.1.2

Question 4.1.3: 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		

Question 4.1.4: 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 intranational 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. ¹⁷					X	
Other				X		

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

PRI response

The Commission should explore the inclusion of an **impact category**. This category could include products that aim to achieve positive, measurable real-world outcomes. It should not be restricted to the type of funds traditionally branded as "impact funds" but rather be designed in neutral terms to apply across all types of asset classes. The Commission should assess the merits and drawbacks of developing such a category, and take into considerations the following key aspects:

- **Explanation of theory of change:** products should clearly articulate their sustainability objective, ways to achieve this and monitor progress.
- This product category should also provide a clear **distinction between investor and investee impact**. This differentiation is essential to prevent the misconception that merely investing in sustainable companies can automatically translate into real-world impact. Therefore, for this category, contribution should be assessed at investor level.
- The Commission should be cautious about creating the **impression that this is the sole category capable of achieving real-world outcomes**. For instance, the "transition" category can also contribute

¹⁷ In line with the transition to a climate neutral and sustainable economy.

positively by supporting the transition to sustainability of heavily polluting sectors. Moreover, a hierarchical approach between categories could unintentionally discourage investments in sectors that require transformation.

Question 4.1.5: 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					

PRI response

Based on proposed definitions, there is a lack of clarity regarding the differentiation between category A and B. However, we see merit in developing a category that would cover products investing in assets that are deemed environmentally or socially sustainable at the point of investment (covering categories A and B). This could be assessed according to the Commission's definition of sustainable investments (if clarified) and taxonomy-aligned revenues for environmental objectives. We added more information on the possible minimum criteria in the response to question 4.1.10.

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

1	2	3	4	5	Don't know
			X		

Question 4.1.7: 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

Question 4.1.8: 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

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		

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 ESG-related outcome				X		
Other				X		

PRI response

We support the development of a category that would cover products investing in assets that are deemed environmentally or socially sustainable at the point of investment (covering categories A and B). The Commission could consider using the following minimum criteria for this category:

- **Targets for Taxonomy-alignment (revenues KPI):** If the product has an environmental objective covered by the Taxonomy Regulation. Where the activity or objective is not listed under the Taxonomy, investors should explain the methods and criteria used to assess how the investments contribute to positive outcomes.
- **Engagement strategies:** Stewardship and engagement activities are typically developed at entity-level and apply across a wide range of products and investment strategies – they are therefore relevant to all product categories.
- **Exclusions:** We encourage the European Commission to work with the EU Platform on Sustainable Finance to explore whether and how a list of “always significantly harmful activities” could be used as a basis for exclusions. Exclusions should apply across all assets of the product to ensure end-investors are not misled. The EU Platform’s [report on an extended environmental taxonomy](#) acknowledges that there are certain activities for which no technological possibility of improving their environmental performance to prevent significant harm exists across all objectives. These activities should be distinguished from those that have a potential to transition out of significant harm. Investee companies that have (or spend capital expenditure on) “always significantly harmful activities” could be subject to exclusions or prioritised for investment or engagement as part of a decommissioning plan.
- **Pre-defined, measurable, positive ESG related outcomes:** The PRI encourages the European Commission to explore the design of thresholds that strike a balance between the need to prevent greenwashing and allowing sufficient flexibility for market innovation. These thresholds should clearly indicate whether they are assessed at entity-level I (e.g., x% of issuers or investee companies) or activity-level (e.g., x% of activities funded). Moreover, to avoid misleading end-investors, minimum sustainability or DNSH criteria should be applied across the assets of the entire product, not just those targeting pre-defined, measurable, positive ESG related outcomes.
- **Other:** The Commission should explore how alignment with the OECD Guidelines for MNEs and UNGPs for Business and Human Rights can be reflected in minimum criteria.

For product category B of question 4.1.4

PRI response

Based on proposed definitions, there is a lack of clarity regarding the differentiation between category A and B. See our answer to question 4.1.5.

For product category C of question 4.1.4

PRI response

Exclusions are an investment process typically used in combination with other responsible investment approaches and strategies. They should serve as minimum criteria for all categories rather than forming the basis for a separate category.

For product category D 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 ESG-related outcome				X		
Other				X		

PRI response

The PRI strongly supports the development of a product category for investments that can support the transition to a sustainable economy. The product criteria of this category must be carefully designed to ensure that investments are directed towards companies that are genuinely fulfilling their sustainability objectives. Investee companies should have science-based and goal-aligned transition plans. To ensure a degree of comparability, these products could use elements of ESRS E1 (entity-level transition plans under CSRD) and taxonomy-aligned capex (activity level). More broadly the criteria should build on the Commission's recent [recommendation on facilitating finance for the transition to a sustainable economy](#)¹⁸.

The PRI is also considering how the development of additional policy tools, such as sector roadmaps and an extended environmental taxonomy, can support the transition¹⁹ - and therefore the development of products with a transition focus. Products should clearly articulate their transition objective, ways to achieve this and monitor progress.

The Commission could consider using the following minimum criteria for this category:

- **Targets for taxonomy-alignment (capex KPI):** If the product has an environmental objective covered by the Taxonomy Regulation. Where the activity or objective is not listed under the Taxonomy, investors should articulate the methods and criteria used to assess how the investments contribute to positive outcomes.
- **Engagement strategies:** Stewardship and engagement activities are typically developed at entity-level and apply across a wide range of products and investment strategies – they are therefore relevant to all product categories. More detailed disclosure of stewardship activities, including escalation strategies, are particularly relevant for products aiming to improve the sustainability performance of a product and/or mitigate adverse impacts over time.

¹⁸ See in particular the Commission's definition of transition finance (Paragraph 2.2, page 7).

¹⁹ See [PRI – Investing for the economic transition: the case for whole-of-government policy reform \(2023\)](#)

- **Exclusions:** We encourage the European Commission to work with the EU Platform on Sustainable Finance to explore whether and how a list of “always significantly harmful activities” could be used as a basis for exclusions. Exclusions should apply across all assets of the product to ensure end-investors are not misled. The EU Platform’s [report on an extended environmental taxonomy](#) acknowledges that there are certain activities for which no technological possibility of improving their environmental performance to prevent significant harm exists across all objectives. These activities should be distinguished from those that have a potential to transition out of significant harm. Investee companies with (or spending capital expenditure on) “always significantly harmful activities” could be subject to exclusions or prioritised for investment or engagement as part of a decommissioning plan.
- **Pre-defined, measurable, positive ESG related outcomes:** the PRI encourages the Commission to explore the design of thresholds that strike a balance between the need to prevent greenwashing and allowing sufficient flexibility for market innovation. These thresholds should clearly indicate whether they are assessed at entity-level I (e.g., x% of issuers or investee companies) or activity-level (e.g., x% of activities funded). Moreover, to avoid misleading end-investors, minimum sustainability or DNSH criteria should be applied across the assets of the entire product, not just those targeting pre-defined, measurable, positive ESG related outcomes.
- **Other:** The Commission should explore how alignment with the OECD Guidelines for MNEs and UNGPs for Business and Human Rights can be reflected in minimum criteria.

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						
Category C of question 4.1.4						
Category D of question 4.1.4				X		

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

No PRI response.

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			

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?

PRI response

"Investee companies' good governance practices", element of the sustainable investment concept

The reference to "good governance practices" from the sustainable investment concept should be replaced with the "minimum safeguards" under the Taxonomy Regulation. PRI welcomes the Commission's [recent clarification](#) on the application of the minimum safeguards.

To further support the effective application of the minimum safeguards, we encourage the European Commission to work with the ESAs and the EU Platform on Sustainable Finance to issue guidance to clarify the steps investors should undertake to assess compliance or violation of the UNGPs and the OECD guidelines. This guidance should build on the EU [Platform's recommendations on the application of minimum safeguards](#) and could advise investors to focus on the following areas:

- inadequate or non-existent corporate due diligence processes on human rights, including labour rights, bribery, taxation, and fair competition as a sign of non-compliance;
- final liability of companies in respect to breaches of any of these topics as a sign of non-compliance;
- the lack of collaboration with a National Contact Point (NCP), and an assessment of non-compliance with OECD guidelines by an OECD NCP as a sign of non-compliance;
- non-response to allegations by the Business and Human Rights Resource Centre as a sign of non-compliance.

"Do no significant harm", element of the sustainable investment concept

The "do no significant harm" concept is key to the EU's sustainable finance framework but is not always consistently applied across the various regulations – notably SFDR and Taxonomy.

PAI indicators (SFDR) and DNSH criteria (Taxonomy) are both trying to capture negative impacts or externalities on the environment and people, but in different ways:

- The Taxonomy Climate DA provides screening criteria for establishing whether an activity is causing significant harm according to the EU's climate objectives. The criteria can be based on quantitative thresholds, processes, or compliance with EU legislation.
- The PAI indicators (as defined in annex 1 of the SFDR DR) attempt to quantify the impact of investee companies at asset/entity level, but without putting that impact into context with respect to the EU's environmental or social objectives. They do not set or require any thresholds for determining whether an adverse impact does significant harm.
- Having two distinct frameworks for measuring these related concepts can be confusing for clients and end-investors and creates a double layer of DNSH assessment on product-level reporting (art 8 and 9) under SFDR. Calculating taxonomy-alignment requires a DNSH assessment based on the screening criteria in the Taxonomy Climate DA, and calculating sustainable investments requires an assessment of the PAI indicators as set out in the SFDR DR to ensure the investments do not harm other environmental or social objectives²⁰.
- In order to align SFDR with the Taxonomy Regulation it is necessary to better account for Taxonomy DNSH criteria within the PAIs. This can be done by:
 - Aligning the underlying metrics and methodologies of environmental PAIs with the Taxonomy criteria, where feasible. The EU [Platform report on data and usability](#) provides more detailed examples of how this could be done (page 143-146).
 - Aligning social and governance PAIs (including good governance check) to the Taxonomy's minimum social safeguards based on international standards (OECD guidelines for MNEs, UNGPs). PRI welcomes the [ESAs proposal](#) to align the social PAIs (referencing UN Global Compact) with the UNGPs.

“Contribution to an environmental or social objective”, element of the sustainable investment concept

It is important to clarify how investors should assess their and/or their investees' contribution to environmental or social objectives, and the role of the Taxonomy in demonstrating this when it comes to environmental objectives.

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

Yes	No	Don't know
		X

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

Yes	No	Don't know
		X

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?

No PRI response.

²⁰ As the taxonomy DNSH assessment only covers relevant economic activities, the entity-level PAI assessment can help ensure that the non-taxonomy-aligned part of the company does not significantly harm environmental or social objectives.

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 newproduct category of Article 8?	X		
...fall under the potential newproduct category of Article 9?	X		

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

No PRI response.

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

No PRI response.

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?

PRI response

Designed for the purpose of increasing transparency of sustainability-related investment products, articles 8 and 9 were kept deliberately broad to capture as many products as possible. Yet, 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. As for Article 8, there is a lack of clarity surrounding the term “promotion of environmental and social characteristics”, leading to a wide variety of approaches and strategies within this category. This has led to market uncertainty and allegations of greenwashing – with many investors changing classifications of their products following evolving interpretations of the rules.

Should the Commission opt for option 2, we therefore recommend further defining the existing categories and related concepts, based on the product’s sustainability objective (i.e. what the fund aims to achieve). The criteria proposed by the Commission related to investment strategies and activities could be used to demonstrate how performance is achieved via disclosure requirements.

The Commission could consider creating the following product categories:

Current SFDR article	Formal product categories (proposed by PRI)	Potential minimum criteria (proposed by PRI)
Article 9 – products that have a sustainable investment objective	Sustainable investment. Products invested in assets that are deemed environmentally or socially sustainable at the point of investment.	Pre-defined, measurable, positive ESG-related outcomes For environmental objectives, minimum x% alignment with Taxonomy (revenues KPI) Sustainable investments (where the activity or the objective is not listed under the EU Taxonomy, investors should articulate the methods and criteria used to assess how the investments contribute to positive outcomes) Engagement/stewardship policies Exclusion of “always significantly harmful activities”
Article 8 – products that promote environmental or social characteristics	Sustainable goal alignment. Products that aim to bring measurable improvements to the sustainability performance of the assets, in line with global sustainability goals.	Assets must have credible goal-aligned transition plans. For environmental objectives, minimum x% alignment with Taxonomy (capex KPI). Sustainable investments (where the activity or the objective is not listed under the EU Taxonomy, investors should articulate the methods and criteria used to assess how the investments contribute to positive outcomes) Engagement/stewardship policies (including escalation strategy) Exclusion of “always significantly harmful activities”
Article 7 – transparency of adverse impacts	Adverse impact consideration. Products that identify, prioritise and mitigate the principal adverse impacts within their investment activities (no goal alignment).	Disclosure of key PAI indicators considered and investor actions to identify, prioritise and mitigate impacts. Engagement/stewardship policies (including escalation strategy). Exclusion of “always significantly harmful activities”
Article 6 – transparency of the integration of sustainability risks	Integration of sustainability risks into investment decisions. All other products.	Disclosure of integration of sustainability risks into investment activities. Engagement/stewardship policies.

4.2. 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	

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				X		

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						X

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

4.3. CONSEQUENCES OF THE ESTABLISHMENT OF A SUSTAINABILITY PRODUCT CATEGORISATION SYSTEM

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

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), how should 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						X

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	

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				

Question 4.4.3: Would naming and marketing communication rules be sufficient to avoid misleading communications from products that do not fall under a product sustainability category?

1	2	3	4	5	Don't know
		X			

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

PRI response

The PRI is supportive of efforts to ensure that funds' names reflect their investments' characteristics and objectives. Guidance and/or fund name rules are useful to help to address growing demands from investors and national regulators to define minimum expectations for financial products marketed with ESG or sustainability-related claims. The Commission should ensure that rules/guidance in this area are consistent with any future categorisation and disclosure rules at financial product level, and with the [proposed guidance](#) expected to be published by ESMA.

However, arguably naming and marketing communication rules will not be sufficient to avoid misleading communication from products outside a sustainability category.

Standardised sustainability disclosures for all products could address this issue by creating a level playing field and enhancing comparability. This baseline would highlight the outperformance of sustainability related products compared to others. However, the following considerations should be taken into account when developing this baseline:

- It is important to ensure that disclosing standard ESG information for transparency reasons does not lead to funds without sustainability ambitions being categorised or marketed as sustainable.
- In the absence of disclosed data from companies, clear guidance for estimates is needed by the market.

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 to further improve investors' sustainability disclosures in the EU.

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

More information on www.unpri.org