AFME and ISDA views on the review of the Sustainable Finance Disclosure Regulation (SFDR)

20 June 2025

AFME[1] and ISDA[2] (the "Associations") welcome the Commission's acknowledgment that the SFDR needs to be revised in line with the objectives of the sustainability Omnibus to streamline the EU sustainable finance framework and to address the challenges which the market has faced with the implementation of the original regulation.

As AFME[3] and ISDA[4] have highlighted, it is essential to review sustainability reporting requirements holistically across all elements of the regulatory framework to achieve simplification objectives, avoid duplication and ensure a coherent framework.

The Commission's review is an opportunity to evolve the SFDR to be coherent with the amended CSRD and other key components of the EU sustainable finance framework. Aligning the SFDR with the broader Omnibus reforms will support the sustainable transition by ensuring that sustainability disclosures are consistent across the regulatory framework, avoiding gaps in the data available to financial institutions to meet their own disclosures; and meaningful for investors.

We therefore set out the following priority recommendations for the review of the SFDR:

1. **Streamline disclosure requirements to focus on the information most essential for investors**
2. **Transition to a product categorisation system while minimising market disruption**
3. **Maximise consistency and alignment with other regulations**
4. **Consider how the SFDR could take into account derivatives and structured products**

1. Streamline disclosure requirements to focus on the information most essential for investors

The Associations strongly support the Commission's objective to address undue burdens and simplify and streamline SFDR disclosure requirements, focusing instead on the information that is most meaningful for investors.

The initial sequencing of EU sustainable finance legislation with the SFDR being introduced before the CSRD led to substantial overlaps in entity-level disclosures between the two regulations. These overlaps have been acknowledged by the ESAs in their joint Opinion[5] on the SFDR. Additionally, this lack of sequencing resulted in significant data availability issues. The Commission should therefore take the opportunity to address these issues while ensuring compatibility with the rest of the sustainable finance framework, pending the passage

[1] The Association for Financial Markets in Europe (AFME) represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.
AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.
AFME is registered on the EU Transparency Register, registration number 65110063986-76.

[2] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

[3] See AFME views on Sustainability Omnibus proposals, March 2025.

[4] See ISDA Paper on EC's Sustainability Omnibus Proposal, June 2025.

[5] See the ESAs joint Opinion on the SFDR, June 2024.

of the sustainability omnibus package. It will also be important to coordinate the review of SFDR with the ongoing review of CSRD and the ESRS to ensure coherence.

Entity-level disclosures

Financial institutions should not be subject to two different entity-level sustainability reporting regimes under SFDR and CSRD. The PAI entity-level disclosure requirements under Articles 3, 4 and 5 of SFDR should be removed in light of the establishment of the revised ESRS[6]. To the extent that entity-level disclosure requirements are retained, they should be aligned with the revised ESRS.

Product-level disclosures

Product-level disclosures should also be simplified as part of the review of SFDR. Current product disclosures hamper investors' understanding of financial products' sustainability characteristics. The current SFDR templates, particularly for pre-contractual and periodic disclosures, are overly complex, lengthy, and repetitive. As highlighted by the ESAs[7], retail investors find the SFDR disclosure templates confusing due to the volume and repetition of information, which undermine the goal of transparency.

The Associations have the following recommendations for simplifying product-level disclosures:

- The terminology/concepts, formatting and presentation of product disclosures should be tested with retail investors. The SFDR review is an opportunity to make the underlying concepts which support product disclosures (and potential product classifications) less complex and more accessible to retail investors.
- To reduce duplication and quantity of disclosures, web disclosures should be removed.
- Remove repetitive sections within the pre-contractual templates to improve clarity for retail investors and reduce administrative burdens.
- The quantity of non-financial information in product-level disclosures should be consistent with financial information.
- Product-level disclosures should be linked to a materiality assessment as with CSRD disclosures.

2. Transition to a product categorisation system while minimising market disruption

As discussed further in our response to the Commission's targeted consultation on SFDR implementation[8], The Associations support a review of the SFDR aimed at reconciling its design as a disclosure regime against its use as a de facto labelling regime. The introduction of a voluntary product categorisation system could produce better outcomes for investors and make it more efficient and effective for firms to apply the SFDR in practice.

The Associations support an approach to product-level classification that mirrors existing investment strategies and how end-investors define their sustainability preferences. The Associations have the following high-level recommendations for developing a classification system of product categories:

- The Associations support the establishment of a product categories for "sustainable" and "transition" as proposed by the ESAs.[9] We are also supportive of the inclusion of a third, more general ESG category which could allow for flexible mapping of retail investment strategies to sustainability goals. All

[6] See Platform on Sustainable Finance (the "Platform"), Platform Briefing on EC targeted consultation regarding SFDR Implementation, December 2023, Section 3.1.
[7] See the ESAs joint Opinion on the SFDR, June 2024 paragraph 6.
[8] See AFME response to the European Commission targeted consultation on the implementation of the Sustainable Finance Disclosure Regulation (SFDR), December 2023.
[9] See the ESAs joint Opinion on the SFDR, June 2024 paragraphs 20-21.

categories should be subject to consumer testing as discussed further below. We support the establishment of minimum criteria/percentage thresholds for products within each category to allow for sufficient portfolio diversification, although as discussed further below, the criteria for environmentally sustainable products should not be developed with sole reference to the EU Taxonomy. The minimum criteria and percentage thresholds should be aligned with those set out in the ESMA fund naming guidelines.

- The criteria for product categories should provide sufficient flexibility, and the definition of "sustainable investment" should not be tied to the EU Taxonomy. This is for several reasons: First, there are limited investments aligned with the Taxonomy, and the Taxonomy has well-documented usability challenges with its application[10]. Aligning the definition of "sustainable investment" to the Taxonomy would also disadvantage non-EU investments for which Taxonomy assessment would be challenging. It is important to avoid constructing overly narrow categories which do not allow sufficient diversification within the product. Second, investment strategies and investor preferences are not necessarily tied to the Taxonomy. Finally, the Commission has committed to a substantial revision of the Taxonomy TSC and reporting regime, including reducing the number of companies required to report Taxonomy indicators[11]. Any evolution of the SFDR should take into account the potential changes to the Taxonomy to avoid overly rigid interdependencies that could lead to future misalignments if the Taxonomy evolves further.
    - The Commission could consider whether to refer to other credible metrics to define "sustainable investment" which could facilitate greater flexibility and global application, such as other internationally recognised taxonomies, contribution to the UN Sustainable Development Goals or partial alignment with the EU Taxonomy (substantial contribution only).
- The Commission should conduct consumer testing of any potential product categories before making a legislative proposal. The testing could be conducted alongside testing of the MiFID "sustainability preferences" to determine if the product classification system is suitable for retail investors.
- The new categorisation of products cannot disregard completely the current product disclosure framework established under the SFDR. The Associations urge the Commission to carefully consider the approach to grandfathering in product categories as the transition to the new product classification regime has the potential to cause significant confusion for investors, particularly if the existing product disclosure regime must operate side by side with any amended requirements for a transitional period.

Whilst the Associations support the evolution of the SFDR regime in line with the recommendations above, it is important to acknowledge that SFDR has been highly complex to implement and despite the recognised challenges, the market has adapted to the existing regulation. The introduction of a product classification system could create market disruption and unnecessary costly investments if firms are not able to leverage the work already done by firms to implement the SFDR so far. There have also been significant costs associated with maintaining the policies, procedures, governance, and resources necessary to ensure ongoing compliance. The Associations would urge the Commission to take this into account when considering any amendments to the regime to avoid disproportionate burdens on in scope firms. Minimising costs for firms subject to SFDR will reduce costs for investors.

3. Maximise consistency and alignment with other regulations

[10] See AFME, "A Review of the DNSH Assessment in the EU Taxonomy", December 2024.
[11] See Commission memo accompanying its consultation, Taxonomy Delegated Acts – amendments to make reporting simpler and more cost-effective for companies, February 2025.

It is essential to address the inconsistencies between the SFDR and other pieces of EU legislation in support of the Commission's simplification objective as well as maximising international interoperability in its review of the SFDR.[12] We strongly support the ESAs' recommendation to "carefully test the consistency across the various pieces of legislation that include sustainability references, and check inconsistencies and misalignment."[13] For example, the review of SFDR should be done in conjunction with the review of the ESRS to fully align datapoints required by SFDR with those to be reported under the revised ESRS. The review should also seek to align concepts which have differing definitions across the sustainable finance framework; for example, the Do-No-Significant Harm principle has different definitions across EU sustainable finance regulation[14].

In addition, the disclosures required under the SFDR should be fully consistent with MiFID II and IDD sustainability preferences, the EU Benchmarks Regulation, the EU Green Bond Standard and the PRIIPs Regulation. The definitions of sustainability preferences should integrate with the SFDR product categories so that it is clear and easy to incorporate them into investment advice and portfolio management services. It is not necessary for the technical criteria for each SFDR product category be replicated in sustainability preference questionnaires, increasing confusion for retail investors; rather, the categories should allow providers to match investors with products based on their expressed preferences. The ESMA guidelines on fund naming and their implications on ESG product design should also be integrated into the revised SFDR.

In terms of international interoperability, global fragmentation in ESG regulation remains an ongoing issue and a barrier to achieving the ultimate aims of the sustainable finance transition. In addition to the requirements of SFDR, firms also need to take into account the global requirements that they may be subject to when making product-level disclosures. Accordingly, as the European Commission reviews the SFDR, it should aim to maximise interoperability with requirements from other jurisdictions such as the UK's Sustainability Disclosure Requirements and investment labels regime.

4. Consider the treatment of derivatives and structured products

SFDR does not currently adequately take account of how capital market activity affects companies' decision making in the real economy. The SFDR covers exclusively: (i) the provision of lending and cash products, omitting the positive role of derivatives and secondary markets in allocating capital to the real economy; and (ii) certain specific types of managed financial products listed under Article 2(12), omitting other investment products such as structured products which play an important role in allocating EU retail savings to the economy.[15]

SFDR metrics – Treatment of derivatives

The treatment of derivatives is not consistent within the SFDR reporting metrics at entity and – more importantly – at product level. This makes it challenging for investors to establish which products and investments will best meet their sustainability objectives and negatively penalises derivatives investment versus cash. We recommend, as ISDA and the Platform have previously proposed[16], that a common methodology for the measurement of derivatives is developed across the three SFDR ratios: PAIs, Taxonomy and Sustainable Investments. To that end, we support the European Supervisory Authorities' ("ESAs") view that the measurement of derivatives' exposures in the context of the SFDR PAIs should be assessed on the basis of their delta[17], which reflects the economic exposure that the derivative provides to the underlying asset, given that derivatives constitute investment decisions. On the other hand, the EU authorities consider

[12] This was highlighted as a key message from respondents in the EC's Summary Report of the Open and Targeted Consultations on the SFDR assessment.
[13] See ESAs opinion on the SFDR, June 2024.
[14] ESMA, Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework, 2023
[15] See Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance, December 2024, Annex C.

[17] The delta metric is already referenced in a variety of EU regulations and equals the equivalent cash amount that would be invested in companies' debt or equities.

that derivatives can never have a positive impact, for instance on the Taxonomy alignment proportion (whether at product (SFDR) or entity (Taxonomy regulation) level). If derivatives are not neutral because they can have negative impacts (i.e. PAIs) depending on their underlying, it should logically follow that they can also have a positive impact depending on the underlying, both in funds' entity-level disclosure and funds' product-level disclosures.

The view of the majority of AFME and ISDA members is that derivatives whose underlyings are companies' equity and debt contribute to sustainability objectives characteristics proportionately to the exposure they offer to their underlyings in line with the PSF 1.0 relevant recommendation in that regard[18]. These types of derivatives contribute to defining a company's cost of capital (i.e. cost of its refinancing in the future) and allow end investors to tailor risk in retail investments (i.e. via structured products). Therefore, credit and equity derivatives should be eligible for inclusion in the numerator of the SFDR Taxonomy and SI ratios to accurately reflect their economic exposure and contribution to sustainability.

In light of the above, the Associations strongly support the recommendation of the PSF 2.0. that the Commission should apply a consistent approach to account for derivatives across the sustainable finance framework and related indicators (e.g. Taxonomy, SFDR PAI, SFDR SI).

SFDR Product scope – Structured Products

Structured investment products ("SPs") are designed and distributed to retail customers and are subject to the MiFID/IDD regulatory frameworks. They are able to contribute to the allocation of capital to the sustainable economy as they allow risk profiles to be tailored to investors' risk appetite and enhance retail investors' participation in the equity and credit markets while controlling their risk exposure. SPs are formally outside the scope of SFDR but must be assessed from a sustainability perspective (Sustainable Investment, Taxonomy alignment and PAI) in order for a distributor to be able to sell them to investors with sustainable preferences. They must thus comply with MiFID sustainability preferences criteria which are defined under SFDR. Manufacturers of structured products need therefore to apply the SFDR framework to these products without regulatory guidance - as the current SFDR is tailored to funds - and provide distributors with the information required for both suitability assessment and target market.

The fact that MiFID recognises that MiFID instruments can address clients' sustainability preferences demonstrates that SFDR fund products are not the only investment products capable of channelling capital towards the sustainable economy. In addition, the European Commission's SFDR Call for Evidence notes that the revised SFDR requirements following its upcoming review should interact coherently with EU rules for the distribution of financial products to investors.

This misalignment whereby MiFID II requirements related to target markets and client sustainability preferences are being indirectly applied to SPs despite them being outside the SFDR scope creates legal and regulatory uncertainty for manufacturers and investors, non-optimal transparency and an unlevel playing field with other recognised EU sustainable investment products.

The view of the majority of AFME and ISDA members is that including SPs in SFDR would allow to: i) recognise their potential to contribute to sustainable finance; ii) foster alignment of rules across the regulatory framework on sustainable finance; iii) ensure consistent sustainability information for investors across all categorised instruments. Furthermore, it would provide standardised and proportionate disclosures to investors, improving their protection, and transparency on the sustainable finance ecosystem and solutions, in line with the ESMA/ESAs[19] and SMSG relevant opinions[20].

[18] The findings from PSF 1.0 indicated that only equity and credit derivatives were fit for purpose. However, additional asset classes may be assessed and considered for Taxonomy alignment in the future as new objectives and methodologies develop.
[19] See ESAs opinion on the SFDR, June 2024.
[2020] See SMSG advice to ESMA on its consultation paper on draft technical advice concerning the Prospectus Regulation, January 2025.

In line with the recommendations of the Draghi report, the inclusion of SPs in the SFDR scope should also contribute to greater simplification and harmonisation. Rather than perpetuating 27 national frameworks and resulting in divergent European ESG Template ("EET") implementations, SPs should be subject to a single, EU-wide set of rules for their sustainable claims. This is important to ensure market clarity and effective investor protection across Member States.

The Associations recommend integrating SPs within the SFDR in a proportionate manner. Given the challenges (as identified by the ESAs[21]) with developing homogeneous classification methodologies for heterogeneous product types, the Associations recommend in particular a differentiated methodology for the inclusion of SPs. Inclusion would require adjustments to reflect that SPs, unlike funds, are not managed products. Assessment should be made on both funding and exposure legs, at issuance, with the fixed "*minimum proportion*" removed.

AFME Contacts

Oliver Moullin
Managing Director,
Sustainable Finance,
General Counsel
oliver.moullin@afme.eu
+44 (0)20 3828 2712

Rachel Sumption
Manager, Sustainable
Finance
rachel.sumption@afme.eu
+44 (0)20 3828 2741

Carolina Cazzarolli
Manager, Advocacy
carolina.cazzarolli@afme.eu
+32 2 883 55 43

Jack Chapman
Graduate, Sustainable
Finance
jack.chapman@afme.eu
+44 (0)20 3828 2762

ISDA Contacts

Stevi Iosif
Senior Advisor for Public Policy
+32 (0)2 808 80 14
+32 (0) 487 426 734 (m)
2nd floor Square de Meeus 5/6, Brussels 1000
siosif@isda.org

[21] See ESAs opinion on the SFDR, June 2024 paragraph 49-51.