SFDR REVIEW

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The SFDR epitomizes what needs to be improved in the sustainable finance regulatory framework

The Sustainable Finance Disclosure Regulation (SFDR) is an essential cog in the sustainable finance regulatory framework established by the European Union. It has put in place transparency requirements in order to remove asymmetries of information, thus enabling financial market participants and retail investors to effectively redirect private capital flows towards a more sustainable economy. The regulation has surely played an important role in the qualitative leap observed in the ESG strategies of asset managers since its entry into application. Nevertheless, it also suffers from important flaws, even if some of them can be attributed to the fact that the SFDR came first within the EU sustainable finance framework. Therefore, it had to overcome the difficulty of regulating a still nascent activity, while not yet able to rely on later important regulations like the European Taxonomy of sustainable activities or the Corporate Sustainability Reporting Directive (CSRD). Other flaws are more pervasive to the rest of the sustainable finance regulatory framework.

While the SFDR has increased transparency, it still fails to provide enough common understanding of ESG strategies. The concepts used are too often ambiguous and difficult to grasp, even for some market participants and financial advisors, let alone for retail investors. This can only contribute to the prevailing distrust on the positive impacts of sustainable finance, as expressed in successive surveys. Bearing in mind the viewpoint of retail investors, these concepts should be revamped together with the sustainability preferences on the distribution side. Their consistency with the rest of the sustainable finance framework should also be ensured. As disclosure requirements on the financial sector trickle down to investee companies, they should be designed while taking into account the capability of corporates, including SMEs, to provide sustainability related information at a bearable cost. To this aim, the CSRD and its materiality principle should be used as a reference point. Large scale transition efforts are needed to achieve global environmental and social objectives, with immense financing needs. But the SFDR is currently not fit for supporting transition financing and should be adapted accordingly.

The current architecture of articles 8 and 9 ESG financial products has not proven suitable to meet the objectives of readability for retail investors and of support to transition financing. The difference between "promoting environmental or social characteristics" and "pursuing sustainable investment" easily eludes non-experts. Besides, it cannot put transition financing on an equal footing with the financing of sustainable activities, as it establishes an implicit hierarchy between broadly defined article 8 products and article 9 products structured around the more demanding notion of sustainable investment. Inspiration could be drawn from the pragmatic approach followed by the United Kingdom's Financial Conduct Authority, which has established the transition focused product category of "sustainability improvers" beside the "sustainability focus" category. Product categories should remain open to the variety of ESG investment strategies **(thematic investment, active stewardship, best in class, etc.) and investment universes (public and private equity)**.

The SFDR review should be treated as a priority by the EU institutions.

Going beyond disclosure requirements by adding minimum standards into the SFDR would help disseminate best practices and enhance the comparability of financial products. It would also draw conclusions from the observation that market players repeatedly misuse articles 8 and 9 products as labels. Minimum standards could notably rely on key metrics of the European regulatory framework, like transition plans and taxonomy KPIs. They should also remain adaptable to the developing maturity of the market.

The SFDR review should be treated as a priority by the EU institutions. The regulation suffers in particular from an insufficient focus on transition financing, on retail investors, and on the trickle-down effect of disclosure requirements on investee companies. A renewed version of the SFDR should not confine market players into a straightjacket but should be conducive to the development of ambitious and diversified ESG strategies, thus helping the EU sustainable finance market to keep its competitive edge and to fully gain the trust of retail investors.

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Transparency is the key to sustainable financing

Another hot, restless summer passes, but the fear that this one is likely to be cooler than the next does not go away. Worrying forecasts indicate that climate change will intensify if we do not take immediate and decisive steps. Therefore, actions to mitigate climate change and transition to a low-emission economy are crucial.

One of the first actions in the regulatory sphere to achieve green transformation goals is the Regulation on sustainability-related disclosures in the financial services sector (SFDR). Its entry into force can certainly be described as a watershed moment.

Since its inception in March 2021, it has changed the perception of financing objectives and investment policymaking toward transparency and disclosure of sustainability risks.

On the other hand the regulation continues to pose challenges for financial market participants (FMPs), who identify interpretive difficulties and gaps in its application. These problems relate, in particular, to the lack of legal clarity regarding key concepts, such as what constitutes a "sustainable investment." Additionally, there is a need to establish criteria to distinguish between the concepts of green and dark green investments (Articles 8 and 9). These ambiguities can be used as a tool for labeling and marketing financial products and services rather than disclosure framework as intended, thereby increasing the risk of greenwashing.

Another important issue raised by FMPs is the limited relevance of some disclosure requirements and aspects related to the lack of availability of good quality data and information, especially those on companies. Problems are also pointed out regarding the relationship of the SFDR regulations to other regulations, such as the Taxonomy, the Corporate Sustainable Investment Reporting Directive (CSRD), the sustainability principles established under MIFiD II and IDD, and the Climate Transition Benchmarks Regulation. These inaccuracies are the main cause of difficulties in implementing the indicated regulations and cause an unjustified increase in the cost of doing business.

Consultations conducted in 2023 indicate that the European Commission is aware of the challenges related to the current framework, including the lack of clarity regarding the definition of sustainable investment and the difficulty in identifying the relationship between the SFDR regulation and other regulations. The selection of key areas of focus, taking into account also potential directions for change, including considering the creation of a system for categorizing financial products, indicates a desire for a comprehensive look at these regulations.

It is important to maintain the main goal of increasing transparency in the operation of FMPs through sustainability-related disclosures in their investment strategies, in order to effectively support the green transition.

At the same time, changes to the SFDR should not be expansive, as regulations must not be unduly burdensome in business operations, and must support rather than hinder business transformation. In addition, the information presented should be reliable, simple and understandable to its audience.

It is also important to clarify the definition of "sustainable investment" to ensure greater consistency with similar regulations in Taxonomy. Another important issue remains the division of green financial products into light green under Article 8 and dark green under Article 9 of the SFDR. While the regulations are not perfect, it should be borne in mind that the market and consumers have already become accustomed to them, so it would be advisable to consider improving or clarifying them rather than introducing new product "labels" based on different criteria.

Changes to the SFDR should be of a necessary clarifying nature - transparency should be simple and easy.

It would be advisable to provide more support to FMPs in obtaining the necessary ESG data from companies that will report under the CSRD/ESRS. The CSRD and ESRS are based on the principle of materiality assessment. This principle implies that selected information may not be considered material and will not be reported by some companies. On the other hand, under the SFDR, FMPs have no choice but to report the data required by the regulation, even if it is not provided by the companies in their portfolios. The two pieces of legislation should therefore be made consistent, preferably by adapting the materiality assessment principle from the CSRD to the SFDR. It is also worth noting the problem of including ESG data from companies that are not and will not be covered by the CSRD for a long time (small and medium-sized unlisted companies that do not form a large group).

It is also worth continuing work on a social taxonomy, which should be based on the scope and types of data/indicators that will be reported by CSRD companies under the ESRS. The lack of a social taxonomy may hinder sustainable investments that do not harm the environment but achieve certain social and labor goals.

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Assessing SFDR is a necessary step in the green transition

The EU regulatory framework for "sustainable finance" has made considerable progress in the last few years, with several legislative initiatives either finalised or nearing completion. These developments continue to place the EU in a pioneering role in the sustainable finance area. If there is one particular regulation that plays a central role in the sustainable finance framework, it is SFDR.

By requiring financial market participants (FMPs) to publish sustainability-related disclosures on the products they manage or manufacture, SFDR should help build the bridge between the real economy's financing needs and investors looking for green(er) investment opportunities. From that perspective, it is important that SFDR is designed in a way that adequate information is provided to investors, while giving due account to their different levels of sophistication. The investor should be at the heart of such a regulation, as the end-objective is to allow investors to make an informed judgment of contemplated investment(s).

Since its entry into force in March 2021, SFDR has proven a challenging regulation to implement and to comply with. Questions on whether the regulation has delivered against its specific objectives have arisen.

Among potential shortcomings, despite SFDR being conceived as a disclosure regulation, it is largely used by FMPs as a labelling regime and being understood as such by investors. Foundational concepts of SFDR still lack clarity, increasing the threat of greenwashing. For instance, the framework allows every FMP to have its own understanding of what a sustainable investment is, thus hindering comparability among financial products and most importantly shifting the responsibility of investment due diligence on (retail) investors. The category of financial products disclosing under SFDR Article 8 is too broad, insofar that those products may have very different levels of sustainability ambitions, making it difficult for investors to navigate the products. Finally, the relevance of all the SFDR disclosure requirements for (retail) investors has been questioned. The SFDR disclosure templates also require significant data-driven information, which is not always straightforward to fulfil, considering the current availability and reliability of ESG data.

Against this backdrop, different initiatives have been launched to trigger a comprehensive assessment of SFDR, namely the 2023 targeted and public consultations of the European Commission on the topic and the Joint ESAs Opinion on the assessment of SFDR published in 2024. Allowing the sustainable finance package to deliver on its objective of further transitioning the economy shall be the main objective of the assessment of SFDR. Bridging existing differences is not an option, but an absolute necessity.

Disclosure categories under SFDR shall give due consideration to market practices having developed in the area, including on transition finance. Categories shall rely on clear and science-based, objective criteria like the Taxonomy framework to foster a common language/ understanding among stakeholders. The EU Taxonomy must be further developed/extended to account for all potential environmentally sustainable investments and social investments so that the Taxonomy becomes the sole reference point against which sustainability performance can be measured, also under SFDR. Key foundational concepts of the SFDR, such as the definition of what constitutes a "sustainable investment" need to be clarified. SFDR disclosures shall become more investor centric, be simplified and cater for different investor needs. Disclosure templates shall focus on essential information and be further standardized to allow investors to make an informed judgement of the investments. In addition, supervisory convergence is key to a well- functioning sustainable finance framework. In that regard, practices which create market fragmentation, such as the introduction of national "top up" SFDR and ESG rules and regimes, or differences in the application of SFDR for different financial products (like fund naming conventions), shall be remediated. Because such fragmentation puts into question the good functioning of the European passport for investment products, and thus the EU Single Market in those areas.

A review of SFDR in the spirit of resolving existing issues once for all.

SFDR has been subject to iterations and clarifications since its entry into force. But revisions which do not bring the necessary clarifications create legal uncertainty as well as undue complexity and, in the end, undermine the credibility of the EU framework.

A review of SFDR should now be undertaken in the spirit of resolving existing issues once for all and looking at the challenges ahead. Addressing potential shortcomings as such will not only lead to a more effective framework but also allow to increase investor trust. Which is pivotal to supporting the development of sustainable finance, and thus the transition to a greener economy.

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Breaking down regulatory complexity in the market for ESG funds

The market for ESG green funds is rapidly expanding – according to Bloomberg data, there are $7.7 trillion assets under management (AUMs) on Article 8 or 9 products, exceeding Article 6 AUMs that are just shy of $5 trillion. To put some more context on this rapid growth, 'light green' Article 8 AUMs have seen a steep increase of 28% compared to Q1 2023.

The Sustainable Finance Disclosure Regulation (SFDR) has played an important role in driving this uptake. It has improved and standardised the quantity and comparability of sustainability disclosures in financial market participants' investment policies and products available to investors, and has empowered investors to make sound and informed decisions in line with their sustainability goals.

As a data-driven business committed to improving transparency in financial markets, Bloomberg is fully supportive of the objectives of the SFDR. However, with Article 9 funds only accounting for 3%-4% of AUMs, has the SFDR achieved the real world impact of directing capital to address environmental and social issues? How can financial companies fully leverage the SFDR to promote transparency and credibility in the market?

First and foremost, to bring about lasting change, it will be crucial to finalise the implementation of other pieces of the EU's sustainable finance framework. The Corporate Sustainability Reporting Directive (CSRD) is a critical piece of legislation, which should significantly improve the accessibility and availability of ESG data. However, in order for the SFDR to work effectively, the European Sustainability Reporting Standards (ESRS) must complement the SFDR requirements, as financial companies need the Principal Adverse Impacts (PAI) and EU Taxonomy-aligned metrics from their investees' CSRD reports to fulfill their disclosures under the SFDR.

Furthermore, fund managers are given flexibility by the SFDR on defining how their fund's ESG goals and sustainable investments are met. Investment managers show wide variations in the way they define sustainable investments in Article 8 and 9 products, and whether they consider certain PAIs, which lies in a lack of industry standardisation and comparability in the terminology used for identifying sustainable products. It will be paramount to clarify the interpretation of key concepts and legal requirements contained in the SFDR to reduce uncertainty and fragmentation in the ESG market.

For the SFDR to act as a catalyst in the transition, focus should be placed on end-investors' needs.

The upcoming review of the SFDR should also strive to reduce complexity for the global investment community. For the SFDR to act as an enabling force in the transition to a more sustainable economy, greater attention should be placed on the needs of end-investors. For this reason, a common, less ambiguous categorisation system is a welcome proposal that would help identify products, and enable financial advisors and the investment community to more easily direct capital to the desired outcome.

Likewise, labeling regimes can be a helpful tool to build trust and credibility in the market. In the US, the SEC amended its Names Rule to include new criteria as part of efforts to prevent misleading investment fund names. In the UK, the FCA set out criteria for UK asset managers using sustainability-related terms and introduced four new labels through the new Sustainability Disclosure Requirements regime. It will be important for the EU to consider these developments in its review of the SFDR, as consistent regulatory approaches to ESG fund labeling will help counteract greenwashing, and ensure clarity and interoperability for the global investment community.

It will also be imperative that the various pieces of legislation fall into place. Although greenwashing represents a very tangible threat to the integrity of financial markets, addressing this threat requires concerted action. It will be vital to clarify how ESMA's Guidelines on funds' names using ESG terms will interact with the upcoming legislative revisions expected for the SFDR. EU Member States will be able to choose whether to endorse the Guidelines, which poses a significant risk of fragmentation in and of itself. Additionally, a large number of funds are expected to make divestments and change their portfolio mix, or update their name and objectives – possibly leading to a new wave of SFDR reclassification of Article 9 funds. These abrupt changes, coupled with the uncertainty of what is to come in the SFDR review and a potentially disjointed regulatory approach, may create headwinds for the ESG investor community in bringing new products to market.

Revising the SFDR will require a coherent and complementary approach across different aspects of the EU's sustainable finance framework to encourage ESG investment best practice and deliver real world changes. Financial markets need a regime centered on bringing clarity to the global investment community. Should the SFDR succeed in this endeavor, it can be a powerful catalyst for the transition to a more sustainable economy.

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Improving SFDR to address the objectives of the Green Deal

1. The Burdens of Implementing SFDR for Financial Market Participants

The Sustainable Finance Disclosure Regulation (SFDR) represents a significant step toward integrating sustainability into the financial markets of the European Union. However, the implementation of SFDR has presented numerous challenges and burdens for financial market participants (FMPs).

1.1. Complexity and Compliance Costs

The SFDR requires FMPs to disclose how they integrate sustainability risks into their investment decision-making processes. This involves a substantial increase in reporting requirements, demanding detailed information on sustainability indicators, adverse impacts, and sustainability risk management practices. For many FMPs, the resources required to collect, analyze, and report this data are considerable. The need for potentially new IT systems to handle the increased data volume adds to the burden.

Compliance costs have surged, with many firms needing to hire new staff to navigate the complex requirements. For CNP Assurances, the one-off costs linked to the implementation of SFDR were greater than €5 million and the recurring costs are greater than €1 million per year, whereas the number of customers downloading SFDR disclosures on our website is below a thousand per year, compared to a base of 14 million savings customers.

1.2. Interpretative Uncertainties

One of the major challenges has been the interpretative uncertainties surrounding the regulation. The SFDR's broad and sometimes ambiguous language has left many FMPs struggling to understand how to comply fully.

Definitions of key terms like "sustainable investment" and the criteria for categorizing products under Articles 8 (products promoting environmental or social characteristics) and 9 (products with a sustainable investment objective) have been particularly contentious. This lack of clarity has resulted in inconsistent application and hesitancy among market participants, fearing non-compliance and potential penalties.

2. Recommendations to the New Commission

The consultation process for the SFDR reform has revealed divergent views on several key points, particularly concerning Articles 8 and 9. Bridging these differences is crucial for ensuring a coherent and effective regulatory framework. As the new European Commission takes office, there are several recommendations that can help ensure the successful implementation and evolution of the SFDR.

The new European Commission should improve SFDR's usability and understandability.

2.1. Provide Clear and Detailed Guidance

One of the primary points of contention has been the definitions and criteria for what constitutes a sustainable investment and what constitutes an Article 8 or Article 9 product. A harmonized, clear definition is essential for ensuring consistent application across the market. This could involve setting clear thresholds and metrics for determining what qualifies as a sustainable investment, thereby reducing ambiguity and fostering greater confidence among market participants. Detailed Q&A documents, case studies, and practical examples could help FMPs better understand and meet their obligations.

2.2. Foster Continuous Dialogue with Stakeholders

Engaging with a broad range of stakeholders, including FMPs (not only asset managers but also banks and insurance companies), distributors, non-governmental organizations and academic experts, can help bridge the differences in opinions.

Ongoing dialogue with stakeholders is essential for the effective implementation of SFDR: the Commission should establish regular forums and consultation processes to gather feedback and address emerging issues. This could help in identifying and resolving practical challenges faced by market participants. This could also involve iterative feedback loops where stakeholders can comment on draft guidance before it is finalized.

2.3. Improve Usability by FMPs and Understandability by Retail Customers

To address the objectives of the Green Deal, the Commission should improve usability of SFDR, based on FMPs experience collected so far. This could involve phased implementation timelines or simplified reporting requirements, ensuring that participants can comply without facing undue hardship. The Commission should implement test so that the SFDR disclosures produced by FMPs are understandable by retails customers.

2.4. Promote Alignment with other European and International Regulations

Consistent definitions and implementation timelines between SFDR and other European regulations, like the Corporate Sustainability Reporting Directive and the Taxonomy Regulation, are of course key to ensure a smooth implementation.

Given the global nature of financial markets, promoting international cooperation on sustainable finance standards is crucial. The Commission should work towards aligning SFDR with other international frameworks, such as the UK Financial Conduct Authority (FCA) Sustainability Disclosure Requirements (SDR). This can help reduce fragmentation and promote a harmonized approach to sustainability disclosures.

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Reforming SFDR: a call for the EU framework to foster transition finance

Based on responses to consultations regarding the implementation of SFDR, it is clear that nearly all financial market participants (FMPs) support the regulation's goal of enhancing transparency in funds' sustainability credentials through uniform, EU-level disclosures. However, a significant concern is that the investment industry has mistakenly used Articles 8 and 9 as a labelling regime—an unintended consequence of SFDR. Federated Hermes agrees with the majority view that the EU should address this issue by establishing an EU-level labelling framework for investment products. This framework would address a critical gap in SFDR: the specific recognition of, and regulatory support for financing the transition to a low-carbon economy. This is particularly important for fixed-income investors, given the characteristics of sustainability bond markets.

The European Commission (EC) emphasizes the need for the economy to "transition from current climate and environmental performance levels towards a climate-neutral, climate-resilient, and environmentally sustainable economy." Currently, SFDR does not recognize investing in the transition as a distinct class of sustainable finance. This essential step—de-risking the planet through transition investments—falls outside the narrow scope of "sustainable investments" under Article 9 funds. Meanwhile, funds directing capital to companies with credible transition strategies are often overshadowed by "ESG integrated" Article 8 funds. To address this, the EC should create a distinct labelling regime with a category specifically for transition investment products.

The transition product category should encompass companies that either have defined transition strategies or are identified by FMPs as capable of improving their environmental and social characteristics through credible engagement. Recognizing this transition category is essential for investors to align with the EC's directive to mobilize capital toward sustainability. While supporting sustainability leaders is crucial, it is equally important to provide access to capital at lower costs to companies in emissions-intensive sectors that earnestly seek to decarbonize, rather than financing those that perpetually sink capital into activities that degrade the planet. Transition (or engagement) funds raise capital that finance the transition to a low-carbon economy. They can invest across a broader spectrum of sectors than a limited group of leaders, an important aspect for fixed-income investors.

Transition (or engagement) funds raise capital that finance the transition to a low-carbon economy.

Green and other labelled bonds fund activities and projects that benefit society or the environment. The labelled bond market, currently valued at $4 trillion, is expected to grow even more in 2024. A transition label could incentivize entities in challenging sectors and emerging market regions to issue green or other sustainability bonds, broadening the market's investor base. Given the unique characteristics of labelled securities in the fixed-income market, a transition label is particularly critical for fixed-income investors.

These transition funds can also enhance bond investors' leverage in corporate engagement. As key financial stakeholders, similar to shareholders, bond investors have not only the right but also the responsibility to engage with companies on sustainability practices. Their influence is amplified by companies' recurring need to refinance debt in the capital markets. Like shareholders' influence through ownership, bondholders' influence arises from companies' dependency on access to debt capital markets.

Sustainable investment funds must achieve financial performance. A dedicated transition category for investment products enhances their ability to do so. Emerging regulations, shifting value chains, and changing consumer preferences drive structural changes in the economy toward sustainability. Companies that acknowledge and embrace these changes will likely be the future's resilient businesses. A transition category within a new EU labelling regime could serve as a catalyst, attracting capital to support the transition while offering superior, risk-adjusted returns to investors.

Reopening the SFDR legislative text is a tremendous opportunity to correct misconceived requirements in the EU sustainable investment framework. This includes addressing issues such as KPIs based on "enterprise value including cash" (EVIC) and some unintended disincentives related to carbon accounting to invest in green bonds.

We must also incorporate nature-related risks into the EU framework—a considerable task ahead of us. The science-based Intergovernmental Panel on Climate Change and Convention on Biological Diversity identified the systemic risks caused by the planet's declining health. We owe it to future generations to make the systematic changes to the financial ecosystem if we are to succeed in mitigating the risks.

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Building on what we learned and seeking improvements with caution on disruption

Europe is faced with critical challenges, from climate change to competitiveness to security. These make it a priority to re-assess many of the region's policies through the lens of competitiveness and speed of delivery to create prosperity for EU citizens and companies.

The Sustainable Finance Disclosures Regulation (SFDR) should be evaluated in this context. Initially aimed at enhancing investor disclosures and decision making, it quickly evolved into a de facto product label, with less use by savers on the disclosures themselves. With more than three years of implementation, the on-going review, prompted by last year's Commission consultation, should seek to build on what we learned from clients, investee companies and markets in order to address the priorities in this area.

What we know so far[1]:

- Clients value information that is simple and meaningful to their investment needs and objectives.
- Accessing reliable, and consistent data is a key challenge for investment decisions and ESG asset allocation. Whereas for companies generating data, costs and materiality are key concerns.
- Obscurity around key SFDR concepts such as the definition of sustainable investments (SIs) and the Do-No-Significant-Harm (DNSH) persists and resulted in more sophisticated investors building their own set of ESG definitions and preferred types of strategies.
- While investors value some guidance on types of sustainability-related products, too much prescription hinders investment solutions dedicated to their needs.
- Transitioning companies are seen as key to capturing investment opportunities across the globe.

For over a decade we have witnessed increasing demand for ESG investments and an equal growth in the types of strategies available to investors. SFDR's main objective on transparency remains as relevant as ever; however, the type of information captured is critical. The diverse range of disclosures at entity and product level isn't always material from investors' viewpoint or relevant across all markets and asset classes and is costly to produce. Excessive, inconsistent, and irrelevant information can lead to confusion and potential misinformation. Therefore, it is no surprise that while most respondents to the consultation agree with the objective of the Regulation, there are concerns whether the information disclosed is fit for purpose.

Product disclosures should focus on a core and limited set of universal and material indicators, such as climate and human rights, where data collection is feasible. Subsequent additional information can be customized to each product's specific ESG characteristics and strategy. This can enable disclosures that provide comparable and meaningful data points for investment decisions.

Considering the Corporate Sustainability Reporting Directive's implementation as of 2025, it's important to evaluate the relevance of entity-level reporting under SFDR, especially regarding Principal Adverse Impact (PAI). The data underpinning PAI reporting is currently inadequate, and aggregating across diverse strategies and assets offers little value to investors. Asset managers and importantly clients might be better served by a narrative description of the sustainability risk management practices.

When it comes to the ongoing question on establishing EU sustainability categories to further guide retail investors, it is also important to reflect what we have learnt. The main issues investors struggle with are the unclear definition of SIs, the PAI application at a product's level not always being aligned with their sustainability preferences, the interaction between DNSH and PAIs, and the low use of the Taxonomy. These issues highlight the difficulty in crafting suitable concepts and definitions. A potential solution is to refine and clarify existing terms, simplifying them to better reflect investment solutions and capture investor goals.

As SFDR has established market practices in a remarkably short period of time, there should be caution on the speed of change. Moving too quickly away from these can be distortive and perpetuate risks for legal uncertainties. If formal sustainability categories are deemed necessary, they should be optional and focus on transitioners and credible transition paths, aligning with the key interests of both investors and regulators.

Support the momentum and knowledge gained and deliver the simplicity and flexibility investors need.

We recognise all that has been achieved so far by policymakers, asset managers, investors and companies through the adoption of SFDR. While its widespread adoption should be viewed as a success, it has inevitably identified areas for further improvement. The purpose of the review should be to support the momentum and knowledge gained in the past years and deliver the simplicity and flexibility that investors and projects need to channel finance successfully.

1. *As presented in Capital Group's global ESG study conducted for the third consecutive year (https://www.capitalgroup.com/advisor/pdf/shareholder/ITGEOT-073-1043294.pdf)*