

PRESS RELEASE

European Financial Supervisors Listen to Investors and Propose Simplified Categories for Sustainable Finance Disclosure Regulation

Brussels, 25 June 2024 – European financial supervisors have taken a proactive stance in their Opinion on the assessment of the Sustainable Finance Disclosure Regulation (SFDR), addressing concerns raised by individual investors on its current complexity and potential for greenwashing. The ESAs proposal aims to empower retail investors by advising the Commission to replace the existing 'Article 8' and 'Article 9' disclosure rules with appropriate categories that better reflect retail investor interest and understanding of sustainable financial products.

The introduction of a new "Transition" category represents a significant advancement, empowering investors to actively contribute to the greening of the brown economy, rather than merely reallocating investments within already sustainable sectors. This shift is expected to revolutionise sustainable investing, ensuring that efforts are channelled towards delivering tangible impacts on the real economy.

Research from Yale University and Boston College, published in November 2023, underscores the critical importance of this approach. Their study, titled "Counterproductive Sustainable Investing: The Impact Elasticity of Brown and Green Firms," highlights how current practices in portfolio greening may inadvertently undermine broader economic sustainability efforts.

Transition investing is poised to become pivotal in sustainable investing strategies, driving genuine environmental progress. This approach recognises that effective economic greening requires substantive, systemic changes beyond superficial adjustments to portfolios.

BETTER FINANCE welcomes the ESAs' joint opinion on the SFDR, which aligns closely with its own [proposals](#) to ensure that sustainable investment products meet the needs of EU citizens as individual investors.

In line with BETTER FINANCE, the ESAs clarify and set clear criteria for sustainable product categories:

1. **Sustainable product category:** for products investing in economic activities/assets already environmentally and/or socially sustainable.
2. **Transition product category:** for products investing in economic activities/assets not yet sustainable but working towards improved sustainability over time.
3. Additionally, the ESAs urge the European Commission to consider a sub-category under transition for "**investor impact**," targeting products offering solutions to sustainability challenges alongside financial returns, ensuring clarity for retail investors.

The ESAs also emphasise the importance of consumer testing in policy development, urging the Commission to incorporate such testing to strengthen evidence-based policymaking. This approach aims to enhance retail investors' understanding of how sustainability profiles of financial products facilitate capital allocation towards sustainable investments.

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