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## **BETTER FINANCE Calls for Clearer ESG Categorisation Rules for Individual Investors**

BETTER FINANCE, alongside BEUC and Finance Watch, welcomes the Platform on Sustainable Finance's proposal to categorise financial products under the SFDR. However, we have serious concerns regarding the proposed "ESG Collection" category and the absence of mandatory engagement requirements for professional ESG investors, both of which risk misleading investors. BEUC and Finance Watch join us in this call.

The Sustainable Finance Disclosure Regulation (SFDR) was introduced to increase transparency and help individual investors understand and compare financial products based on their sustainability claims. Environmental, Social, and Governance (ESG) investing aims to direct capital towards sustainable economic activities. However, inconsistent interpretations of SFDR's categories (Articles 8 and 9) have led to widespread confusion and concerns over greenwashing. With the European Commission reviewing SFDR, now is the time to fix these flaws and ensure sustainability claims genuinely reflect reality.

### **Problems with the ESG Collection Category**

While the ESG Collection category aims to exclude harmful investments, its broad definition risks repeating the same greenwashing issues. Without clear impact requirements, firms could continue marketing weak ESG claims, misleading investors into thinking their money drives meaningful change in the real economy.

Furthermore, the lack of precise criteria and the reliance on inconsistent ESG ratings add to investor confusion. To restore trust and ensure clarity, we urge the European Commission to remove this category from the SFDR framework.

### **Engagement Must Be Mandatory**

Another critical issue is that engagement remains optional rather than a binding requirement, particularly for crucial transition investing. In this context, engagement refers to the active role that investors or their representatives play in influencing companies' sustainability practices through dialogue, voting, filing or supporting resolutions, etc., thereby ensuring that financial products do not merely hold assets passively but actively contribute to environmental and social improvements.

Active engagement is crucial for steering companies towards sustainability. If asset managers are allowed to passively hold investments while marketing funds as contributing to the energy and environmental transition, the effectiveness of the SFDR is severely undermined.

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## A Transparent and Effective SFDR Framework

The upcoming SFDR review is an opportunity to align the framework with its original goal: helping individual investors make informed choices. BETTER FINANCE calls on the European Commission to:

- Remove the ESG Collection category to prevent continued greenwashing.
- Make engagement a mandatory requirement so that financial products actively contribute to sustainability rather than serve as passive investments.

*"Individual investors deserve financial products that truly align with their sustainability expectations, not vague promises. If the EU is serious about tackling greenwashing, it must ensure clear, enforceable rules,"* said Aleksandra Mączyńska, Executive Director of BETTER FINANCE.

As advocates for EU citizens as individual savers and investors, we remain committed to a financial system that is transparent, sustainable, and truly works in the best interests of European citizens. We look forward to engaging with policymakers to improve SFDR and rebuild investor confidence in sustainable finance.

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