BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

BETTER FINANCE responds to

Revision of EU rules on sustainable finance disclosure

30 May 2025

Executive Summary

BETTER FINANCE welcomes the European Commission's plan to revise the SFDR to fix its complexity, legal gaps, and greenwashing risks. As the voice of EU citizens as financial services users, we back a clearer, simpler, and more effective framework that helps individual investors make informed sustainable investment decisions.

The SFDR has fallen short of its goals due to vague definitions, regulatory overlap, excessive complexity, and persistent data gaps. These issues have led to confusion, inconsistent application across the EU, and weakened investor trust.

To address these shortcomings, BETTER FINANCE backs a clear, investor-first product categorisation with three labels: – "sustainable", "transition", and "unclassified". Moreover, we emphasize that investor engagement must be mandatory to ensure products deliver real-world impact. Engagement cannot remain optional, as evidence demonstrates that active stewardship is what truly moves the needle. Investors must know their money is part of the solution, not just a label.

We urge the Commission to introduce legally binding definitions, align the SFDR with the CSRD, and prioritise simplified, comparable disclosures. Simplification must go beyond word count - it should raise quality, reduce greenwashing, and keep EU markets strong. Only then can the SFDR fulfil its purpose and drive private capital toward Europe's sustainable future.

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BETTER FINANCE RESPONSE

BETTER FINANCE welcomes the European Commission's initiative to revise the SFDR to address its complexity, legal uncertainty, and greenwashing risks. As the voice of European citizens as financial services users, we support a clearer, simpler, and more effective framework that empowers individual investors to make informed sustainable investment decisions.

The SFDR was introduced with a strong purpose: to improve transparency in sustainable finance and give investors the tools to make informed decisions based on clear and comparable sustainability disclosures. Yet, despite its ambition, the regulation has largely failed to deliver. Vague legal definitions, overly complex and sometimes irrelevant disclosure requirements, overlaps with other EU regulations, and persistent data gaps have created confusion. These flaws have not only placed heavy compliance burdens on providers but also made implementation inconsistent across the EU. For investors, the result is a lack of comparability and transparency, opening the door to greenwashing instead of preventing it. In the end, a regulation meant to support the green transition has instead spread confusion, mistrust, and inefficiency, falling short of its aim to steer private capital toward Europe's sustainable future.

From BETTER FINANCE's comprehensive evidence-based studies, we found that individual investors are increasingly interested in both sustainable and transition investments. One project providing investment training showed that over 50% of the retail investors are interested in climate-friendly products – highlighting the potential value of clearer product categorisation. A separate survey of 1031 individual investors across France, Germany, and Italy, revealed that legal and structural barriers – such as limited access to virtual AGMs and lack of transparency on climate strategies – continue to restrict meaningful investor engagement and support for transition initiatives.

As such, to tackle these shortcomings, we propose two key measures: a new categorisation system and mandatory investor engagement. **BETTER FINANCE supports a clear and investor-focused product categorisation, based on three distinct labels: "*sustainable*," "*transition*," and "*unclassified*".** A product should be "sustainable" if it aligns with the EU Taxonomy and meets the criteria for sustainable investments; "transition" if it actively supports the shift to a net-zero economy; and "unclassified" if it meets neither. Clear legal and practical definitions will reduce greenwashing and prevent advisors from misleading investors into thinking their money funds are meaningful to change when it may only support marginal ESG efforts.

But legal definitions alone aren't enough, investor protection demands more. These categories remain too complex for most individuals to navigate confidently. The shift will only happen when investors can easily grasp the information. How? Using intuitive labels, visual tools, and proportionate but meaningful disclosures. **Simplicity isn't a luxury for individual investors – it's a need.** Sustainability information is often scattered across various documents in varying formats, making it hard for individual investors to understand and easy to overlook. To address this, BETTER FINANCE proposes a "**Keep It Short and Simple**" (KISS) disclosure approach. This would make key insights easy to find, clear to read, and accessible without technical expertise, fostering greater transparency and trust. As individual investors increasingly engage with ESG, disclosures must be both of high-quality and easy to understand. If we are serious about attracting private capital and delivering on the SFDR's purpose, **we must speak the investor's language**.

Furthermore, BETTER FINANCE believes **engagement can't be optional** if we want sustainable finance to deliver real-world impact. When engagement is voluntary, funds can be branded as "transition" products without substantially being one. In fact, if a fund is classified as transition, it should at least have engagement as a key metric which can assess its progress in relation to transition. Research shows that active engagement, rather than simply avoiding certain investments, is what truly moves the needle. Individual investors need to be assured that their money is part of the solution, not just a label.

In the current status quo, it is imperative that the European Commission set legally binding definitions with clear criteria to ensure comparability and rebuild investor trust. Aligning the CSRD and SFDR is key to avoiding fragmentation. **BETTER FINANCE** urges the European Commission to prioritize investor protection through clearer rules, simple product labels, and mandatory engagement. Only with these measures can the SFDR fulfill its promise to guide private capital toward a truly sustainable future. Simplification should mean more than cutting text – it must improve quality, reduce greenwashing, and keep EU markets competitive.

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About BETTER FINANCE

BETTER FINANCE — the European Federation of Investors and Financial Services Users — is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

Short box on the form to answer:

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BETTER FINANCE welcomes the European Commission's plan to revise the SFDR to fix its complexity, legal gaps, and greenwashing risks. As the voice of EU citizens as financial services users, we back a clearer, simpler, and more effective framework that helps individual investors make informed sustainable investment decisions.

The SFDR aimed to boost transparency in sustainable finance and give investors tools for informed choices via clear, comparable disclosures. Yet, it has mostly failed. Vague terms, overly complex and often irrelevant requirements, overlaps with other EU rules, and data gaps have led to confusion. These flaws cause heavy compliance burdens and uneven rollout across the EU. For investors, this means low clarity and comparability, enabling greenwashing rather than preventing it. A regulation meant to support the green transition instead spread confusion, mistrust, and inefficiency - falling short of its aim to steer private capital towards a sustainable EU future.

Sustainability data is often split across documents in unclear formats, making it hard to grasp and easy to miss. To fix this, BETTER FINANCE proposes a "Keep It Short and Simple" (KISS) disclosure style. Key info should be easy to spot, simple to read, and clear for non-experts - boosting transparency and trust. As retail investors grow their ESG interest, disclosures must be both high-quality and easy to grasp.

To fix the issues, we propose two main actions: a new product categorisation and mandatory investor engagement. BETTER FINANCE backs a clear, investor-first product system with three labels: "sustainable," "transition," and "unclassified." A product is "sustainable" if aligned with the EU Taxonomy and fits sustainability rules; "transition" if it actively supports a net-zero shift; and "unclassified" if not fitting either. Clear legal and practical terms will curb greenwashing and stop advisors from misleading investors into thinking their funds drive real change when they might only offer marginal ESG support.

But rules alone aren't enough - investor protection more. These categories are still too complex for most individual investors to grasp with confidence. A real shift needs information to be easy to understand. How? With smart labels, visuals, and concise but clear disclosures. Simplicity isn't optional - it's a need. If we aim to attract private capital and meet SFDR goals, we must speak the investor's language.

BETTER FINANCE believes that engagement can't be optional if sustainable finance is to drive real-world impact. When engagement is left voluntary, funds can be called "transition" without truly being so. If a fund claims to be in transition, it must use engagement as a key metric of its transition progress. Research shows that active engagement, rather than simply avoiding certain investments, is what truly moves the needle. Investors must know their money is part of the solution, not just a label.

Given today's landscape, the European Commission must set legally binding definitions with clear criteria to ensure trust and comparability. Aligning CSRD and SFDR is key to stopping fragmentation. Simplification must go beyond word count - it should raise quality, reduce greenwashing, and keep EU markets strong.

From BETTER FINANCE's evidence-based research, we know individual investors are more and more interested in both sustainable and transition products. One investment

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education project showed over 50% of retail investors want climate-friendly options - underlining the need for clearer product labels. A separate survey of 1031 investors in France, Germany, and Italy found that legal and structural hurdles - like no access to virtual AGMs and unclear climate plans - still block serious investor engagement and support for transition moves.

BETTER FINANCE calls for clear rules, simple labels, and real engagement to ensure the SFDR empowers investors, builds trust, and drives real impact toward a sustainable future.

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