



Danish government response to the European Commission's call for evidence for an impact assessment on the SFDR

Dear Commissioner Albuquerque,

The Danish government appreciates the opportunity to provide input on the European Commission's call for evidence.

We agree that the SFDR plays an important role in directing investments towards the green transition and that there is a need to improve the current regulation to ensure that the sustainability disclosures generate the necessary value for investors.

In this regard, a strong focus on simplification, streamlining, and burden reduction in the upcoming revision is needed. It is important to ensure consistency across regulations. This should be a particular focus in the SFDR review, as a consistent framework is needed to support the growth of green and sustainable capital flows. In this regard, ensuring consistency between the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy, and SFDR is of particular importance, and the outcome of the negotiations of the reporting omnibus should be taken into account in the SFDR proposal.

Product categories

We agree that there is a need to introduce product categories for financial products with sustainable features. Proper product categories with clear minimum criteria for sustainability will make it easier for investors to compare products and to be confident that all products with sustainability-related claims do in fact contribute to a sustainable economy.

However, we ideally prefer to only introduce two product categories (e.g. a "sustainable" category and a "transition" category), as we believe this will make the regulation simpler and easy to use and understand for retail investors. Introducing a third category for products with only some degree of sustainability characteristics can give investors a misleading impression of a somewhat sustainable product although the criteria for investments to be included in the product can be very low. This entails a risk of perceived greenwashing.

The product categories should be based on the existing concepts of the SFDR such as "sustainable investments" and "principle adverse impact indicators". The current definition of sustainable investments in the SFDR is principle based and provides flexibility to the financial market participants in assessing the sustainability of their investments.

**MINISTER FOR INDUSTRY,
BUSINESS AND FINANCIAL
AFFAIRS**

**MINISTRY OF INDUSTRY,
BUSINESS AND FINANCIAL
AFFAIRS**

Slotsholmsgade 10-12
1216 Copenhagen K
Denmark

Tlf. +45 33 92 33 50
Fax. +45 33 12 37 78
CVR-nr. 10092485
EAN nr. 5798000026001
em@em.dk
www.em.dk

Simplification, streamlining, and burden reduction

In revising the SFDR, the Danish government encourages the Commission to focus on the following proposals related to simplification, streamlining, and burden reductions:

1. Limit SFDR to product disclosures

- The SFDR currently has disclosure requirements for financial market participants at both entity level and product level, even though an investor invests in the financial product and not in the financial market participant. The need for the disclosure requirements at entity level in Articles 3, 4, and 5 should be reassessed in order to gather disclosures at entity level in the CSRD. This will simplify the regulation and decrease the burdens by ensuring a better consistency between the different legislations. The disclosure requirements on PAI in Article 4 could be kept in a simplified manner, focusing on the PAI at the product level, e.g. in the pre-contractual and periodic disclosures.

2. Simplify PAI disclosures and ensure consistency and alignment across the sustainable finance regulation

- The SFDR is not aligned with the consideration of materiality in the CSRD. The principle of materiality in CSRD should also be applied in the SFDR regarding the assessment of PAI etc. Consequently, there should only be disclosed about investee companies provided that the information is relevant and significant¹. While information regarding greenhouse gas emissions will often be a relevant indicator to disclose, this is not the case for all indicators. Some information might not be relevant for all types of companies and the disclosures regarding certain indicators will therefore not always be relevant for assessing the *material* negative impact.
- Furthermore, the current PAI-indicators of the SFDR should be reassessed in the light of the Omnibus proposal negotiations and the necessary consequential changes should be made to ensure full alignment between the disclosure requirements. The simplification of the ESRS in the CSRD will substantially reduce the number of mandatory data points, which could potentially also affect the PAI-reporting according to article 4 of the SFDR and the DNSH-test according to article 2(17).

3. Remove disclosure requirements on sustainability risk processes

¹ The Commission has addressed this in the FAQ on the CSRD from august 2024 (question 90) but we propose that it should be included in the review of the SFDR.

- The disclosure requirements on the integration of sustainability risk in article 3 and article 6(1)(a) were included in the SFDR at a time where there was a strong need for nudging the financial market participants into addressing sustainability risks more explicitly in their risk management. However, since the adoption of the SFDR, the prudential regulation largely has made this a “hard requirement” for both insurance companies, banks, fund managers etc. reducing the need for a nudging effect in the SFDR. The disclosure requirements in articles 3 and 6(1)(a) should therefore be deleted since information regarding the way that sustainability risks are integrated in the investment decision seems less relevant for the investor. This will also reduce the reporting burdens for the financial market participants.
- The disclosure requirement in article 6(1)(b) should, however, be kept as information about the likely impacts of sustainability risks on the return of the financial products seems more relevant for the investor compared to information regarding the way that sustainability risks are integrated in the investment decision.

4. Reduce the scope by exempting AIFMs and products targeting professional investors

- Registered AIFMs and products solely marketed towards professional investors are generally subject to a less strict regulation with less consumer protection compared to products marketed towards retail investors. The same should be the case regarding sustainability disclosures. Professional investors can generally be expected to have a more extensive dialogue with the financial market participant and a more in-depth understanding of the financial product compared to retail investors. We would therefore suggest to explicitly exempt registered AIFMs and products only targeting professional investors from making disclosures under the SFDR. This will also reduce the reporting burdens for those financial market participants. These products could, however, be given the flexibility to voluntarily comply with the requirements in the SFDR, if they wish to do so. Alternatively, the financial market participant could be required to provide the information to the investor upon request.

We look forward to the upcoming work on the revision of the SFDR and stand ready to share experiences to ensure a more effective use of the regulation.

Any questions can be raised via email to Jonas Wulff jothwu@em.dk.