Frankfurt am Main,
8. Juli 2024

BVI's comments on the ESA opinion on SFDR review

- We very much support the ESA's emphasis on the simplicity of product classification and its usability for retail investors. In order to meet these preconditions, the options for new categories of sustainable products should be thoroughly tested in practice with retail investors and distributors.

- The **two product categories** proposed by the ESAs – sustainability and transition – while appropriate as such, are **not sufficient** to capture all sustainability-related investment approaches requested by investors. The majority of currently available products with ESG features does not aim at sustainability-related outcomes (as presumed by the ESAs), but integrate sustainability aspects process-wise in the asset selection and management process in order to mitigate sustainability risks or to focus on dedicated sustainability topics. There should be **at least one additional category** to cater for such **process-based ESG strategies** and **thematic investments**. In addition, we recommend including a "mixed category" combining different sustainability approaches for multi-asset investment strategies in approximation of the "mixed goals category" under the UK labelling regime.

- Sustainable product categories should optimally represent different sustainability objectives of investors (financing green or social projects, supporting transition, mitigating ESG risks etc). Therefore, we are **reluctant** about the ESAs' suggestion to **combine introduction of product categories with a sustainability indicator**. A sustainability indicator that applies to all products (**option 1** in the ESAs' opinion) would necessarily imply a **hierarchy of different product categories that would be difficult to justify** (transition-focused strategies would likely be ranked lower than sustainability-related products, even though they might result in higher positive impact as regards the real-world reduction of GHG emissions, improvement of working conditions etc). Applying sustainability indicators within product categories in order to flag the level of ambition (**option 2** in the ESAs' opinion), on the other hand, would entail **additional layer of complexity for investors**. It would also need to be accompanied by detailed rules on how to assign products to the different shades of sustainability that would be **counterproductive to the EU efforts of simplifying and streamlining the sustainable finance framework**.

- The ESAs recommend envisaging that the share of transition-related (or sustainability-related) investments in certain products can be gradually increased over time. While not generally rejecting such ideas, we believe that **any derogations from the general rules should be reasonably justified by specificities** at either asset class or product level. In particular, product-specific provisions that allow for an initial ramp-up period for asset allocation in line with a predefined investment strategy must be taken into account also for applying sustainability-related minimum requirements (such as a certain minimum proportion of sustainability- or transition-related investments). For instance, ELTIFs have up to five years to invest at least 70% of the capital; for German closed-ended retail funds the rules on risk diversification start applying only eighteen months after the launch of product marketing. The same applies to the divestment period intrinsic in products such as closed-ended funds that undergo orderly liquidation at the end of a product's lifetime.

- We support the suggestion by the ESAs to work on a common set of criteria for assessing sustainability of government bonds.

BVI
Bundesverband Investment
und Asset Management e.V.

Kontakt
Fon +49 69 15 40 90 0
www.bvi.de

BVI Berlin
Unter den Linden 42
10117 Berlin

BVI Brüssel
Rue Belliard 15 – 17
1040 Bruxelles

BVI Frankfurt
Bockenheimer Anlage 15
60322 Frankfurt am Main

Geschäftsführung
Thomas Richter Hauptgeschäftsführer
Rudolf Siebel Geschäftsführer