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Director General
Directorate-General for Financial Stability, Financial Services and Capital Markets Union
European Commission
Brussels
Belgium

15 December 2023

Re. Targeted consultation on the Sustainable Finance Disclosure Regulation

Dear Sir

Thank you for the opportunity to provide views on the targeted consultation on the implementation of the Sustainable Finance Disclosure Regulation (SFDR). This letter provides a summary of the key messages from the Central Bank of Ireland, contained in our response.

Disclosures play a crucial role in unlocking the funding needed to accelerate the transition to a sustainable, climate-neutral economy, and meet the EU wide goal of being net zero by 2050.

We support making significant progress to update the sustainable finance disclosure framework to channel investment towards **products that support the transition**, and **address concerns in relation to potential greenwashing**.

Significant effort has been made by financial market participants to set up processes to report under the current SFDR requirements, and this effort has resulted in more transparency around the sustainability features of products and processes. We would support targeted measures to build on this foundation, that prioritise the retail investor perspective and simplify the sustainable finance framework where possible.

We provide this feedback based on our learnings from the implementation of the SFDR, as well as our views on potential updates to the sustainable finance framework, including the introduction of product categories.

Implementation of the existing requirements

As well as our authorisation and supervisory activities in relation to the implementation of the SFDR, the Central Bank of Ireland has also been actively involved in the ongoing policy and regulatory development on the topic in the European Supervisory Authorities.



The key areas of feedback on the existing implementation of the SFDR provided in our response are as follows:

- concern as to the use of the current Article 8 and 9 disclosures for labelling purpose;
- the need for clarification of definitions in the SFDR, including “sustainable investment”;
- introducing minimum criteria can enhance trust in the disclosures under Article 8 or 9;
- the need to improve the recognition of transition activities under the SFDR;
- the need for better alignment of the SFDR with other sustainable finance regulations (e.g. Taxonomy, Benchmark Regulation).

Product Categories

The Central Bank is supportive of introducing a small number strong and clear product categories, with associated minimum criteria.

Categorisation if done well, could be hugely beneficial for investors to better understand and compare products, simplify the choice architecture for consumers (and their advisors), and could also help address greenwashing.

In this regard, we suggest that the following elements, amongst others, are considered when developing product categories

- There should be a small number of strong and clear categories, with specific targeted outcomes in mind.
- The Central Bank see a clear need for product categories (a) for sustainable products (based on alignment with the Taxonomy), and (b) for products that support transitioning activities. There may also be benefit in product categories that support partially sustainable or impact products.
- Categories should only apply to ESG-related products.
- There are different dimensions / approaches to ESG investing, and as such it would not be appropriate to categorise products on a sliding scale, which implies that one product is more sustainable than another. Transition or impact products, which are currently not sustainable but commit to increase the sustainability of a product over time, would be an example that would be unfairly treated in such a system.
- The criteria for each category should be clear, specific, measurable and proportionate and should to the maximum extent possible refer to existing sustainable finance legislation.



- The existing disclosure rules under SFDR can be retained in parallel to the product categories but there should be consideration of how the disclosure requirements are simplified, as well as considering if any additional disclosures are required to support product categories.
- Product categories should be applicable to all products in scope of the SFDR. In particular, there should be careful consideration as to how product categories might work for multi-option products, and insurance based investment products.
- There are some products that are currently not in scope of SFDR. The Central Bank is supportive of expanding the scope of the SFDR to also include index providers, and structured products.
- Any product categories developed should be subject to consumer testing to ensure that they are understood, relevant and deliver outcomes that are aligned with the intention.

Conclusion

The Central Bank welcomes the opportunity to provide feedback on the SFDR. We have an important role as an authorisation and supervisory authority responsible for a substantial number of products under the scope of the SFDR sold throughout the EU. The Central Bank wants to contribute to the development of an enhanced SFDR which can better protect investors and strongly support the transition to a net zero economy.

We of course stand ready to support the ongoing and future work in the European Supervisory Agencies on this topic, and the wider sustainable finance framework. We would be very pleased to engage further with you or your officials on any of the issues raised here.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Gerry Cross', positioned above a horizontal line.

Gerry Cross

**Director of Financial Regulation – Policy and Risk
Central Bank of Ireland**