Strengthening Sustainable Finance
A Call for Clarity, Coherence, and a Market-Oriented SFDR

Deutsche Börse Group (DBG) welcomes the European Commission's proposal to amend the Sustainable Finance Disclosure Regulation (SFDR). The SFDR has been instrumental in enhancing transparency in sustainable finance, but its implementation has also revealed significant challenges, including legal uncertainty and undue complexity, which have hindered its effectiveness and created burdens for market participants.

We support the Commission's core objectives to simplify the framework, reduce administrative burdens, provide greater clarity for end-investors and combat greenwashing. As a financial market infrastructure provider, DBG is committed to fostering a robust, transparent and efficient EU single market for sustainable finance. An effective and proportionate regulatory framework is essential to channel capital towards Europe's sustainable and competitive future.

DBG views the Commission's proposal as a significant step in the right direction. We particularly commend:

- **The introduction of a product categorization system:** Definitions for Article 8 and 9 funds under the current SFDR were unclear, leading to differing interpretations by market participants and differing approaches by national supervisory authorities (e.g., CSSF vs. BaFin). Moving from the Article 8 / 9 regime to a more intuitive system with distinct product categories ('Sustainable', Transition', 'ESG basics') promises to deliver the clarity that investors and financial market participants have been seeking. This can help standardize claims and improve product comparability. We also welcome the recognition for "**further consumer testing**", given our awareness of industry misgivings regarding the proposed 'ESG basics' category name, including the likely impact on investor appetite, in due course.
- **A necessary focus on transition finance:** The creation of a dedicated 'Transition' category is a crucial and welcome development. It acknowledges the vital role of finance in supporting companies on a credible path to sustainability, which is essential for achieving the EU's climate and environmental goals.
- **Acknowledging the role of data and estimates:** The proposal formalizes the use of estimates and third-party data. This is a pragmatic and essential acknowledgement of the current data landscape, particularly in light of existing and probably expanding

data gaps. We urge co-legislators to ensure its practical implementation does not become overly burdensome.

To realize the full potential of this reform and avoid new unintended complexities, several aspects require careful consideration and refinement during the legislative process. The final framework must ensure clarity, coherence, interoperability and provide for a smooth, cost-effective transition.

Recommendations to strengthen the proposal and ensure its effective implementation

I. Ensure coherence across the EU's sustainable finance framework

The final SFDR review must be **fully aligned with other related regulations** in the EU's sustainable finance framework to create a seamless and logical framework. Definitions, criteria, and timelines need to be aligned to prevent conflicting obligations and additional compliance costs for market participants. While we welcome the proposal's efforts to ensure a certain degree of coherence, for example by endorsing EU Climate Transition Benchmarks (EU CTB), EU Paris Aligned Benchmarks (EU PAB) or referring to the ESMA Guidelines on fund names, a critical discrepancy remains regarding the availability of data from corporate disclosures that are not (or no longer) legally obliged to report the relevant data. We urge co-legislators to ensure consistency across legislation. The **financial sector cannot be held responsible for closing data gaps** created by other regulations. As one crucial example: Under Omnibus I, co-legislators agreed to remove the legal requirement to adopt a transition plan from the Corporate Sustainability Due Diligence Directive which will make it difficult for FMPs to assess a company's transition efforts and the inclusion of such assets in the transition category.

Furthermore, ensuring coherence across the sustainable finance framework is **equally important regarding (forthcoming) Level 2 specifications**. In this context, we strongly advocate for the SFDR's technical standards to be fully aligned with the approach on the **treatment of derivatives** recently established in the Taxonomy Disclosures Delegated Act under Omnibus I. As a leading market infrastructure provider, DBG welcomes the Commission's introduction of a more proportional and logical treatment for derivatives by clarifying that they "should be excluded from the denominator of the KPIs of financial undertakings"[1] where a Taxonomy-alignment assessment is not feasible. It is imperative that

[1] See Commission Delegated Regulation (EU) 2026/73 of 4 July 2025, recital 9, http://data.europa.eu/eli/reg_del/2026/73/oj

the SFDR framework adopts this same pragmatic solution. A consistent approach will prevent conflicting regulatory signals and ensure that investors can hedge their risks effectively without being unduly penalized in their sustainability disclosures.

II. Maintain flexibility and ensure global applicability / international interoperability

To remain competitive and attract international investment, the EU's sustainable finance framework must be investable, not just ambitious, and ensure an **international level-playing field**.

We acknowledge that the proposal provides flexibility. The criteria for the new categories are not exclusively reliant on EU-specific data points (e.g., EU Taxonomy), allowing for the use of global benchmarks, ESG ratings, and, crucially, estimates based on international data or modeling. This flexibility is vital for FMPs to build and manage diversified global portfolios. We urge that this principle be firmly upheld and operationalized in the Level 2 delegated acts. An overly prescriptive focus on EU-specific data points in the future technical standards would risk creating *de facto* barriers for non-EU assets, rendering a large portion of the global investable universe difficult to classify for the proposed product categories. This could lead to market fragmentation and capital flight, undermining SFDR's objectives.

We furthermore encourage the Co-legislators to **seek interoperability** with other international sustainability disclosure regimes, such as the UK's SDR, to simplify compliance for global market participants and contribute to a level-playing field.

III. Ensure decision-useful disclosures

Investor protection and tackling greenwashing depend on decision-useful disclosures. For competitive capital markets, it is imperative that participants incorporate financial material sustainability information as this information is essential for comprehensive assessments and accurate price formation.

Therefore, while we support removing entity-level PAI reporting to avoid overlaps with the CSRD and reduce burden, key transparency metrics at the product level remain essential. We welcome that the proposal retains the requirement to disclose PAIs at the product level for the 'Sustainable' and 'Transition' categories. This provides crucial information for investors to understand the potential negative externalities of their investments and underpins the integrity of the categories. Such information contributes to broader public

policy objectives, such as best-informed price formation and capital allocation, investor protection, or financial stability. Therefore, we encourage legislators to uphold this principle, as it allows market participants to offer valuable data and analytics solutions that help FMPs meet their disclosure obligations.

IV. Provide clarity

a. On the calculation of quantitative thresholds

The proposal introduces a 70% threshold for investments in the respective product categories but does not specify how this should be calculated. This ambiguity on a core component of the framework risks creating significant implementation challenges and legal uncertainty. To ensure operational predictability, further guidance is required on how compliance will be measured over time, especially whether it is assessed at a fixed point or on an average basis. Additionally, clear rules are needed for handling temporary breaches of the threshold that may occur due to normal market fluctuations. To enable FMPs to prepare to comply with the new categories, a clear methodology for calculating the investment threshold is needed. While the methodology can be detailed in a Level 2 delegated act, it is imperative that this delegated act is finalized and published before the Level 1 regulation becomes applicable (see also IV. c.).

b. On the definition of "impact"

The proposal introduces the concept of a "sustainability-related financial product with impact" (new Article 2(26)) for products in the 'Sustainable' and 'Transition' categories. These products must have an objective to generate a "pre-defined, positive and measurable social or environmental impact."

However, the proposal does not define the parameters for what constitutes a "positive and measurable" impact, leaving a critical concept open to interpretation. To avoid creating new legal uncertainties and to ensure genuine comparability between products claiming impact, it is essential that the Level 2 delegated acts provide a clear framework, and non-exhaustive examples of how this impact can be demonstrated and measured.

c. On implementation timelines and transitional arrangements

The Commission's proposal creates an 18-month period between its entry into force and its date of application. During this interim, the existing SFDR framework and its associated Level 2 RTS (Delegated Regulation 2022/1288) will remain in effect, while new delegated acts are to be developed. This approach creates two significant problems:

First, it introduces major uncertainty regarding the readiness of the new technical standards. There is no guarantee that the new Level 2 delegated acts, which are essential for implementing the new product categories, will be finalized and published with sufficient time for FMPs to prepare before the new Level 1 framework becomes applicable. This risks a repeat of the original SFDR rollout, creating a compliance cliff-edge where market participants are subject to new principles without the detailed rules needed to apply them.

Second, the proposed transition is highly inefficient. It requires FMPs to continue complying for 18 months with requirements that are simultaneously being marked for abolition, such as the entity-level PAI statements under Article 4. This forces firms to dedicate significant resources to legacy compliance instead of focusing them on preparing for the new regime.

We urge co-legislators to establish a more logical and efficient transitional pathway. There must be a clear and legally certain timeline that ensur**es the new Level 2 delegated acts are published well in advance of the new framework's application date**, providing the market with the certainty it needs for a smooth and cost-effective transition.

d. On calculations of current value of investment

i. Definition of current value of investment

The SFDR's definition of "the current value of all investments" (CVI), which serves as the PAI denominator, is ambiguous. As is currently written, it can mean (a) all portfolio investments, (b) all investments in the relevant asset class or (c) only investments in the relevant asset class with available data. Each meaning changes the PAI denominator and as a result also the reported PAI.

For example, for PAI 1.4, the exposure to companies active in the fossil fuel sector, if a fund's NAV is 100M with equities and corporate bonds totaling 60M and sovereigns totaling 40M, and within the equities and corporate bonds 40M have available data and 20M are exposed to fossil fuels, the results for the PAI will differ due to the ambiguity regarding the CVI definition.

- Example A: If the CVI refers to all portfolio investments, the PAI would be 20M divided by 100M, which would be 20%.
- Example B: If the CVI refers to all investments in the relevant asset class, the PAI would be 20M divided by 60M, which would be 33.33%.
- Example C: If the CVI refers only to investments in the relevant asset class with available data, the PAI would be 20M divided by 40M, which would be 50%.

We strongly urge co-legislators to **define the current value of all investments as the value of investments in the relevant asset class with available data** (option and example C). This definition is more informative, prevents false negatives from data gaps and aligns with incentives to increase coverage. To ensure good practice, it is essential to disclose data coverage availability and, if helpful, a clearly labeled context metric normalized by NAV could be added alongside the primary PAI.

ii. Data used for current value of investment

The current wording of the SFDR creates significant ambiguity regarding the correct timing of a company's investment values versus its impact data, creating significant legal uncertainty for financial market participants. The regulation is not precise about which data to use when valuing investments. As markets move, valuing investment at a different time than the company's impact data can distort a fund's reported performance and its responsibility for sustainability impacts, leading to either overstatements or understatements.

This issue is particularly pronounced for indicators that rely on enterprise value. The SFDR RTS defines enterprise value as a fiscal year end figure made up of the market value of ordinary shares, the market value of preferred shares, plus the book value of total debt and non-controlling interests, without deducting cash or cash equivalents.

While the European Supervisory Authorities (ESAs) have attempted to address this issue in a Q&A from November 2022, this guidance does not offer the legal certainty that market participants require as Q&As are not legally binding. This persistent lack of legal certainty leaves several critical issues unresolved in practice, including:

- Equities: Corporate actions such as stock splits, reverse splits, and buybacks that occur between a quarter-end and a company's fiscal year-end can change the share

count. Misaligned dates can lead to nonsensical calculations, for example, a holding that appears to jump from 25% to 250% on paper.

- Fixed income: Bonds held at quarter-end may mature before the company's fiscal year-end and are therefore not part of the enterprise value. The regulation is unclear on how these positions should be valued and timed for PAI calculations.

To resolve these issues and provide much needed legal certainty, we urge the co-legislator to take several steps. The ESAs' Q&A interpretation should be incorporated directly into the main regulation to create a legally binding standard. Furthermore, the **valuation methodology should be standardized,** and the **investment valuation date should be aligned with the investee's fiscal yearend**. Finally, explicit rules are needed for corporate actions in equities and for the treatment and timing of fixed income holdings. These changes are crucial for ensuring the accuracy, comparability, and reliability of PAI reporting across the EU and for providing the legal certainty that is essential for a well-functioning sustainable finance framework.