To:

European Commission

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

1049 Bruxelles / Brussel

Belgium

Milan, 30 May 2025

RE: Feedback to the European Commission's Call for Evidence on the review of the Sustainable Finance Disclosure Regulation ("SFDR")

1. INTRODUCTION

The Italian Private Banking Association ("**AIPB**") welcomes the opportunity to provide feedback on the European Commission's Call for Evidence concerning the review of Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088, the "**SFDR**"). AIPB recognizes the strategic importance of this initiative to enhance the effectiveness of sustainable finance regulations, contributing to the EU's sustainable transition objectives while ensuring a proportionate and efficient regulatory framework for market participants.

AIPB represents Italian private banking institutions and considers that Private Banking plays a fundamental role in channeling private capital towards sustainable investments. In recent years, our members have made significant efforts to adapt to the SFDR regulatory framework, implementing complex systems, processes, and data collection methods. However, experience has highlighted problematic aspects of the regulation that could benefit from a review to improve its effectiveness and usability for both operators and end investors.

This document gathers the contributions and observations shared by our members, operating both as distributors and manufacturers of financial products, and proposes solutions for simplifying and optimizing the SFDR regulatory framework.

2. THE IMPORTANCE OF THE PRIVATE BANKING INDUSTRY FOR SUSTAINABLE INVESTMENTS

Before addressing the specifics of the SFDR review, it is essential to understand the unique position of Private Banking within the broader European sustainable finance landscape. As the sustainable finance regulatory framework continues to evolve, Private Banking institutions stand at a critical intersection between retail clients with substantive private capital and the sustainable investment opportunities needed to advance the EU's environmental and social objectives.

AIPB – San Nicolao, 10 – 20123 Milano - Tel. +39 02 45 38 17 00 – Fax +39 02 700 525 766 – info@aipb.it – P.iva e c.f. 04455280968

The revision of the SFDR comes at a crucial time, as the current complexity of the regulatory framework bear the risk of discouraging the development of sustainable investing rather than supporting it.

AIPB member institutions have made significant efforts to build the necessary capabilities to operate within the sustainable finance regulatory environment and to provide added value to their clients. Their hands-on experience with SFDR implementation offers practical insights to support a more effective and proportionate revision of the framework.

3. OUR RESPONSE TO THE CALL FOR EVIDENCE – KEY PROPOSALS

In this response, AIPB aims to contribute its expertise and insights on key areas of the SFDR initiative. In the following sections, we present key proposals to improve the effectiveness of the SFDR regulation, based on the experience of our members in the Italian Private Banking sector.

- **Revision of the entity-level disclosure regime**

The current SFDR entity-level disclosure regime has proven to be burdensome for financial institutions and of limited practical relevance for end investors. A number of critical issues have emerged in its implementation. First, there is a significant duplication of information now required under other regulatory frameworks, particularly for entities also subject to CSRD obligations. Second, market evidences show that these disclosures are rarely consulted by investors and therefore do not effectively contribute to informed decision-making. Lastly, the regime entails a high degree of operational complexity, which appears disproportionate to its informational value.

In light of these shortcomings, AIPB supports the simplification of the entity-level disclosure under SFDR, limiting the disclosure obligations to a high-level statement in the sustainability policy.

As to the Principal Adverse Impact (PAI) statement, AIPB recommends its removal at the entity level. The current format is of limited practical utility and often results in formalistic reporting. Should policymakers choose to retain some form of PAI disclosure, AIPB suggests that the relevant indicators be streamlined and embedded into the CSRD framework, thereby avoiding duplication and enhancing consistency across sustainability reporting regimes.

- **Simplification of Principal Adverse Impact (PAI) indicators at product level**

The PAI reporting obligations at product level are among the most technically demanding aspects of the SFDR framework. AIPB members have highlighted the operational difficulties linked to the collection, quality, and interpretation of data, particularly when applied across diverse asset classes. In particular, we would like to focus the attention on the following issues:

(a) the current number of mandatory PAI indicators is excessive. Many indicators are of marginal materiality for certain investment strategies or asset classes, resulting in disclosures that add little value for investors while generating significant reporting burdens;

(b) the absence of a harmonized calculation methodology leads to inconsistencies across products and providers, undermining the comparability and usefulness of the information disclosed. This is particularly evident in the definition and application of denominators for reported indicators;

(c) the regulation lacks a clear hierarchy between core and supplementary indicators, leaving market participants without sufficient guidance on which metrics should be prioritized.

Moreover, persistent data quality and availability issues further compromise the reliability of PAI disclosures, particularly for non-EU assets or SMEs.

In light of these challenges, AIPB proposes a material simplification of the PAI framework. The number of mandatory indicators should be substantially reduced, with a focus on those metrics that are both relevant to sustainability objectives and supported by reliable and standardized data. Flexibility should be introduced to allow the selection of PAI indicators in line with a product's specific investment strategy, clearly distinguishing between essential indicators and optional, contextual ones.

Additionally, a standardized methodology for calculating and reporting PAIs should be developed, particularly with regard to denominator definitions, to enhance comparability across the market.

Finally, AIPB strongly supports limiting PAI obligations to products that actively promote environmental or social characteristics or pursue sustainable investment objectives. Requiring PAI reporting for conventional products lacking an ESG focus adds unnecessary complexity without delivering meaningful benefits to investors.

- <u>**Rationalization of disclosure documentation**</u>

The current documentation framework under SFDR entails a fragmentation of disclosures across various channels – pre-contractual documents, periodic reports, and dedicated website disclosures. This layered approach has created significant operational burdens for financial institutions and contributes to confusion among end investors, particularly retail clients with limited financial literacy.

The proliferation of documents containing overlapping or redundant information adds to the complexity of maintaining and updating disclosure materials. Moreover, the detailed RTS templates, while intended to promote standardization, often result in dense and technical documentation that is difficult for non-professional investors to interpret meaningfully.

AIPB advocates for a comprehensive rationalization of the documentation regime. In particular, the obligation to publish web-based disclosures under Article 10 of SFDR should be eliminated. These disclosures largely duplicate information already available in pre-contractual and periodic materials, and their added value is minimal.

To further streamline the framework, AIPB supports the integration of the information contained in RTS annex templates into a concise, standardized ESG section within the existing PRIIPs Key Information Documents (KIDs), which are already designed to provide accessible information to retail investors. This integration would eliminate the need for separate pre-contractual documents under SFDR, reducing duplication and improving usability.

AIPB – San Nicolao, 10 – 20123 Milano - Tel. +39 02 45 38 17 00 – Fax +39 02 700 525 766 – info@aipb.it – P.iva e c.f. 04455280968

Should integration into the PRIIPs KID prove unfeasible in the short term, AIPB recommends a fundamental simplification of the current RTS annex templates. These should be redesigned with an emphasis on clarity, relevance, and investor comprehension, prioritizing intuitive presentation over technical exhaustiveness.

For multi-option products – such as unit-linked insurance policies with open architecture – AIPB strongly supports the continued application of the "by reference" approach. This mechanism enables insurers to reference ESG disclosures prepared by the managers of the underlying investment options, ensuring both operational efficiency and regulatory consistency in complex product structures.

- **<u>Product "categorization" system and harmonization of the regulatory framework on sustainable finance</u>**

The existing product disclosure under Articles 6, 8, and 9 of the SFDR has generated persistent interpretative and operational challenges, both for markets participants and for end investors. Originally designed as a transparency regime, the framework has increasingly been interpreted as a system of sustainability labels, despite the absence of formal recognition or supervisory validation of such categories.

The current distinctions lack clarity in both definition and application, leading to inconsistent interpretations across the market. Moreover, this categorization does not align seamlessly with other legislative instruments in the EU sustainable finance architecture.

A core weakness of the current framework lies in the lack of coherence and harmonization across EU sustainable finance regulations. Key misalignments include: (i) unclear definitions of "sustainable investment" between SFDR and the EU Taxonomy and ESMA's guidelines on fund naming conventions; (ii) poor alignment between SFDR product categories and the collection of sustainability preferences under MiFID II; (iii) overlaps and inconsistencies between SFDR and CSRD disclosure obligations.

AIPB supports the evolution of the existing categorization into a clearer, purpose-driven framework that remains consistent with investments already structured by market participants but offers enhanced clarity and usability. The objective is not to disrupt the SFDR framework, but rather to simplify it where appropriate, ensuring consistency between mangers and distributors.

Equally important is ensuring that these categories are tested with end investors to assess their intuitive understanding and communicative efficacy, particularly in the context of retail distribution.

To restore coherence within the regulatory landscape, AIPB strongly recommends the following actions:

(a) adopt a unified definition and methodologies, in particular with regard to "sustainable investment" and "DNSH test", across SFDR and the Taxonomy Regulation, avoiding the coexistence of divergent criteria;

(b) ensure full alignment between the new SFDR categories and MiFID II's sustainability preference collection mechanism, thereby facilitating a more seamless matching process;

(c) promote regulatory coordination among SFDR, Taxonomy, CSRD, and MiFID II, to eliminate duplications and inconsistencies;

(d) synchronize implementation timelines across different legislative instruments, ensuring that RTS and Q&A are released sufficiently ahead of application deadlines to allow for orderly implementation.

- **Improvement of Data Quality and Availability**

The availability of high-quality, consistent ESG data remains a critical element in the effective implementation of the SFDR framework. Despite the increasing regulatory pressure on financial intermediaries to provide detailed sustainability disclosures, the current data ecosystem presents several unresolved challenges, such as: (i) persistent difficulties in collecting reliable and complete ESG data, particularly in relation to smaller issuers or non-EU companies not subject to comparable disclosure obligations; (ii) low comparability between datasets from different providers, often due to methodological opacity or inconsistent indicators; (iii) high and rising costs of accessing ESG data, which disproportionately affect smaller intermediaries and limit the scalability of sustainable product offerings.

To address these structural issues, AIPB recommends the following interventions:

(a) clearly define that the responsibility for the availability and quality of ESG data lies primarily with the data originators and with ESG data providers. Financial distributors and asset managers should not be held accountable for gaps or inconsistencies in upstream data, which are outside their control;

(b) accelerate the creation of a public, centralized European ESG data repository;

(c) ensure that regulatory expectations on data quality and completeness remain proportionate to the nature of the financial product and the underlying asset class. Recognizing the structural limitations of data availability in certain segments (such as SMEs, non-listed entities, or emerging markets) is essential to avoid penalizing specific investment strategies or asset managers.

Without a fundamental improvement in ESG data infrastructure, there is a risk that SFDR compliance will remain overly dependent on costly proprietary sources, undermining both accessibility and transparency in sustainable finance.

4. FINAL REMARKS

We believe the proposals outlined in this document represent a constructive contribution towards:

(a) reducing unnecessary operational complexity for financial intermediaries, without compromising the transparency and integrity of sustainability disclosures;

(b) enhancing the clarity and accessibility of information for end investors, particularly those with limited financial literacy;

(c) ensuring greater consistency and alignment across the various pillars of the EU sustainable finance framework, including MiFID II, the Taxonomy, and the CSRD;

(d) establishing a regulatory architecture that actively supports the mobilization of private capital towards the sustainability transition.

In our view, a simpler, more coherent, and investor-centric regulatory framework is essential to realize the full potential of sustainable finance in Europe, while maintaining the attractiveness and competitiveness of the EU financial system in a global context.

AIPB remains fully available to engage in further dialogue and to support the Commission in the next phases of the SFDR review process.

Yours faithfully,

AIPB – Associazione Italiana Private Banking