

30 May 2025

European Commission  
1049 Brussels  
Belgium

Submitted via online form

## **European Commission Call for Evidence on the EU Sustainable Finance Disclosure Regulation ('Call for Evidence')**

MSCI<sup>1</sup> welcomes the opportunity to respond to the European Commission's Call for Evidence on the Sustainable Finance Disclosure Regulation ('SFDR'). SFDR forms a cornerstone of the EU sustainable finance framework. Since its inception, it has enhanced investment product transparency and contributed to market integrity.

Nonetheless, implementation challenges remain. The forthcoming review provides an opportunity to eliminate unnecessary complexity, improve alignment with the broader EU sustainable finance framework, and clarify key concepts—particularly product categorisation—while safeguarding the transparency gains.

The points set out below summarise our principal recommendations, while detailed technical observations are included in the annex to this submission.

### **1. SFDR framework would benefit from targeted improvements, not a wholesale redesign**

Implementing the current SFDR requirements and reporting obligations has required significant investment, resources and time for financial market participants. Rather than a complete overhaul of the framework, we encourage the Commission to propose targeted improvements to specific components of the SFDR regime.

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<sup>1</sup> MSCI Inc. comprises subsidiaries including MSCI ESG Research (UK) Limited (United Kingdom), MSCI ESG Research LLC (United States), and MSCI Limited (United Kingdom). MSCI indexes are products of MSCI Inc., and MSCI Limited is the benchmark administrator. Products and services in the ESG and Climate segment are provided by MSCI ESG Research (UK) Limited and MSCI ESG Research LLC.

## **2. Current 'sustainable investment' definition should be maintained**

The market has generally taken a conservative approach in interpreting 'sustainable investment', which has hindered the flow of capital to transition projects. The definition of 'sustainable investment' allows a degree of flexibility which should be retained to enable the market to adjust to the financing needs of the climate transition. We would not support a narrower definition which would hinder interoperability with other regulatory regimes, raise compliance costs for global and EU investors alike, and restrict transition finance—capital directed to high-emitting companies pursuing decarbonisation.

## **3. Investment product categories should not obstruct innovation and not be conflated with disclosure requirements**

One of the key areas for improvement for the SFDR is the conflation of disclosure and labelling within the regulation. We observe a strong market demand for clear and comprehensive sustainable product categories across the EU. Therefore, we welcome the Commission's suggestion of a categorisation system for financial products. A well-defined and well-understood set of categories will help guide capital flows, increase transparency, boost investor awareness and help combat greenwashing. However, the categories should be tempered in terms of minimum requirements to allow for flexibility, thereby fostering innovation in the investment product space.

## **4. The mandatory list of Principle Adverse Impact ('PAI') indicators for disclosure requirements should be maintained and the reporting regime should be enhanced**

PAI indicators listed in Table 1 of the SFDR Delegated Regulation are mandatory for all financial market participants, regardless of materiality. This core requirement for all firms helps focus market attention on the sustainability issues captured by the mandatory PAI indicators. Reporting of a consistent set of the same PAI indicators by firms creates a base level of transparency and information in the market, a common language and framework. Furthermore, the reporting tables for Taxonomy alignment in Annexes IV and V of the SFDR Delegated Regulation are cumbersome and could be replaced with simplified versions.

## **5. Use of estimates remains important and should be allowed due to data gaps**

As acknowledged by the Commission in the Call for Evidence, data gaps remain as corporate disclosures lag SFDR implementation, even though data availability has improved since its inception. The upcoming revision of the Corporate Sustainability Reporting Directive (CSRD) under the Omnibus Simplification Package may exacerbate the challenge. However, it is important to note that direct corporate disclosures are not the sole source of sustainability data. Financial market participants routinely rely on estimates and extrapolations—not only to meet SFDR requirements,

but also to comply with other regulatory frameworks across jurisdictions, as well as for internal risk and impact assessments. Against this backdrop, estimated and extrapolated data should be explicitly permitted to bridge disclosure gaps under SFDR.

MSCI looks forward to continued engagement with the Commission on the consultation and the subsequent review as it progresses.

Yours sincerely

A handwritten signature in black ink that reads "Neil Acres". The signature is written in a cursive, flowing style.

**Neil Acres**

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**Global Head: Government and Regulatory Affairs**

## MSCI detailed comments in response to the Call for Evidence

### I. Enhance the SFDR framework with targeted improvements

Implementing the current requirements and reporting obligations under SFDR has required significant investment, resources and time. A total overhaul of the SFDR disclosure framework may not only result in this work becoming redundant but would bring further cost and burden to financial market participants and affected firms. Moreover, as these participants need to mitigate adverse impacts over time at both the entity and product level, regulatory consistency is essential. Without it, comparability will be undermined, making it harder to demonstrate progress.

Instead, introducing targeted improvements and simplifications to specific components of SFDR would be more effective.

### II. Preserve the current definition of 'sustainable investment'

The current definition of 'sustainable investment' under SFDR provides market participants with a certain degree of flexibility in their approaches while setting common ground and minimum requirements for sustainable products. MSCI notes that the Q&A document published by the Commission in April 2023<sup>2</sup> was helpful in confirming that market participants have a degree of freedom when it comes to the concept of 'sustainable investment'. This level of flexibility should be maintained to ensure interoperability with other regulatory frameworks, thereby limiting complexity and costs for investors.

A narrow definition of 'sustainable investment' could limit transition finance — i.e., capital flow towards high-emitting companies with decarbonisation strategies — and limit diversification possibilities. Only a sufficiently broad 'sustainable investment' definition would allow transition finance to encompass varied ESG and climate investment strategies. Narrowing the definition of 'sustainable investment' would also bring greater concentration risks, greater volatility and may make it hard to meet retail investors' risk return preferences.

Defining 'sustainable investment' exclusively as an investment aligned with the EU Taxonomy presents several challenges. The currently disclosed Taxonomy data is not of sufficiently good quality and not broad enough to serve as a reliable indicator for defining 'sustainable investment', even with respect to the environmental objectives for which the technical screening criteria are already defined, i.e., climate change mitigation and adaptation. This is because not all economic activities are covered by the Taxonomy and because there is no sufficient geographical coverage. As a result, aligning the definition to the EU Taxonomy would lead to potentially very narrow investable universe. Global investors have preference for global investment strategies, which may adhere to different taxonomies. The recent report on EU Taxonomy simplification from the EU Platform on Sustainable Finance (PSF)<sup>3</sup> shows that over 49% of companies report less than 10% of

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<sup>2</sup> [Answers to questions on the interpretation of Regulation \(EU\) 2019/2088.](#)

<sup>3</sup> [Platform on Sustainable Finance report: Simplifying the EU taxonomy to foster sustainable finance - European Commission.](#)

Taxonomy eligible activities. The Omnibus Simplification Package proposes to exclude these companies from mandatory reporting under the EU Taxonomy, further reducing the scope of available disclosures. The resulting data coverage is insufficient to inform diversified sustainability investments. While there may be use for an EU Taxonomy-aligned fund or use-of-proceed instruments like green bonds, it should not detract from a broader product category to be used by funds that use other taxonomies that are also focused on sustainable activities.

### **III. Introduce a sustainable investment product categorisation regime that facilitates innovation and is delineated from disclosure requirements**

The proposed new categorisation regime, which should include transition and broad ESG categories, would be a welcome improvement. We believe that there is a strong market demand for the development of purpose-made categories of sustainable products across the EU. The fact that Articles 8 and 9 have been used by financial market participants as *de facto* labels strengthens this point. A well-defined set of categories will help guide capital flows, increase transparency and boost investor confidence.

However, the new categorisation regime should build on the existing disclosure requirements, frameworks and approaches, to prevent imposing unnecessary burden on market participants and confusion amongst their clients. Significant changes have been made recently to adjust to new regulatory standards such as the *ESMA Guidelines on funds' names using sustainability-related terms*. Any new regime should not trigger a need for another overhaul of the financial market participants' products but rather ensure that it can be layered on the existing standards.

The following key aspects should be considered when designing the new regime:

- New categories should be based on minimum criteria leveraging, to the extent possible, existing SFDR features such as EU Taxonomy-alignment, meeting the sustainable investment definition, ESMA's fund naming requirements, etc.; subject to or aligned with the primary objective of each category as well as the fund objectives and strategy.
- Minimum standards should not deter product innovation, investor objectives, and fund strategies, avoiding onerous requirements that would not be commensurate with the strategy.
- While all funds need to disclose their sustainability risks as per Article 6, the current SFDR regime does not provide sufficient scope for the inclusion of products which pursue ESG integration. There should be a category capturing a broad variety of sustainable investing strategies (i.e., what the EU Platform on Sustainable Finance refers to as 'ESG Collection'<sup>4</sup>), allowing funds which follow broader ESG approaches to be part of the categorisation regime. This could include, e.g., categories using ESG ratings to select investments.
- There should be a transition-focused category capturing investments in companies which are currently active in high-emitting sectors but have credible

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<sup>4</sup> [Platform on Sustainable Finance report: Simplifying the EU taxonomy to foster sustainable finance - European Commission](#).

plans to decarbonise. MSCI clients, when polled in October 2024, had a strong preference to focus on climate mitigation or other decarbonisation transitions.<sup>5</sup> Having a credible transition plan in place could be one adequate criterion for inclusion of companies in 'transition' products, though it should not be an exclusive one. Given the potential revision or indefinite pause on the Corporate Sustainability Due Diligence Directive ('CS3D') under the Omnibus Simplification Package, an alternative solution would be to consider simple but credible metrics such as green revenues, patents, or CapEx. It would be a relevant KPI for measuring transition and could be complemented by tools made available by initiatives such as the Science-Based Targets Initiative (SBTi),<sup>6</sup> already used by the financial industry. Measuring the credibility of transition plans should be, at least initially, based on 'best-effort' basis, adjusted for the sector and geographical location, rather than outright net-zero goals.

- In aligning with the *ESMA Guidelines on funds' names using ESG or sustainability-related terms*<sup>7</sup>, the PAB exclusions should be considered for the most restricted product category, while CTB exclusions should apply as a minimum standard to the transition-focused and the broad ESG categories (notwithstanding the fund managers' ability to apply PAB exclusions where deemed appropriate).

#### **IV. Maintain the mandatory list of PAI indicators for disclosure requirements and enhance the reporting regime at entity level**

PAI indicators listed in Table 1 of the SFDR Delegated Regulation are mandatory for all financial market participants, regardless of materiality. We believe this core entity-level requirement for all firms helps focus market attention on the sustainability issues captured by mandatory PAI indicators. Furthermore, the reporting of a consistent set of the same PAI indicators by firms creates a base level of transparency and information in the market, a common language and framework, and should be maintained. It is important to note that the level of PAI disclosures has improved significantly since SFDR was first introduced. Currently, 10 out of 14 mandatory PAIs have over 95% data coverage and only 1 has less than 10% (emissions to water).<sup>8</sup> This suggests that financial-market participants have now integrated the disclosures into their operations. These disclosures should therefore no longer be considered a material burden or meaningless exercise. Nonetheless, it is unnecessary to mandate the use of PAIs to demonstrate compliance with the new product categories under SFDR.

Whilst the PAI indicators are useful at product-level and for assessing the performance of individual issuers, aggregate reporting of the quantitative PAI indicators at entity-level can also be helpful in understanding the sustainability profile of financial market participants themselves and ensure they lead by example.

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<sup>5</sup> MSCI ESG Research based on client workshop held in October 2024.

<sup>6</sup> [Ambitious corporate climate action - Science Based Targets Initiative](#).

<sup>7</sup> [Guidelines on funds' names using ESG or sustainability-related terms](#)

<sup>8</sup> Based on constituents of MSCI ACWI with 2.489 constituents. Data as of March 2025.

Furthermore, the reporting tables for Taxonomy alignment reporting in Annexes IV and V of the SFDR Delegated Regulation are cumbersome, requiring a very high number of data points. The current version is applied for each objective and results in 210 data points. These could be significantly reduced by focusing on the percentage of alignment versus non-alignment (2 data points) for turnover and CapEx (2 data points) and by objective (6 data points), as well as the total KPIs across objectives (2x2x (6+1) = 28 data points) and restrict it only to the 'Taxonomy-aligned investments excluding sovereign bonds' figure (thus removing OpEx, Nuclear & Gas figures).

## **V. Explicitly endorse the use of estimates for disclosure purposes**

While persistent data gaps and concerns over the quality of reported information remain—an issue also flagged by the Commission in its Call for Evidence—it is essential to recognise that corporate disclosures, such as those under CSRD, are only one part of the sustainability data ecosystem. Financial market participants have long relied on proxies, estimates, and extrapolations to fulfil not only SFDR obligations, but also broader regulatory and internal analytical requirements across multiple jurisdictions.

To remove any inconsistencies in interpretation, an open and universal regulatory approach of endorsing the usage of 'estimates' across all related pieces of EU sustainable finance and corporate sustainability regulations, including the SFDR, the CSRD and the Taxonomy should be considered. Where estimates have been used by financial market participants, this should be highlighted appropriately to foster transparency.

It should be emphasised that the SFDR regime can continue to function and deliver on its objectives even without universal direct corporate disclosures under CSRD. SFDR should be maintained as it remains a cornerstone of investment product transparency.