

OPSG

# OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

OPSG advice to EIOPA in view of the EC's  
revision of SFDR

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**eiopa**

European Insurance and  
Occupational Pensions Authority

## **Introduction**

In view of the upcoming revision of the SFDR by the EC, the OPSG is keen on making its contribution toward EIOPA, by bringing forward our industry experience on the impact of the SFDR since its initial rollout in 2021 from the IORPs perspective in Europe as well as pension plans' participants.

## **Background**

The SFDR is the main regulation on transparency applicable to the financial sector covering at the same time Pension and Insurance actors (FMPs in the remit of EIOPA's work).

SFDR is currently entering a new phase, and the objective is to modify the regulation with the intent to simplify it and inevitably adapt it. In addition, a major revision referred to as 'Omnibus' regulation is currently being worked at and it will cover, amongst others, also CSRD and Taxonomy, which, in turn could impact the SFDR. It has to be noted, in the meantime, that Financial Market Participants (FMPs) have already devoted many efforts and financial resources to comply with it and as changes are coming new efforts will have to be deployed.

At the same time, it must be avoided that IORPs have to produce reports and to publish information which are not useful for or cannot be understood by (present or future) beneficiaries. This will allow EIOPA to tie even stronger ties with National Competent Authorities (NCAs), industry players and grow further concrete solutions around the topic of sustainable finance.

## **The Context**

SFDR has represented a real challenge for all the financial industry in the past 3 years, and it has meant FMPs had to modify and adapt their strategies, plans and documentation. They have also had to change the way they interact with their counterparties and clients. Also, the resulting additional workload had consequences in the staff organization and operative process of an IORP. Every change the SFDR demanded has meant new documentation had to be produced as well as new contracts and reports. For the most part, there is no way of tracking whether all this new documentation produced has had the intended effect; to give the appropriate ESG information of the impacts of the products and investments to beneficiaries. Currently, the view of pension plans participants is that the disclosures should be simplified and become easier to understand and there

should be a clearer characterization system<sup>1</sup>. What is known is that there was no enabler to accompany this change and therefore no appropriate follow-up in terms of training and education was given to end recipients. For what concerns IORPs, this is even made more difficult because in many cases, beneficiaries are not directly consulted about their (potential) ESG preferences, except for IORPs, where beneficiaries participate in the governance of the institution (e.g. in the form of Annual Meetings for beneficiaries or their representatives). The SFDR has certainly represented a strain for the financial industry but it has brought more transparency on ESG investments in mainstream finance for the first time. The road to SFDR compliance has been difficult and the updates that have already been made in terms of technical standards have been several. The ESAs have regularly monitored the quality of the disclosures made, which have somewhat improved, according to the latest update which dates back only to the 30<sup>th</sup> of October 2024<sup>2</sup>. The current version of the SFDR does not reflect the individual investors' needs and this could entail that the SFDR structure should be reviewed. However, some of the OPSG members are concerned that proposing a revision of the SFDR at this moment, though well intended, may bring negative results and hamper positive developments for the IORP market.

#### **Main arguments to articulate:**

1. SFDR is still a young though revolutionary piece of legislation, therefore some OPSG members prefer a careful approach while constructing revisions; accompanied with appropriate level of testing with both consumers and Financial Market Participants (FMPs). However, as a revision takes place, it should at least achieve a simplification of the information while ensuring to remove redundancies. Product transparency should remain the core objective of the SFDR and it should focus on product level disclosures, while entity level disclosures should be limited to entities not reporting under the Corporate Sustainability Reporting Directive (CSRD) and to information not covered in the European

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<sup>1</sup> <https://www.esma.europa.eu/document/final-report-draft-rti-review-pai-and-financial-product-disclosures-sfdr-delegated> (Consumer testing SFDR templates)

<sup>2</sup> [https://finance.ec.europa.eu/document/download/0f2cfde1-12b0-4860-b548-0393ac5b592b\\_en?filename=2023-sfdr-implementation-summary-of-responses\\_en.pdf](https://finance.ec.europa.eu/document/download/0f2cfde1-12b0-4860-b548-0393ac5b592b_en?filename=2023-sfdr-implementation-summary-of-responses_en.pdf) (Summary and Report of the Open and Targeted Consultation on the SFDR assessment, September- December 2023) and [https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754212/IPOL\\_STU\(2024\)754212\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754212/IPOL_STU(2024)754212_EN.pdf) The current Implementation of the Sustainability-related Financial Disclosures Regulation (SFDR) the Econ Committee Study July 2024

Sustainability Reporting Standards (ESRS). These considerations would fit well under the current 'Omnibus' considerations.

2. Any change should be carefully assessed and the OPSG echoes the point put forward by the ESAs in their Opinion "On the assessment of the Sustainable Finance Disclosure Regulation (SFDR), the ESAs recognized that further consumer testing must be undertaken by the EC, when developing policy options in this regard". Testing should take place before level 1 review to ensure results are reflected in the next developments.
3. Potential categorization system should:
  - be consistent with other EU legislation
  - when revision time comes, adjusting the IDD/MiFID II framework to ensure that consumers' sustainability preferences and match product categories should be foreseen
  - not add further complexity

While not all members agree, a large majority considers that:

- the current art. 8 or art. 9 SFDR products should be discarded and replaced by new categories based on clear, simple, and reliable definitions that can be easily understood by investors.
  - all the products commercialized so far must be safeguarded allowing an appropriate grandfathering period for products already distributed
  - not undermine products that do not cater to sustainability preferences, like 'article 6 products' under the current SFDR framework
4. The reporting disclosure foreseen under SFDR is not in itself enough to bring forward the massive change required in the financial industry in favor of ESG considerations. **Other tools need to accompany this change, to ensure its success**, entailing awareness raising, education; mostly outside of IORPs scope, but instrumental, nonetheless. It is also important to take a consumer/investor centric approach, eg by using simple and clear language in the investor questionnaire.
  5. Furthermore, because of the structure of certain IORPs, which are usually collective structures in nature, it is not easy to reflect the potential ESG preferences of individual beneficiaries. Moreover, the decisions in these IORPs with regards to investment decisions, are taken collectively by the social partners or employer and employee representatives in the management bodies. This state of things makes it unnecessary for beneficiaries to directly express their individual investment preferences regarding ESG, and hence the benefits of the specific documentation (pre or periodic) produced under SFDR offers very

limited use for them. A way to bypass this situation would be to foresee an approach specifically designed for IORPs. PensionsEurope and its members advocated for a **‘sub-sectoral RTS as the most effective approach to fully address the specific characteristics of IORPs’**. Categories should be suitable for broadly diversified portfolios, e.g. in respect of the prudent person principle in Solvency II, and the diversified range of products they cover, including Multi-Option Products (MOPs). Categories should guarantee that all investment instruments (e.g. government bonds) of portfolios are covered by the metrics of the system.

6. Beneficiaries may exert preferences towards ESG, but they cannot be expected to be able to interpret all the complex terminology foreseen under SFDR. Information and concepts need to be made simpler and easier to grasp and select. According to some OPSG members **sustainable financial product labels**<sup>3</sup> that were widely in use within the SRI industry before the advent of SFDR, perhaps better corresponded to these investors’ needs because the labels were relatively simple to comprehend and carrying easier and direct messages. Moreover, some members consider that few simple messages extrapolated from the investment strategies (Best in class, Exclusions, Thematic, impact related and ESG integration) were easier for even retail consumers to understand, compared to today’s complex sustainability messaging which comes in the form of an unfiltered technical jargon. On this point, we appreciate the ESAs Opinion on SFDR particularly around the grading categorization of the financial products recently put forward and aim to build our recommendation building on that.
7. Since the first rollout, the ESAs have contributed to support the industry and legislators by trying to simplify the reporting requirements (modifying where needed the RTS and classification). Though any modification of the level 1 text put forward at this moment would entail again changes and updates that carry important financial consequences for all market participants, **an ultima ratio solution could be to reduce the list of PAIs considered mandatory to date**. The new proposal could include only a set of very few PAIs<sup>4</sup>, with a view to meeting the requirements already mentioned (under point 3) with a framework of ‘sub-sectoral RTS’ specifically for IORPs and allow for certain simplification with regard to deriving data for these PAIs.
8. It is important to ensure proper coordination of any potential revision of the SFDR while ensuring that any new structure would take into account potential modification of the IORP II directive, regarding sustainability matters.

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<sup>3</sup> A non-exhaustive list is hereby provided: FNG-Label (FNG Siegel) for sustainable investment funds, Towards Sustainability, SRI Label, Greenfin label, LuxFLAG ESG Label, Nordic Swan Ecolabel, Ecolabel UZ 49

<sup>4</sup> In coordination with what is foreseen under the ESRS of the CSRD

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