Published in the Official Journal of the European Union in November 2019 and applying as of March 2021, the EU's Sustainable Finance Disclosure Regulation (SFDR) is a landmark framework designed primarily as a transparency regime, requiring financial market participants to disclose how sustainability risks and impacts are integrated into their investment decisions.

However, in practice, it rapidly evolved into a de facto labelling system, with market participants informally treating disclosures made by funds under Article 8 and Article 9 of SFDR as indicators of a fund's sustainability ambition, even though such a labelling was never intended to be behind the spirit of the SFDR. As such, the European Commission has recently proposed a significant overhaul of the regulation (see 'Methodology' section).

In this section of the report, we will present data illustrating how SFDR disclosure requirements have been applied across Europe and in Luxembourg, offering a clear view of the market's current landscape.

Interview on the SFDR with **Maren Stadler-Tjan**, Partner at Clifford Chance & ALFI/LSFI Study Advisory Committee member

Q: How can regulation effectively support the growth and credibility of sustainable finance investments?

A: By standardising sustainability-related disclosures made by financial products, the Sustainable Finance Disclosure Regulation (SFDR) has sought to improve the transparency and comparability of sustainability-related claims and reduce the risk of greenwashing towards investors. Introducing a structure and rigour to these disclosures is intended to improve investor understanding of the sustainable impact of their investment choices and to support the transition to a more sustainable economy.

Q: What role should regulation play in driving real-economy transition, beyond improving disclosure, standardisation and risk management?

A: In order for the SFDR to achieve its goals, it is critical that sufficient flexibility is retained within the future SFDR 2.0 to, on the one hand, support meaningful and transparent investor communications on a complex and wide ranging topic and, on the other hand, leave sufficient space for the evolution of, and innovation in, sustainable finance practices, strategies and technologies across asset types, sectors and geographies.

Q: What tangible benefits or added value has the current EU sustainable finance regulatory framework brought in terms of data availability and quality, and which major gaps remain that forthcoming regulations aim to address?

A: Sustainability-related data and the use of estimates have been a recurring theme of industry discussions and are an element of the EU Commission's proposals for SFDR 2.0. It is important for investors to access decision-useful information that is meaningful and understandable. The challenge is to balance transparency and comparability with the complexity of sustainability-related factors and the availability of quality data, without placing a disproportionate burden on financial institutions.

Q: What strategic guidance would you offer to financial institutions as they prepare for upcoming regulatory changes in the near future?

A: The details of SFDR 2.0 may change significantly over the coming months, it is therefore too early for financial institutions to start making concrete preparations for the rollout of SFDR 2.0. However, I encourage financial institutions to engage with their relevant industry associations and to follow the development of SFDR 2.0 as it goes through the legislative process to ensure that they are ready to act once the Level 1 and Level 2 texts are finalised.