WWF response to the ESMA Call for evidence: On the integration of sustainability preferences in the suitability assessment and product governance arrangement

September 2023

Q1: What actions did firms implement within their organisation to take into account the new requirements related to sustainability preferences? Please elaborate especially on the following:

- **What proportion of firms' employees (differentiating between client facing staff and the other staff) have received training on sustainability topics? What these trainings consisted of? Was any test or exam put in place?**
- **Which conflicts of interest relating to the integration of clients' sustainability preferences did firms identify and which measures did firms take to ensure that these conflicts of interest do not damage the interest of clients?**

Material:

- Financial times (2020), "Half of advisers untrained in ESG despite looming rule change"
- 2° Investing Initiative (2022), Please Don't Let Them Be Misunderstood!
- Natixis (2016), Mind shift: getting past the screens of responsible investing; Schroeders (2017)
- Global Perspectives on sustainable investing Maastricht University (2019), "Get Real, Individuals Prefer More Sustainable Investments
- University of Cambridge (2019), "Walking the talk: Understanding consumer demand for sustainable investing"
- 2° Investing Initiative (2020), "A Large Majority of Retail Clients Want to Invest Sustainably" provides a larger overview.
- 2° Investing Initiative (2023), Questionnaire for assessing client sustainability preferences and motivations.
- European Commission (2020), Summary Report of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy.

WWF Observations:

It is concerning that a significant portion of employees, including client-facing staff, have not received sufficient training on sustainability topics. A 2020 study by Aviva Investors found that 45% of advisors surveyed had "no ESG training at all."

Quite worryingly, it appears that this situation has not significantly improved since the introduction of new requirements related to sustainability preferences. Recent research from 2° Investing Initiative (2DII) from 2022 shows that only 5% of financial advisors (mainly from Danish banks), systematically assessed the whole sustainability profile of their client. Furthermore, 53% lacked sufficient knowledge regarding sustainable finance concepts in general and 34% regarding green financial products specifically, again with strongly varying degrees between countries. Finally, 66% failed to recommend suitable products for impact-oriented investors and 39% were even prone to propose unsuitable products to potential clients who clearly expressed their sustainability motivations, potentially due to conflicts of interest.

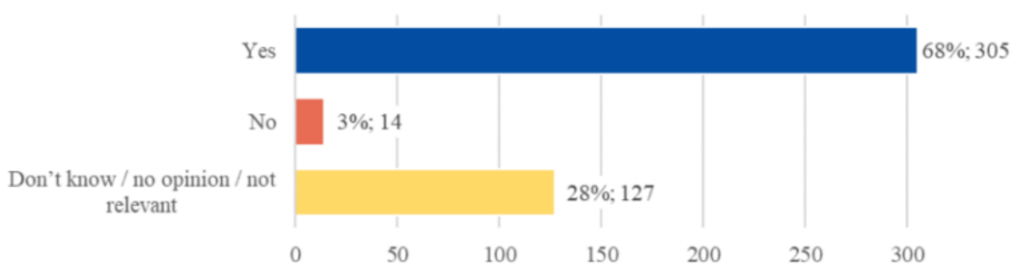
This situation points to a clear market failure. Despite the substantial demand, with a large majority (60-80%) of retail investors expressing a desire to invest sustainably, suitable sustainable products are not readily available in the market. This mismatch between demand and supply underscores the urgent need for improvements.

WWF Recommendations:

- Enhanced Training for Financial Advisors: Prioritizing comprehensive training programs for financial advisors is crucial. These programs should cover a wide range of sustainability topics, ensuring that advisors gain a deep understanding of sustainable finance concepts and products. It is important to allocate sufficient time for these training sessions, and knowledge assessment through certification should be implemented to validate proficiency. This multi-faceted approach will better equip advisors to serve clients in the realm of sustainable investments.
- Guidance through a Delegated Act: We recommend the Commission to develop a delegated act that offers clear guidance to financial advisors on the questions they can ask to assess clients's sustainability preferences and make recommendations. This guidance should aim to provide a structured approach and enhance consistency in sustainable investment practices. For that purpose, a solid precedent to draw upon already exists: 2DII has taken the initiative to create a template questionnaire that aims at assisting investment firms in conducting a thorough assessment of their clients' sustainability preferences and broader motivations.
- Offering Sustainable Funds by default: A requirement should be introduced for financial advisors to propose at least one sustainable fund as the default option to clients. This proactive approach aligns with the majority of stakeholders' views, as demonstrated in the Commission's public consultation on the Renewed Sustainable Finance Strategy. In this consultation, a substantial 68% of stakeholders expressed agreement with the systematic offering of sustainable investment products to retail investors, while only a negligible 3% disagreed.

Question 3 asked if respondents would like to be systematically offered sustainable investment products as default options by financial advisers.
Most stakeholders stated that they would like to be shown sustainable investment products by default.

Figure 4-3 Answers to Question 3 for a **total of respondents=446**



Source: European Commission (2020), [Summary Report of the Stakeholder Consultation]

Q2: Are there specific aspects of sustainable finance that retail investors struggle to understand? For example: Understanding of general aspects such as why it is important to consider sustainability risks and factors when investing?

- **Understanding differences between sustainable products and products without sustainability features?**
- **Understanding that sustainability characteristics and (expected) return are two separate issues?**
- **Understanding the new legal definition of "sustainability preferences" and its components (e.g., categories a), b) and c), minimum proportion, principal adverse impact indicators (PAIs), etc)?**

Material:

- 2° Investing Initiative (2023), Assessing client sustainability preferences…lost in the maze?
- 2DII (2022) What do your clients actually want? Understanding and estimating household demand for sustainable financial products
- Deutsche Bank (2016), 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies'
- ESMA (2022), The drivers of the costs and performance of ESG funds
- ESMA (2021), ESG funds provided better returns for investors in 2020
- Financial Conduct Authority (2022), Sustainability Disclosure Requirements (SDR) and investment labels

WWF Observation:

Based on recent research by 2DII, retail investors in Belgium, Spain, Italy, Netherlands, Poland, and Sweden were surveyed on their beliefs regarding the impact of integrating sustainability characteristics into an investment strategy on financial returns. The results revealed that, on average, 31% of respondents believed that the integration of sustainability factors tended to improve financial returns, while only 19% thought it might lower returns. Additionally, 24% expected no significant effect on returns, and 26% did not have a strong opinion on the matter.

While a small majority of respondents expressed the belief that the integration of sustainability factors tends to improve financial returns, it is evident that a prevalent misinformation gap still exists among retail investors. This observation is in contrast to the findings from Deutsche Bank's meta-study, which affirms the frequent outperformance of sustainable investment funds compared to the market average. Equally noteworthy is the ESMA meta-study conducted in 2022, which converges with earlier research and underscores the consistent outperformance of ESG funds relative to the market average.

The study also revealed that while advisors often associate sustainability preferences with environmental or social considerations, they frequently fail to provide adequate explanations of key concepts like principal adverse impacts. Furthermore, the existing definition and integration of sustainable preferences are insufficient to accommodate impact-oriented investors (while impact is a key motivation to invest sustainably for 40% of retail investors, based on a previous study in the target countries). In addition, 2DII research shows that on average 39% of the advisor did not assess the minimum proportion to be invested in accordance with sustainability preferences.

These inadequacies leave clients badly equipped to make informed decisions unless they conduct their own external research.

In summary, the results collectively demonstrate significant limitations in the regulatory definition of sustainability preferences.

WWF Recommendations:

The Commission is committed to conduct a review of the SFDR in the next mandate, which should lead to an improved categorization of sustainable funds. Efforts should then be made to align MiFID regulations with these new categories, in order to ensure consistency. This alignment can help bridge the gap between regulatory frameworks and client sustainability preferences more effectively.

In our view, a level 1 review of SFDR is necessary to restructure Art 6, 8, 9 funds and dispel the huge confusion on the current categorisation of sustainable funds. The ESAs joint consultation paper suggests two types of approaches: “value alignment” or impact investing. This makes sense but is not complete: indeed, impact investing is typically defined in a clear and demanding way with three criteria (intentionality, additionality, measurability). This is a relevant niche market and should not be mixed up with other investment approaches which do not provide impact (notably because the impact cannot be measured) but can provide a relevant contribution. We therefore recommends to build on the FCA approach for 3 categories of sustainable funds:

- **Value-aligned funds** (FCA: ‘sustainable focus’), building on approaches such as exclusions, taxonomy-alignment, not guaranteeing impact but guaranteeing that the money is not used for harmful companies/sectors or perceived as such. This category of funds may be particularly relevant for retail investors who may not be willing, for example, to invest in funds with fossil fuel exposure.
- **Impact funds** (FCA: ‘sustainable impact’), a niche market measuring the intentionality, additionality, measurability of the approach to create impact. This already existing market is set to grow and has stringent requirements: it should be kept and not mixed up with other, less stringent approaches.
- **Contribution funds** (FCA: ‘sustainable improvers’) building for example on stewardship and shareholder engagement with the objective to reduce the emissions of the investee companies, or other approaches such as growing new or undersupplied capital markets, or providing flexible capital (ie this category should not be exclusively focused on engagement). Collective approaches of shareholders are part of this category, which is particularly relevant for large institutional investors.

Additionally, to avoid greenwashing minimum sustainability requirements should be defined for each category. Such an updated categorization will bring clarity to the different types of investment options available. Subsequently, it is crucial to update MiFID with the new SFDR categories, and clients should be educated about these categories to make informed decisions.

Q3: Are there specific financial education initiatives on sustainable finance developed by consumer associations, trade associations or other organisations and that are used by investment firms that you can bring to ESMA's attention? Please accompany your reply with any relevant background information on the initiative and/or with details on its effectiveness/usefulness.

Material:

- 2II Website: myfairmoney.eu
- Better Finance Website: investor education https://betterfinance.eu/greencorner/investor-education/
- Assuralia (2022), Fiches d'intermédiation: Note explicative sur les préférences en maière de durabilité, accompagnant la fiche Epargne et Investissement
- 2DII (2023), Questionnaire for assessing client sustainability preferences and motivations
- 2DII (2023), Guidance for Questionnaire for assessing client sustainability preferences and motivations

WWF Observations:
With funding from the European Commission and national governments in Germany, France, and Switzerland, 2DII has cultivated a unique information resource for retail investors (and financial advisors) over the past three years: MYFAIRMONEY. This independent and publicly accessible platform encompasses extensive informational materials, including a video course on sustainable finance, a podcast on impact investing, a sustainability questionnaire, preparatory materials for financial advisory meetings, and various other resources.
In addition to this international information source, there are also national educational initiatives primarily developed by consumer organizations. Better Finance has also launched an education section on their website, which incorporates a map featuring national sustainable finance educational initiatives.
Despite these commendable initiatives, it is important to note that consumer education can only have a limited impact, and should go hand in hand with financial advisors education, and improved practices. Currently, challenges persist for financial advisors. The requirement to incorporate sustainability preferences continues to be met with hurdles and legal uncertainties. While some market stakeholders, like Assuralia in Belgium, are proactively providing guidance to their members on how to inquire about retail investors' sustainability preferences, this approach inevitably leads to differing interpretations and methodologies. Consequently, this results in market fragmentation across countries and disparities between investors and insurers.

WWF Recommendation:
To address this issue, efforts should be made to help investment firms in carrying out a comprehensive assessment of client's sustaiability preferences. WWF proposes a legislative change to empower the Commission to develop a Delegated Act. This DA would offer greater granularity, notably by including a template questionnaire for assessing clients' sustainability preferences.

This would have 2 major benefits:

- It would bring more clarity for financial advisors, facilitating compliance and ensuring legal certainty.
- At the same time, it would help protect retail investors by making sure their sustainability preferences are properly and consistently taken into account in investment strategies.
This initiative must be executed at the EU level. Notably, there already exists a robust template questionnaire developed by 2DII and a French working group, which could serve as a strong foundation for creating a standardized questionnaire at the EU level.

Q4: What is the main way firms currently provide information to retail clients about sustainable finance? For example:

- **Orally during the meetings with clients**
- **Through educational brochures or other (paper) documents**
- **Through dedicated website and apps**
- **A combination of the above**
- **Other**

In your opinion, are these approaches effective? Please provide details. Are retail clients satisfied with the quality of information provided?

Material:

- IOSCO (2022) Retail Investor Education in the Context of Sustainable Finance Markets and Products
- AMF France (2021), The French and Responsible Investment Products
- 2° Investing Initiative (2023), Assessing client sustainability preferences…lost in the maze?

WWF Observations:
A study from 2022 conducted by IOSCO shows that investors currently lack understanding of sustainable finance products. Likewise, in a study from AFM, in France, the lack of information and fear of greenwashing on the sustainable characteristics of the product were pointed out as main obstacles to investing in such products.
Given the evident lack of knowledge and understanding among retail investors regarding key sustainable concepts, it becomes increasingly crucial for financial advisors to play a significant role in assisting them. Regrettably, result from 2DII Results of the mystery shopping campaign shows that in only 48% of appointments did the advisor bring up the subject of sustainability preferences without any prompting by the client.

WWF Recommendations:
Given the evident lack of knowledge among retail investors, it becomes even more imperative that financial advisors are well-equipped to help them navigate the complexities of sustainable finance. A comprehensive approach involves:

- Improving the Education of Financial Advisors: Providing advisors with the knowledge and tools they need to guide investors effectively, filling the knowledge gap that currently exists.
- Empowering the Commission to develop granular guidance under the form of a template questionnaire through a delegated act: Developing a standardized questionnaire ensures that advisors uniformly ask essential questions to thoroughly assess their clients' preferences.
- Default Proposal of Sustainable Investments: Encouraging financial advisors to default to proposing sustainable investments will significantly heighten consumer awareness in this regard.
- Promoting dedicated website: Encouraging the use of platforms like myfairmoney.eu can serve as a valuable resource for retail investors.
- Providing Educational Materials: Supplying educational brochures and other tangible materials can further support the dissemination of crucial information.

Therefore, a combination of all the measures listed in the question is necessary.

Q6: Are there practical examples of questions used to collect information from clients on their sustainability preferences that you can share with ESMA? (as for other parts of this CfE, respondents can opt for their input to ESMA not to be made public)

Material:

2DII, Questionnaire for assessing client sustainability preferences and motivations (2023).

WWF Observations:

2° Investing Initiative (2DII) has taken the initiative to create a template questionnaire that aims at assisting investment firms in conducting a thorough assessment of their clients' sustainability preferences and broader motivations.

This questionnaire has been developed taking into account relevant regulatory framework, discussions within a French working group composed of around 20 members (representatives of major stakeholders of sustainable finance in France including financial institutions, NGOs and academics), and feedback received on a public consultation on a draft Questionnaire and Guidance opened by 2DII from March 2022 to June 2022.

2DII's questionnaire, complemented by a comprehensive Guidance document and three annexes emphasize the importance of improving the dialogue on sustainability between financial advisors and retail investors.

2DII's best-practice Questionnaire and a Guidance to assist investment firms in carrying out a comprehensive assessment of a client's sustainability preferences and wider sustainability motivations to comply with the new regulation and to their client expectations.

This Guidance and Questionnaire were developed considering: (i) the relevant regulatory framework and any supervisory guidance materials; (ii) 2DII expertise and research in relation to assessing client preferences for sustainable investment; and (iii) extensive stakeholder feedback through working group discussions, public consultation and interviews and focus group sessions.

WWF Recommendations:

It is necessary to provide clear guidance to the market, to help them deal with the confusion. As highlighted above, developing a standard template questionnaire would already be a positive improvement, to be required in the on-going MIFID review. This initiative should involve both EIOPA and ESMA in drafting such a questionnaire. To ensure the gathering of different viewpoints and a well-rounded understanding, a public consultation should be carried out to input on the preliminary questionnaire. Subsequently, it should become a Regulatory Technical Standards (RTS) and then adopted as a Delegated Act by the Commission.

The 2DII questionnaire above mentioned is a robust basis that could provide inspiration to ESMA and EIOPA, who can then capitalize on their own relevant internal working groups and engage in a public consultation process.

Q8: How are firms collecting information from clients on their preferences concerning the minimum proportion? With regards to the use of standardised minimum proportions, which standardised minimum proportions are presented to clients?

Material:

- 2° Investing Initiative (2023), Assessing client sustainability preferences…lost in the maze?

WWF Observations:

There are significant concerns about the current level of regulatory compliance when it comes to assessing the minimum proportion related to sustainability preferences. Based on the results from 2DII across nine EU countries, it was found that in 49% of appointments, advisors did not assess the minimum proportion to be invested in alignment with sustainability preferences. In 24% of cases, advisors presented a range for evaluating this minimum proportion.
In addition, the results raise questions as to whether record keeping by advisors is adequate This encompasses both the initial identification of sustainability preferences and instances where clients opt to modify their sustainability preferences due to the advisor's inability to recommend a financial product that aligns with the originally expressed preferences. This means that ESMA must exercise extreme caution when interpreting feedback to this question.

WWF Recommendations:

- Standardized Assessment Guidelines: Develop standardized guidelines at the EU level that clearly outline how financial advisors should assess the minimum proportion to be invested in accordance with sustainability preferences. These guidelines should provide specific criteria and methodologies to ensure consistency in assessments across different advisors and institutions.
- Training and Certification: Mandate comprehensive training programs for financial advisors focused on sustainability-related topics, including the assessment of minimum proportions. Advisors should be required to obtain certification to demonstrate their proficiency in conducting these assessments accurately.
- Template Questionnaire: Create a template questionnaire that financial advisors must use when assessing sustainability preferences of clients. This questionnaire should include standardized questions and criteria for determining the minimum proportion to be allocated to sustainable investments.
- Record-Keeping Standards: Establish clear and stringent record-keeping standards for financial advisors. Advisors should be required to maintain detailed records of client interactions, including the assessment of sustainability preferences. Regular audits should ensure compliance with these standards.

Q10: Are firms currently able to satisfy the sustainability preferences expressed by clients (in particular in relation to the three categories (Taxonomy, SFDR, PAI))? If so, for which categories and/or types of financial instruments do firms find it most difficult to satisfy clients' preferences?

Material:

- Morningstar (2022), 'SFDR Article 8 and Article 9 Funds: Q1 2022 in Review'
- EFAMA (2023), 'Market Insights'
- The Actuary (2022), 'Spike in pension schemes incorporating ESG factors into default funds'

WWF Observations:

Studies reveals that after the introduction of the Sustainable Finance Disclosure Regulation (SFDR), the combined share of Article 9 ('dark green') and Article 8 ('light green') funds in total European fund assets represented 45.6% in 2022. Similarly, EFAMA's Market Insights report from June 202318 finds that Article 8 and 9 funds made 45% of the European fund market (UCITS and AIFs) by the end of 2022. In addition, research by Willis Towers Watson found that 43% of Defined Contribution schemes analysed have now adopted ESG factors into their default strategies.

This means that a small half of the market is incorporating sustainability factors, but a big half is not. The market trend is going in the right direction but too slowly: based on the above sources, the market would take a decade (until 2032 approximately) to reach 100% of funds incorporating sustainability factors even in a light way. This is too slow to match the green financing needs of the EU economy, in order to help companies to transition and reach the 2030 sustainability targets.

This is also not sufficient to match the retail clients' expectations. This trend is led primarily by the Article 8 'light green' funds that make the bulk of the volume. The EFAMA report points that Article 9 'dark green' funds only represent 2.4% of the market. This market feature is misaligned with the expectations from retail clients, 40% of whom look for positive sustainability impact with their investments. 2DII's mystery shopping campaign, also raises concerns regarding how impact-oriented financial products are accommodated in the definition of sustainability preferences, which seems to be the category that suffers most from greenwashing currently.

WWF Recommendations:

Retail investors should be systematically offered sustainable investment products as one of the default options when the provider has them available, at a comparable cost and if those products meet the suitability test. This will raise consumer awareness on the different options available.

The Commission is committed to conduct a review of the SFDR in the next mandate, which should lead to an improved system of categorising sustainable funds (see our recommendation for the categorization of funds in the answer to question 2). The review of MIFID and its associated delegated regulation should then work hand in hand with the next SFDR review. This coordinated approach will help create a comprehensive and consistent framework that truly promotes sustainability preferences – and help identify impact-oriented financial products.

Q26: What approach and criteria have firms adopted for the mapping of products' ESG features in view of their matching with clients' sustainability preferences?

Material:

- ESMA (2023), Progress Report on Greenwashing
- 2° Investing Initiative (2022), Please Don't Let Them Be Misunderstood!

WWF Observations:

Concerns regarding the misuse of SFDR stem from both the wording of the legislation and its original intent as a disclosure regulation. The market has, in practice, repurposed SFDR as a labeling system, a concern highlighted by ESMA. In this context, we believe that this is an area where investment firms may not fully comply with regulatory requirements.

Additionally, it's worth noting that sustainability preference categories A, B, and C do not correspond to the three established financial product categories within SFDR. This misalignment makes it impractical to create a universally applicable protocol that effectively links the SFDR's financial product categories to client sustainability preferences.

WWF Recommendations:

We suggest that these categories undergo revision during the next SFDR review. Furthermore, efforts should be made to align MiFID regulations with these new categories (for further details, please refer to our responses to questions 2 and 10). This alignment can help bridge the gap between regulatory frameworks and client sustainability preferences more effectively.

Q34: Have firms noticed increased demand by clients of financial instruments with sustainability features? Please provide any relevant available statistics on this topic (e.g. percentage of clients asking information about these products; trends over time). Furthermore, please explain if factors such as age, gender, level of education or level of income/wealth play a role in the demand for financial instruments with sustainability features.

Material:

- Natixis (2016), Mind shift: getting past the screens of responsible investing; Schroeders (2017)
- Global Perspectives on sustainable investing Maastricht University (2019), "Get Real, Individuals Prefer More Sustainable Investments
- University of Cambridge (2019), "Walking the talk: Understanding consumer demand for sustainable investing"
- 2° Investing Initiative (2020), "A Large Majority of Retail Clients Want to Invest Sustainably" provides a larger overview.
- Summary of third-party research in 2DII (2020), *A Large Majority of Retail Clients Want to Invest Sustainably*
- MSCI (2020),'Swipe to invest: the story behind millennials and ESG investing'
- 2DII (2022), report 'Please Don't Let Them Be Misunderstood! How financial advisors consider clients' sustainability motivations before the upcoming MiFID II Delegated Act'

WWF Observations:

A substantial and increasing interest in sustainable investing among retail investors is evident, with a large majority (60-80%) expressing a desire to engage in sustainable investment practices. Recent consumer research conducted by 2DII across multiple EU Member States, including Belgium, Italy, Netherlands, Poland, Spain, and Sweden, further confirms the rising importance of sustainability in retail client beliefs and preferences. Moreover, studies have indicated that this interest in sustainable investment will continue to grow, as evidenced by the increasing inclination from millennials to favor sustainable investment choices.

However, research from 2DII shows that even if a majority of retail investors express a desire for sustainable investing, most of them face major obstacles to do so. Half of the mystery shoppers were not offered suitable products, or were not convinced / did not understand the product's suitability when it was offered to them.

The market potential for green financial retail products in several European nations, such as Denmark, Estonia, Germany, Greece, Ireland, and Romania, is estimated to surpass 2.8 trillion EUR, contrasting sharply with the European market for green retail fund products, which stood at only about 220 billion EUR in early 2021. This discrepancy between supply and demand highlights the significant untapped opportunities in the sustainable finance sector, urging the need to use this huge opportunity to better mobilise retail investment in order to help European companies to transition, and achieve the 2030 objectives of the European Green Deal.

WWF Recommendations:

Acknowledging this trend, a pivotal transformation within distribution practices is necessary. See our recommendations in Q4.

Q35: Which percentage of products in firms' offering have sustainability features? Please provide breakdowns and details, where available. Are retail clients satisfied with the availability of products with sustainability features (number, type, characteristics)?

Material:

- 2DII (2023) Moving the blockers of retail sustainable finance (a series of six market reports which summarise quantitative and qualitative research (quantitative surveys, bilateral interviews, focus groups, mystery shopping visits and a desk-study of the Lipper fund database) on the current situation regarding demand, supply and distribution of sustainable retail investment products in six European countries: Spain, Italy, Netherlands, Sweden, Belgium and Poland)
- 2DII (2022), Jumping the barriers to sustainable retail investment in France;
- 2DII (2022), What do your clients actually want? Understanding and estimating household demand for sustainable financial products
- 2DII (2023), The Impact Potential Assessment Framework (IPAF) for financial products.

WWF Observations:

See our answer to question 10.

Furthermore, it is important to note that recent research conducted by 2DII across seven European Member States, including Belgium, Italy, Netherlands, Poland, Spain, Sweden, and France, highlights a significant mismatch between the availability of financial products with sustainability features and the demand for such products.

This supply-demand disparity is particularly pronounced when considering impact-oriented products. Despite ongoing improvements, the range of sustainable financial products available to retail clients remains limited and lacks the desired diversity. For instance, the proportion of mutual funds without sustainability features far exceeds the proportion of clients who have no sustainability preferences or broader sustainability motivations.

Even when financial products do incorporate sustainability features, these features are too often restricted around screening approaches, whether negative, positive, or thematic, applied to the investment universe.

WWF Recommendations:

- To address this issue, there is a pressing need to enhance or complement screening strategies with alternative sustainable financial approaches known to have a more substantial potential for impact. These approaches may include engagement, financing underserved segments, flexible financing options, and providing non-financial support to align better with the goals of impact-oriented clients, as 2DII identified in its Impact assssment framework.
- To address the significant disparity between the supply and demand for sustainable financial products, it is highly recommended that a comprehensive reevaluation and recategorization of the SFDR categories be undertaken. Specifically, the introduction of a distinct "Impact" category within the SFDR framework should be considered.

Q36: Are firms facing specific issues related to data availability/data quality with respect to financial instruments with sustainability features? If yes, how are firms dealing with these issues?

Material:

- 2DII (2023), *Market review of environmental impact claims of retail investment funds in Europe*
- 2DII (2023) “Impact Potential Assessment Framework (IPAF)”

WWF Observations

Firms are encountering notable transparency challenges concerning the impact features of financial products, as approximately 40% of misleading claims from Art 8 and 9 retail funds are categorized as unclear. These unclear claims lack specificity and accuracy, making it challenging to assess their validity. Public disclosures related to engagement and voting also fall short in substantiating claims regarding achieving positive effects or reducing negative impacts through stewardship.

In addition, recent market research conducted by 2DII in six countries revealed insufficient reporting of impact-relevant information for financial products with high impact potential.

WWF Recommendations:

- Clear guidance or the establishment of a sustainable stewardship code should be implemented to improve the substantiation of unclear environmental impact claims, especially in cases where public disclosures on engagement and voting are insufficient to assess the claimed positive effects.

- The upcoming SFDR revision should provide a clear fund categorization, make a specific impact category, and ensure that financial product providers are required to furnish more comprehensive information on impact-relevant mechanisms.