

Forvis Mazars contribution to the European Commission's Call for Evidence on the Revision of the Sustainable Finance Disclosure Regulation (SFDR)

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Forvis Mazars is a global firm born in the European Union: we deliver audit & assurance, tax, advisory and consulting services in 26 Member States and over 100 countries and territories.

As a professional services firm that assists clients with implementing the SFDR, we welcome the opportunity to respond to the Call for Evidence launched by the European Commission to review EU rules on sustainable finance disclosure.

In line with the objectives of the Commission's SFDR review (to improve the functioning of the SFDR and address undue burdens and simplify requirements) please find below a number of observations from our SFDR work with clients.

(I) Observations from our SFDR work

1. Complexity and changes create regulatory burdens

- The SFDR regulation and RTS are complex and detailed in some areas but then ambiguous in other areas. Examples are a lack of a clear definition of "sustainable investment" and inconsistent calculations of Principal Adverse Impacts (PAIs) indicators. This leads to differing interpretations and outcomes making it difficult for end-users to compare products.
- Changes to the RTS are still being implemented, which leaves the client in a constant loop of revisions.

2. Data cost, availability and comparability

- Smaller entities struggle to access ESG data.
- Multiple data providers are needed to complete the reporting requirements, making the process costly and inefficient.
- ESG ratings can be of poor quality, not benchmarked, and based on opaque methodologies, making it costly and unreliable information. Furthermore, "Cherry-picking" favourable ESG raters leads to inconsistencies and accountability issues.

3. PAIs Assessment

- The assessment of PAIs is complex and unclear, particularly the "look-through" methodology. This complexity makes it difficult for firms to accurately assess and report PAIs.

4. Articles 6, 8 and 9 – the benefits versus the costs

- The complexity, number of data points, and proof required for achieving an Article 9 classification often outweighs the benefits of having Article 9 status, compared to Article 6 products.

Consequently, companies can prefer to report Article 8 and Article 9 products as Article 6 to avoid these costs and challenges.

5. The Issuance and periodic templates

- Completing the issuance and periodic templates is particularly challenging due to the need for measurable KPIs and data points, which are often unavailable. The lack of concrete data points makes compliance difficult and time-consuming.

(II) Some policy considerations for the revised SFDR

In light of our observations and experience of the SFDR, below are some policy considerations for the revised SFDR.

- Ensure that the revised rules are simpler and clearer to navigate for all participants in the sustainable finance ecosystem (e.g. preparers, advisers and end-users) so that the ultimate aim of informing consumers on what products are considered sustainable investments can be achieved.
- There are several system-level challenges associated with sustainability data (e.g. cost, availability, reliability, transparency and comparability) which need to be tackled. These challenges have consequential impacts for the cost of complying with the SFDR and the accuracy of disclosures (which in turn hampers investor confidence).

Given the intertwined relationships between numerous EU sustainability regulations (SFDR, CSRD, Taxonomy, CSDDD and ESG ratings) and the ongoing EU Omnibus discussions (which will have consequential impacts for the number of data points to be reported) proposed changes to data requirements in any of the EU sustainability regulations should consider if those changes have unintended consequences for data cost, availability, reliability and transparency in another sustainability regulation.

Furthermore, strengthening transparency and consistency in ESG ratings and performing independent ESG ratings benchmark assessments can improve the reliability, transparency and comparability for what is an important source of ESG information. With this in mind, the publication of the ESG Ratings Regulation in November 2024 and ESMA's current consultation on Technical Standards under that regulation should contribute positively to the functioning of the ESG data ecosystem.

View our submitted feedback [here](#) on the European Commission website.