



To: Valdis Dombrovskis, Executive Vice-President for An Economy that Works for People
Mairead McGuinness, Commissioner for Financial services, financial stability and
Capital Markets Union

European Commission
Rue de la Loi / Wetstraat 200,
1049 Brussels, Belgium

CC: Nicolo Brignoli, Member of Cabinet of Valdis Dombrovskis
Katie Power, Member of Cabinet of Mairead McGuinness
Alain Deckers, Head of Asset Management Unit at DG FISMA

By e-mail

12 December 2023, Brussels

Subject: How can SFDR support Europe's impact investing ecosystem to reach UN SDG goals and EU's Just Transition?

Dear Executive Vice-President Valdis Dombrovskis, Dear Commissioner Mairead McGuinness,

Impact Europe (formerly EVPA), the investing for impact network, the Global Steering Group for Impact Investment (GSG), along with its National Advisory Boards and the Global Alliance for Impact Lawyers, together represent the impact investment market in Europe.

Impact investing harnesses the scale, innovation, and ambition of the capital markets to address the world's great challenges around climate transition and rising social inequality. Despite a 26% growth in European direct impact investment in unlisted assets under management, the acceleration needed for UN SDGs by 2030 has not been achieved yet. The '*Accelerating Impact*' joint study (2022)¹ highlights untapped potential, and we believe the EU Sustainable Finance Disclosure Regulation (SFDR) can significantly boost needed progress.²

We appreciate the ongoing comprehensive assessment of SFDR by the European Commission and **jointly present key recommendations in this letter for consideration, aiming to accelerate the growth of European investing for impact markets.**

¹ Accelerating Impact: Main takeaways from the first harmonized European impact investment market sizing exercise, 2022 (accessible [here](#)) Note: The study separates listed from unlisted assets due to the current lack of widely accepted criteria to define how listed assets address social and environmental challenges. The intention to avoid double counting was the motivation behind excluding indirect investments. Therefore, this study represents a lower bound estimate of what other organisations in the ecosystem consider as impact investing.

² The top three SDGs targeted - decent work and economic growth, reduced inequalities and climate action - include a mix of social and environmental goals, which shows how impact investors represent a force for change on both impact categories.

1. Strengthen the transparency nature of SFDR with the introduction of simple disclosure rules for all financial products.

Transparency is at the core of SFDR with the purpose of supporting investors in finding financial products that match their sustainability ambitions. To achieve this, the disclosures should be relevant for decision-making by investors; information must be comparable, understandable, accurate, easy to find and appropriate for investors.

It is our view that if the financial market participants (FMPs) continue to be required to choose their 'level' of disclosure requirements based on the level of ambition of their products, there will be a strong incentive on the market to misapply the SFDR regime as a foundation for labels, i.e. the purpose for which it was not designed.

One way to address the current misapplication of the SFDR is to simplify the SFDR regime by creating a uniform transparency regime posing the same disclosure requirements on all financial market products. We need a strong but simple transparency system for all financial products on the market, which would ensure an important level of basic comparability.

The mandatory disclosure requirements, in our view, should adhere to the double materiality principle and encompass a simplified list of principle adverse indicators addressing both the environmental and social factors. Such disclosure should encompass at least one indicator related to governance.

Elements of proportionality should be introduced when considering underlying investments within financial products. For instance, consideration should be given to whether the investee company is an unlisted SME or a microenterprise, and whether it operates outside the EU or in an emerging economy.

2. Introduce labelling schemes while simplifying communication with end investors and increasing their trust in financial products.

The '*Accelerating Impact*' joint study (2022)³ shows that **retail investors (26%)⁴ are the main source of capital together with financial institutions (28%)⁵ and institutional investors (23%)⁶**. In this context, we highlight the need to democratize access to impact investment, especially for retail investors, who are increasingly demanding sustainable and impact opportunities. We highlight SFDR's role to facilitate clear and simple communication to end investors. Transparent communication not only builds trust and enhances investor protection, but also contributes to the overall integrity and stability of financial markets.

Current SFDR-related communication lacks clarity and consistency, leading to product reclassifications and greenwashing, eroding end investors' trust and market integrity.

We urge the European Commission to recognize the need, as done by the United Kingdom⁷, and introduce **an additional labelling system, clearly outlining minimum criteria**

³ As above, accessible [here](#).

⁴ E.g. individuals investing through employee saving schemes, like 90/10 funds in France.

⁵ E.g. traditional and ethical banks investing in impact investment vehicles

⁶ E.g. pension funds or insurance companies investing in impact investment vehicles

⁷ <https://www.fca.org.uk/news/press-releases/sustainability-disclosure-and-labelling-regime-confirmed-fca>

for underlying investment strategies. This system should include additional disclosure requirements to ensure the authenticity of products labeled as sustainable financial products.

3. Create a distinct Impact category and label

It is crucial to distinguish between strategies for investing in sustainable activities and those **intentionally seeking a positive social or environmental impact.**

While supporting recognition of sustainable efforts, e.g. those aligned with the EU Taxonomy, it is vital to address the widening investment gap for achieving UN SDGs by 2030. Urgently needed are positive impact investment strategies to close this investment gap and to answer end investors' appetite for social and environmental impact alongside financial returns. From the experience in the French market⁸ or with the crowdfunding platforms, there is evident interest from individual investors in intentionally using their capital for good. Presenting all relevant choices, including **a positive impact strategy**, is essential. In this context, we highlight the United Kingdom's recent introduction of the 'Sustainability Impact' label tailored to investments in solutions to sustainability problems with an aim to achieve a positive impact for people or the planet.

Furthermore, we propose minimum criteria for a dedicated Impact category outlined in the ANNEX to this letter.

For mixed products, disclosing the percentage allocated for positive impact is crucial, especially for the French 90/10 solidarity funds⁹.

Rather than a complete overhaul, we advocate for evolving within the existing SFDR framework.

We appreciate your consideration and remain available to discuss the above further at your convenience.

Yours sincerely,

Roberta Bosurgi, CEO of Impact Europe

Cliff Prior, Chief Executive Officer of the GSG

Emiliano Giovine, President, Global Alliance of Impact Lawyers (GAIL) Europe

Johannes P. Weber, Managing Director at Bundesinitiative Impact Investing

Patrick Sapy, Directeur general of FAIR

Frederik van den Bosch, CEO of Impact Finance Belgium

Kieron Boyle, Chief Executive of Impact Investing Institute

Laure Wessems-Chibrac, Managing Director of the NAB

Filippo Montesi, Secretary General Social Impact Agenda per l'Italia

José Luis Ruiz de Munain, CEO of SpainNAB

⁸ https://www.finance-fair.org/sites/default/files/2023-06/Executive%20summary%20bfs23_0.pdf

⁹ <https://www.finance-fair.org/sites/default/files/2022-05/FAIR-study-on-9010-2019.pdf>

ANNEX: Products within Impact Category and with Impact Label

Note: Impact Europe, the GSG, GAIL, FAIR, Impact Finance Belgium, Impact Investing Institute, the NAB, Social Impact Agenda per l'Italia and Spain NAB endorsed the ANNEX in addition to the letter.

Products within Impact Category and with Impact Label	
<p><i>“Products with <u>an explicit pre-defined intention to achieve a positive and measurable social and/or environmental impact.</u> These products invest in assets that offer relevant and <u>measurable</u> solutions to problems affecting otherwise underserved people and/or the planet.”</i></p>	
Minimum quality requirements	Minimum mandatory reporting requirements
<p>Intentionality</p> <p>Binding minimum portfolio allocation to C-asset class* of 70%**</p> <p>Remaining 30% portfolio: at least B-asset class, aligned with product impact objective, exclusion screening, Do No Significant Harm (DNSH) test.</p> <p>* These assets fall under the category of C asset classes within the ABC classification and Impact Classes methodology as introduced by the Impact Management Project (IMP).)</p> <p>** Note: this % should be calculated on the current value of all investments, excluding cash.</p>	<p>Report on investor impact strategy</p> <ul style="list-style-type: none"> - Theory of Change (ToC) or Impact Thesis <p>Investment policy to achieve the intended impact</p> <ul style="list-style-type: none"> - Justification of how the portfolio fits the ToC - Report on the composition of the portfolio (C & B asset class as introduced by the Impact Management Project (IMP).) <p>Safeguard reporting for the portfolio allocated to B asset classes:</p> <ul style="list-style-type: none"> - Report on portfolio alignment with product impact objective - ESG Exclusion screening - DNSH test proportionate and material to the asset
Impact Measurement and Management	<ul style="list-style-type: none"> - Report measurement methodology used to achieve positive outcomes - Report impact targets (KPIs) and metrics to measure portfolio impact and underserved market; - Impact Management policy to manage the risks and outcomes

Additional reporting	
<p>Investor financial or non-financial Additionality*</p> <p>Additionality is the quality of an investment to add. An investment characterised by additionality will lead to or has led to effects that would not have occurred without it. In the case of social outcomes, they are better than what would likely have occurred without the investment.</p> <p>Financial additionality refers to investments in those businesses that would not find or struggle to find suitable funding at a price similar to that offered by the investor.</p> <p>Non-financial additionality refers to when the investor engages actively in a broad and meaningful way to improve the enterprise's impact.</p> <p>*Note: Investee additionality is reflected on in the requirements on intentionality.</p>	<p>Report metrics regarding investor contribution (demonstrate a plausible link to impact should be provided)</p> <p>Report on non-financial additionality:</p> <ul style="list-style-type: none"> - Engagement strategies - Assistance in measuring and managing impact. - Support in improving processes, and products with the aim of generating a greater impact. - Training of staff on impact-related issues. <p>Report on financial additionality:</p> <ul style="list-style-type: none"> - Underserved capital markets - Flexible capital
<p>Organisational set-up of impact products</p>	<p>Report on organisational set-up relevant to impact products:</p> <ul style="list-style-type: none"> - impact-linked carried interest - binding impact targets - audits

About Impact Europe

Impact Europe (formerly EVPA) is the investing for impact network in Europe. We gather 350 capital providers (impact funds, foundations, corporate social investors, banks, public funders) to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet. Together, we rally people, capital and knowledge to accelerate, scale and safeguard impact.

Impact Europe / EVPA EU Transparency registry number: 651029816401-19

About GSG

The Global Steering Group for Impact Investment (GSG) was set up in 2015 as the successor to the Social Impact Investment Taskforce established by the United Kingdom of Great Britain and Northern Ireland during its presidency of the Group of Eight (G8) in 2014. A British charity, GSG brings together leaders from the worlds of finance, business, government and philanthropy to embed impact in policy, business and investment decisions to benefit people and the planet. The membership of GSG currently includes 41 countries through their National and regional Advisory Boards (NABs) for Impact Investing.

About GAIL

The Global Alliance of Impact Lawyers (GAIL) is a community of legal leaders who are using the practice of law to have a positive impact on people and the planet, and to accelerate the just transition. We believe lawyers are uniquely positioned to facilitate change and support the movement towards a more equitable system.

About Bundesinitiative Impact Investing

The Bundesinitiative Impact Investing (BIII – German National Initiative for Impact Investing) serves as the central platform for impact investing in Germany, embodying the vision of fostering regenerative investments and economic activities that uphold both ecological boundaries and social standards. We perceive impact investing as a pivotal instrument in realizing this vision, thus actively advocating for a significant reallocation and mobilization of capital towards impact investing. Headquartered in Berlin, our non-profit association with more than 115 active members. Collaboratively, in thematic working groups, regional chapters and specific projects, we engage across four overarching themes: awareness and attitudes, knowledge and competences, alliances and networks, as well as favorable framing conditions.

About FAIR

[FAIR](#) was born in 2021 from the merger of Finansol, historic actor of social finance, and Impact Invest Lab (iiLab), innovation lab on impact. Federating social impact finance in France and representing a French expertise centre abroad, FAIR gathers more than 130 social enterprises, banks, asset managers, NGO, schools and committed individuals. FAIR manages a label, the Finansol label, which helps the public distinguish social products from other products. Over 190 such products have been awarded the Finansol label as of today. FAIR hosts the French NAB which is part of the GSG network.

About Impact Finance Belgium

Impact Finance Belgium (IFB) is a membership association, with an overall goal to increase Impact Investing in Belgium to 10% of all Belgian AUM by 2030. Our members include parties such as financiers, fund managers, impact investors, development financiers, family

offices, social enterprises, and other network organisations. Our activities include the publishing of research, organizing expert-led talks and connecting stakeholders in the ecosystem. IFB is part of the GSG Network.

For more information, follow us on [LinkedIn](#) or visit the [IFB website](#).

About Impact Investing Institute

The Impact Investing Institute is an independent non-profit, set up by the UK government in 2019. It was established as a partnership with some of the world's largest financial markets actors to connect capital to impact. The Institute's mission is to accelerate the impact investing field – mobilising the trillions in private money to support a fairer, greener, more resilient economy.

Since it's founding, the Impact Investing Institute has become a focal point for impact investing in the UK and globally. It acts as a centre of expertise and has an established track record in convening key organisations in finance, the social sector, business, government and regulation to accelerate momentum around impact investment. It provides action-oriented solutions to lower the key barriers to the growth and effectiveness of the market. It is part of the GSG Network.

About the NAB Netherlands

The Foundation Netherlands Advisory Board (NAB) on impact investing is an initiative launched in 2020 by several Dutch financial sector players, social investors and impact fund managers. It is focused on scaling up investments in impact and increasing cooperation in the Dutch impact investing sector.

The NAB is part of a global network of similar national advisory boards (NABs), grouped together under the Global Steering Group for impact investment ([GSG](#)).

About Social Impact Agenda per l'Italia

[Social Impact Agenda per l'Italia](#) is the GSG's National Advisory Board for Italy and promotes the development of impact finance in Italy. The network gathers 24 organisations, representing investors, social enterprises, market builders, philanthropic institutions, which work together to establish a new economy that combines economic sustainability with positive social and environmental impact. SIA carries out advocacy, research, communication and market development activities, in order to create a favourable ecosystem for investments with positive impact.

About Spain NAB

Spain NAB, *Consejo Asesor para la Inversion de Impacto*, founded in 2019 is the Spanish independent non-profit association for impact investing which gathers the leading 45 institutions in the sector including banks, asset managers/owners, foundations, service providers and public sector authorities. Its mission is to develop the impact investing sector in Spain undertaking market research and building the impact community at the national level to develop market knowledge and strengthen partnerships, with the goal of mobilising public and private support for impact investing in Spain.

The NAB is part of a global network of similar national advisory boards (NABs), grouped together under the Global Steering Group for impact investment (GSG).

For more information, follow us on [LinkedIn](#) or visit the SpainNAB [website](#).