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**France Invest's contribution to the Commission's call
for evidence on SFDR**

Building upon its response to the 2023 consultation and additional work with its members, France Invest would like to share additional input into the European Commission's ongoing work on the design of SFDR 2.0.

1/ General Observations

1. Evolving Context

In the past eighteen months, the geopolitical and economic context has significantly evolved. France Invest welcomes the overall objective to harmonize and rationalize sustainability reporting requirements

For efficiency purposes, this simplification process should be carried out with the objective of improving the overall coherence of the sustainable finance framework. In particular, it should strive to foster better interconnectivity between information preparers (i.e., companies, investment firms) and information users (i.e., retail investors, institutional investors, and investment firms) respective data requirements.

This would foster the reallocation of both financial and human resources to concrete actions supporting the transition towards a sustainable European economy. For investment firms targeting non-listed assets, this means strengthened stewardship of portfolio companies' environmental, social, and digital transformations.

Therefore, we strongly believe that the SFDR revision should align with the Omnibus Sustainability package (including future ESRS and VSME 2.0 and their datapoints). With the revisions of the scope of application and the reporting requirements under the CSRD and the Taxonomy Regulation, we call for the future version of the SFDR to be consistently aligned with these future provisions to be adopted in the coming months, whichever scenario might prevail.

Moreover, the revised SFDR requirements should be used as the basis for the revision of the "Sustainability preferences" provisions under IDD and MiFID II.

2. Support for a Categorization Mechanism

Given the current European Commission's political priorities, key among which is the finalization of a single financial market and the support to SMEs, and the role that non listed assets (i.e., SMEs, Infrastructures, Real Estate) play in the European transition towards sustainable development (e.g., financing disruptive solutions to environmental and social issues, decarbonizing infrastructures, etc.), we call for a better consideration of AIFMs' specificities within SFDR 2.0.

France Invest members support the introduction of a financial product categorization mechanism within SFDR 2.0.

We call for the introduction of minimum requirements that will allow a financial product to be categorized within a category to be adapted to the operating model of non-listed funds and the realities of investing in unlisted assets.

This is a major point for France Invest members. Indeed, the absence of suitable minimum requirements would prevent non-listed actors from developing products aligned with their investment strategies and would make their products less identifiable to institutional and retail investors.

Overall, creating categories for "sustainable," "transition," and "ESG collection" financial products would meet the

expectations from key stakeholders (i.e., retail investors, institutional investors and investment firms). Additional work should be carried out to identify the most appropriate framework (i.e., minimum requirements, disclosure requirements, etc.).

2/ Financial products level observations

1. SFDR 1.0 provides an ESG transparency framework....

Although clarifications and simplifications are required, SFDR 1.0's implementation fostered positive developments. Following a survey conducted among our members, it appears that the implementation of SFDR 1.0 has provided financial stakeholders with a framework to strengthen transparency on ESG practices.

In general, this transparency framework has allowed:

- Providing a basis for identifying financial products' overall ESG ambition,
- Segmenting the product offering based on clients' ESG preferences,
- Better formalizing ESG methodologies and approaches,
- Integrating ESG considerations more effectively into the investment decision-making process,

After four years of implementation, and although imperfect, the current system provides a certain reading grid for various industry stakeholders, including managers and investors, both institutional and retail.

While the classification of financial products under Articles 6, 8, and 9 is used de facto by market participants as a label (a side effect leading the Commission to consider creating categories of financial products, see below for our reflections and proposals for criteria adapted to non-listed funds), the current framework has allowed stakeholders to develop financial products that meet various investor expectations.

2. ... But four years later, this imperfect framework raises more questions than it solves

As previously stated with France Invest's response to the 2023 consultation, for financial actors investing in unlisted assets, the SFDR 1.0's key hindrances are:

- The SFDR regulation was designed based on the functioning of listed funds. In practice, SFDR 1.0 is poorly adapted to the operating realities of unlisted funds (fund portfolio constitution process over X years, investment decisions spread over X months/years, portfolio company holding phase, investment exit process, etc.),
- The definitions of SFDR 1.0 key concepts (promotion of E/S characteristics, sustainable investment, DNSH, etc.) are vague. The clarifications provided gradually through various Q&As make the overall reading difficult even for industry stakeholders,
- Numerous divergent interpretations of SFDR's key concepts among financial actors and regulators lead to market fragmentation and make the comparison of financial products difficult, if not impossible,
- The market's use of classification into SFDR products 6, 8, or 9 as a label, even though SFDR 1.0 was designed as a transparency regulation,
- The current system does not allow to properly identify financial products supporting business transition (e.g., regarding a potential transition category, see our reflections and proposals below). With the current framework, funds supporting transition can be classified under Article 8 or 9 SFDR,

- The interoperability between SFDR 1.0 and the Taxonomy is lacking. One of SFDR 1.0's requirement was to identify the actual % alignment of environmental products 8 and 9 with the Environmental Taxonomy. However, due to various reasons (complexity of technical screening criteria, unfinished taxonomy, investments in companies not subject to Taxonomy reporting, etc.), the connection between these two regulations does not work properly. In the context of the ongoing review of the Sustainability Omnibus, it appears that this point does not currently have a satisfactory response in the short or medium term (see the proposals under review to maintain Taxonomy reporting within the CSRD sustainability report for companies with over 1,000 employees and €450M+ in turnover, and a simplified and voluntary reporting for companies below this threshold).

3/ Focus on the creation of a financial product categorization system under SFDR 2.0

France Invest members support the introduction of a financial product categorization mechanism, applicable to financial products open to institutional and retail investors, with minimum requirements adapted to non-listed funds.

We understand that the European Commission is considering creating three categories of financial products. In this context, France Invest is working with its members to put forward criteria that would be appropriate for non-listed funds, whether in private equity, private debt, or infrastructure.

The elements presented below are intended to contribute to the Commission's work and reflections. They should not be considered as definitive proposals from France Invest.

Category of "Sustainable" products

Currently, in the context of the ongoing review of the delegated acts of the Taxonomy and awaiting the final provisions of the "Content" Sustainability Omnibus, determining the criteria allowing a product to be categorized as "sustainable" raises numerous issues.

The following exploratory elements could contribute to the Commission's work:

- Reference to the Taxonomy: this could be a path explored by the Commission, especially when the financial product invests in assets contributing to the energy transition. However, the qualification of the future "sustainable" category should not be limited to a single link with the current taxonomy,
- Solution-Based Criteria: the use of a criterion linked to the qualification of "solutions" of the companies or activities in which the product invests should also be further explored and analyzed (i.e., what contributions to ESG issues do the products and/or services provided by the company in which the fund invests offer?),
- Internal taxonomies: especially for all activities not covered by the current Taxonomy. This is an essential point to bear in mind when it comes to investments with social objectives.

Category of "Transition" products

The creation of a "transition" product category is strongly supported by France Invest members.

However, to fully reflect all forms of transition (not just climatic but also environmental, social, and digital transitions), the label of this category could be revised to be called the "transformation" product category.

Eligible investments in this category should target:

- investments in assets/underlyings that have already implemented a transformation plan and,
- investments in assets/underlyings that, at the time of investment, do not yet have a transformation plan but commit to implementing one within a defined period.

Similar to the criteria for the "sustainable" category, further analysis should be conducted to define the appropriate and

adapted minimum requirements for this “transformation” category.

Particular attention should be paid to ensuring coherence with the future provisions of CSRD 2.0 and the future version of VSME. Also, this category raises the question of defining an improvement trajectory and the commitments that may or may not be made to monitor this trajectory.

A reference to an engagement strategy, with underlyings, allowing for monitoring the implementation of the transformation plan (for instance through the monitoring of X KPIs) could be analysed.

Category of “ESG Collection” products

The creation of an “ESG Collection” category could be useful for certain stakeholders.

Again, further reflections and analyses should be conducted regarding the determination of eligibility criteria.

Preliminary and exploratory criteria could include:

- An exclusion policy,
- An ESG analysis process prior to investment: a structured process to assess ESG factors before investing,
- Annual ESG reporting.

To fully reflect the financial products that could be eligible for this category, it could be renamed “ESG Integration.” This would allow for the identification of financial products with a basic/classic/standard level of ESG integration.

SFDR 2.0 should consider a product category “No claims” products

To allow financial product managers to offer a diverse range of funds and tailor-made products for certain investors (notably those who do not wish to invest in products referencing any level of ESG ambition), it would be necessary to provide a category “no claims” products.

This is especially true given the anti-ESG movement developing in the United States, where some North American investors request to no longer receive ESG reporting and significantly disengage from ESG topics. In this context, such “no claims” products should not be subject to any minimum obligations in terms of transparency in sustainability disclosures, binding ESG commitments or ESG reporting etc. For these products without ESG claims, the Commission could consider introducing a special disclaimer.

The label of this category could be revised to be called the “No claims” product category.

4/ Private equity and infrastructure specific features

1. Commitments

Unlisted funds investing in illiquid assets. As a result, any portfolio composition rules, thresholds or minimum standards, should, in our view, be measured only after a disclosed “ramp-up” period has ended. We are supportive of the fact that the Platform has in its report recommended taking account of “ramp-up” and “wind-down” periods when applying any minimum criteria, binding elements and indicators. We are therefore in favour of introducing measures based on the provisions adopted for ELTIF-labelled funds. Also, we call on the Commission to take into account the specific features of “evergreen” funds. Such “evergreen” funds are not closed-end funds and have an unlimited duration. These measures could be the following:

- i. a ramp-up period (cf Article 17 ELTIF Regulation¹);
- ii. a wind-down period, being specified that any threshold should cease to apply once the fund starts to sell assets with a view to the end of its life;

¹ <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:02015R0760-20240110>

- iii. temporary suspension (as referred to in ELTIF Regulation) and other temporary measures within the life of the fund. For example, the thresholds should be deemed to be maintained for a certain period after the transfer of assets.

We call on the Commission to ensure that this flexibility will be introduced into the future proposals for the minimum criteria for each of the future categories.

Finally, any minimum investment percentages should be, for unlisted funds, calculated with reference to the amounts invested and not with reference to valuation. For example, if an investment in a company is considered sustainable, based on its valuation, and this valuation suddenly falls, the ratio to which the fund is committed will not be respected. This raises important issues for the FMPs who must address this issue within the current SFDR 1.0.

Grandfathering

In his report, the Platform on Sustainable finance indicates that the Commission should “evaluate the need for grandfathering and/or transition rules”. We welcome this recommendation. The introduction of clear grandfathering provisions is essential for the private equity industry. There could be an optional exemption from the requirements of SFDR 2.0 for all closed-ended financial products (whether currently Article 6, 8 or 9) which are either fully closed to new EU investors.

We agree with the point made in Annex M of the Platform on Sustainable Finance's proposal on funds of funds, which could be extended to feeder funds. Indeed, certain types of funds will not have control over the choice of adjustments to the sustainability strategies of their underlying assets. This should be taken into account when adopting the grandfathering clause for illiquid funds proposed above.

Also, we welcome the Platform's proposal to consider the introduction of a cross-reference table for the funds that will not benefit from the grandfathering clause. This concordance table, such as that shown in Appendix M as suggested below, could be useful to avoid potentially lengthy discussions with investors on the recategorisation of the fund under the new system:

WORKING TITLE TO DIFFERENTIATE	Sustainable	Transition	ESG collection	Unclassified
So-called Article 6	X	X	X	✓
Article 8	✓	✓	✓	✓
Article 9	✓ “Article 9 level”	(✓) “Article 9 level”	X	X
Article 9 tracking Climate Benchmark	(✓) “Article 9 level”	✓ “Article 9 level”	X	X

* FMPs should be able to decide to not categorise their products which then would be unclassified.

5/ Transparency obligations at financial entity level

Transparency requirements at the entity level should be streamlined, if they are to be maintained. In particular, the principal adverse impacts (PAI) statement under Article 4 of SFDR should be reviewed to allow financial market participants to communicate more effectively on their ESG practices.

The current information published on the consideration of PAI, materialized by the its 14 mandatory indicators, provides readers with information that is neither clear nor useful. Moreover, not all of these 14 indicators are relevant for monitoring the impacts of investments made by investment firms.

One proposal might be to retain only a small number of indicators (consistently aligned with the forthcoming ESRS and VSME 2.0 standards) and focused on controversial activities.

Contact

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About France Invest

Established 40 years ago, France Invest brings together venture capital, private equity, infrastructure and private debt teams based in France, as well as the associated professions which support them. Its membership currently counts roughly 460 management firms and 200 associate members.

Private equity supports unlisted companies for a fixed period of time and provides them with the equity capital, through the acquisition of minority or majority stakes in their capital, needed to finance growth and transformation projects. It supports the creation of start-ups (venture capital), participates in the growth and transformation of many regional SMEs and mid-caps (growth capital) and contributes to the transfer of companies (replacement capital).

France Invest's members represent one of the main growth drivers for the French and European economy and support a significant portion of employment in France and Europe. In 2024, French private equity and infrastructure players invested €36,9 billion in 2,881 companies and infrastructure projects. They raised €38,9 billion from investors, half of which abroad (just under one third at EU level excluding France), which will be invested over the next 5 years². In addition to that, in 2024, private debt players (structures financing companies and infrastructure projects) invested €12,8 billion in 317 transactions and raised €8,5 billion that will finance new transactions in the coming years³. European companies, in particular start-ups and SMEs, are the main recipients of our members' investments. Over the 2017- 2022 period, over 330 000 jobs were created in companies backed by French venture capital and private equity⁴.

² <https://www.franceinvest.eu/activite-du-capital-investissement-francais-en-2024/>

³ <https://www.franceinvest.eu/activite-des-fonds-de-dette-privee-en-france-en-2024/>

⁴ <https://www.franceinvest.eu/croissance-et-creation-demplois/>