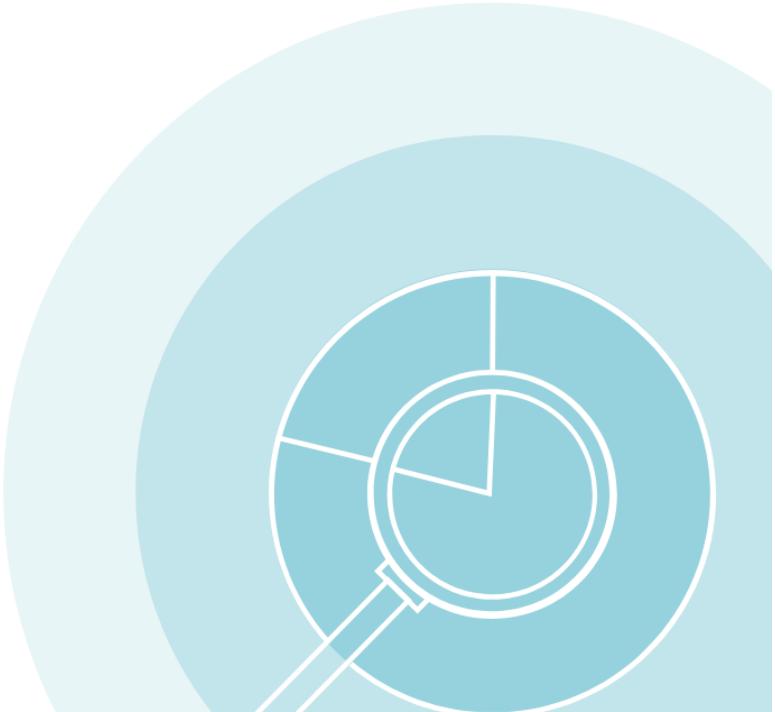




Policy Briefing

Integrating investor impact in the regulatory framework



1. Context

The Sustainable Finance Observatory (formerly 2° Investing Initiative) has run **one of the largest public research projects on sustainability preferences and sustainability-related objectives of over 14,000 retail investors across 14 Member States between 2021-2024**.¹ This has established a comprehensive overview of the financial and sustainability-related objectives and priorities of retail investors across Europe.

This research conclusively evidences a structural misallocation of impact-oriented retail investment under the current EU sustainable finance regulatory framework. While consumer research demonstrates that **51% of retail investors are impact-oriented** and want to have a real-world impact through their investment choices, impact-oriented financial products constitute only a tiny proportion of the investment options available to retail investors (**e.g. in key countries such as Germany and Austria, impact-generating financial products currently make up only 0.7–1.3% of the market**). Moreover, mystery shopping visits in 10 EU countries reveal that impact-oriented retail investors face a systemic risk of being misadvised in relation to impact-generating financial products and a review of 450 Art 8 and 9 EU funds revealed that 27% used misleading environmental impact claims.

This evidence casts doubt as to whether the current sustainable finance regulatory framework is meeting the policy objectives first articulated in the *2018 Action Plan: Financing Sustainable Growth* and taken up in subsequent policy initiatives (notably the *Strategy for Financing the Transition to a Sustainable Economy* and broader *European Green Deal*).

The forthcoming review of the Sustainable Finance Disclosure Regulation (SFDR) is therefore a critical juncture to remedy the regulatory deficiencies that contribute to this market failure and to unlock an untapped multi-trillion EUR market potential.

While the SFDR Review started in 2023, this policy initiative must now be viewed through the broader EU political context and most notably the regulatory simplification ambition to reduce the administrative burden for businesses while upholding high standards and achieving economic, social and environmental goals.

The 4 policy recommendations outlined below offer a pragmatic route forward to address the market failure identified above. These policy recommendations are designed so that the sustainable finance regulatory framework ensures a correct allocation of impact-oriented retail investment in the EU (therefore effectively contributing to the policy objectives in the Green Deal) and are consistent with a regulatory simplification ambition.

Our key message is to integrate the concept of investor impact in the regulatory framework by defining minimum criteria on investor contribution to categorise impact-generating financial products.

¹ Note that all research findings were made public. Find more information about the study structure, sample etc. in the report *SFO (2025): Mind the Gap: Why European retail investors don't get what they want* in Annex II and all data sets under github.com/SFObservatory/Data.SFO

These policy recommendations are the output of a broad stakeholder consultation and have been endorsed by the following organisations:



ShareAction»



Furthermore, these policy recommendations have benefited from support and contributions from leading civil society organisations, academics and industry groups:

- Michael Bommer (Bundesverband Alternative Investments e. V.)
- Sébastien Godinot (WWF European Policy Office)
- Mariyan Nikolov (Better Finance)
- Malte Hessenius (Climate & Company)
- Isabella Ritter (ShareAction)
- Luca Schiewe (Facing Finance e.V.)
- Eric Prüssner (Advanced Impact Research)
- Prof. Dr. Timo Busch (University Hamburg)
- Prof. Dr. Julian Kölbel (University St. Gallen)
- Prof. Dr. Rob Bauer (University Maastricht)
- Prof. Dr. Florian Heeb (Leibniz Institute for Financial Research SAFE e.V.)
- Prof. Christian Klein (University Kassel)

2. Summary of policy recommendations

RECOMMENDATION 1: The SFDR categories of sustainable financial product should be based on the sustainable investment strategy of a financial product and align with retail investor sustainability-related objectives (i.e. impact and/or alignment).

RECOMMENDATION 1.1: The concept of sustainability-related objectives should be defined in Article 2, Definitions of the SFDR and related regulatory provisions (e.g. MiFID, IDD etc.). The following definition could serve as a starting point:

'A sustainability-related objective may be either impact-generating or alignment-seeking:

- An impact-generating sustainability-related objective refers to the intention to contribute to positive real-world impacts through the investment process.*
- A [value] alignment-seeking sustainability-related objective means aligning the investment with a defined set of sustainability factors.'*

RECOMMENDATION 2: Impact-generating financial products should be recognised by additional disclosure requirements under new SFDR categories of sustainable financial product.

RECOMMENDATION 2.1: A new definition for impact-generating financial products should be integrated as a new paragraph in Article 2, Definitions of the SFDR. The following definition could serve as a starting point:

(*) An 'impact-generating financial product' has an objective and a strategy of contributing to positive real-world impacts through its investment process alongside a financial risk and return objective.

RECOMMENDATION 2.2: Additional disclosure requirements and minimum criteria for impact generating financial products should be required in relevant articles defining the new SFDR categories of sustainable financial product at Level 1 (e.g. the proposed 'sustainable' and 'transition' categories). The detail of these additional disclosure requirements and minimum criteria should be integrated at Level 2, therefore the following regulatory drafting could be utilised in each article defining the new SFDR categories of sustainable financial product:

(**) *Where a financial product [under this article/in this category] is an impact-generating financial product, minimum criteria must be satisfied and further information must be disclosed to evidence its contribution to positive real-world impacts.*

(*) The ESAs shall, through the Joint Committee, develop draft regulatory standards to specify the details of the presentation and content of the information to be disclosed pursuant to paragraph (**) above.**

When developing the draft regulatory technical standards referred to in the first subparagraph, the ESAs shall take into account the various types of financial products, their characteristics and the differences between them, as well as the objective that disclosures are to be accurate, fair, clear, not misleading, simple and concise.

*The ESAs shall submit the draft regulatory technical standards referred to in the first subparagraph to the Commission by [***].*

RECOMMENDATION 3: Additional disclosure requirements and minimum criteria for impact-generating financial products should cover the following generally accepted principles of impact investing:

- Intentionality
- Measurability
- Impact Management
- Reporting

RECOMMENDATION 3.1: A formal expert group should be mandated to research and articulate the additional disclosure requirements and minimum criteria for impact-generating financial products. This could take the form of a Commission Expert Group or alternatively the Joint Research Council could be appointed to set up a working group.

RECOMMENDATION 3.2: A 'credible sustainability-related engagement strategy' should be defined in Article 2, Definitions of the SFDR for relevant categories of sustainable financial products, and additional disclosure requirements and minimum criteria should be defined for impact-generating financial products which seek to use engagement as a strategy to generate real-world impact.

RECOMMENDATION 4: The MiFID and IDD suitability assessment requirements should be amended and grounded in the sustainability strategy of the financial product and align with retail investor sustainability-related objectives (i.e. impact and/or alignment).

3. Policy recommendations

RECOMMENDATION 1: The SFDR categories of sustainable financial product should be based on the sustainable investment strategy of a financial product and align with retail investor sustainability-related objectives (i.e. impact and/or alignment).

When investing in financial products, retail investors are driven by both financial objectives and sustainability-related objectives.² Financial objectives typically involve the pursuit of returns and minimising risk, while **sustainability-related objectives stem from the desire to 'be good' and/or 'do good' through investment choices.**³

- On one hand, some retail investors aim to **align their investments with their ethical principles, regardless of whether their actions result in real-world impact (a deontological rationale)**. Such value alignment can be operationalised through negative screening (excluding companies or sectors that conflict with personal values) and/or positive screening (including only companies that align with personal values).⁴
- On the other hand, other retail investors seek to **have a causal, positive impact in the real world through their investments (a consequentialist rationale)**.⁵ This can be operationalised through impact-generating investment strategies, which have the potential to achieve (additional) change in investee companies' economic activities.⁶

The framework of financial objectives (i.e. maximising risk-adjusted return) and sustainability-related objectives (i.e. value-alignment and impact) is increasingly referenced by regulators and industry organisations and backed by research (see *Annex I: Empirical evidence for sustainability-related objectives of EU retail investors*). **Indeed, the European Supervisory Authorities (ESAs) acknowledge in their Joint Consultation Paper on PRIIPs with Environmental or Social Objectives, that retail investors may seek not only financial returns but also to align their investments with their personal values or to generate a measurable impact.**⁷

In the context of the SFDR Review, the EU Platform on Sustainable Finance recommended that a new SFDR categorisation scheme for sustainable financial products should be consistent with **retail investor perspectives of value-alignment and/or impact**.⁸ Figure 1 below describes which of the Platform's recommended categories of sustainable financial product should address retail investor sustainability-related objectives.

² See for instance, Riedl/Smeets (2017): Why Do Investors Hold Socially Responsible Mutual Funds? or Bauer et al. (2021): Get Real! Individuals Prefer More Sustainable Investments

³ See for instance, Busch et al. (2021): Impact investments: a call for (re)orientation or Bonnefon et al. (2025): The moral preferences of investors: Experimental evidence

⁴ See for instance, Pastor et al. (2021): Sustainable Investing in Equilibrium or Riedl/Smeets (2017): Why Do Investors Hold Socially Responsible Mutual Funds?

⁵ See for instance, Heeb et al. (2021): Do Investors Care About Impact? or Oehmke/Opp (2024): A Theory of Socially Responsible Investment

⁶ Investor impact mechanisms are: Growing new/undersupplied markets, providing flexible capital and non-financial support are mechanisms which are typically applied by primary market financial instruments. See IMP (2019): A Guide to Classifying the Impact of an Investment or Kölbel et al. (2020): Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.

⁷ ESAs (2017): Joint Consultation Paper on PRIIPs with environmental or social objectives

⁸ Platform on Sustainable Finance (2024): Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance

Figure 1: Platform recommended categories of sustainable financial product matched against retail investor sustainability-related objectives

| Investors' perspective | Transition | Sustainable | ESG collection | Unclassified products |
|--|---------------|---------------|----------------|-----------------------|
| Value aligned: not investing in industries or assets that are significantly harmful. | Certain types | Certain types | ✓ | ✗ |
| Value aligned: investing in those assets that perform better from a sustainability point of view. | Certain types | Certain types | ✓ | ✗ |
| Value aligned: investing mainly or only sustainable and not harmful. | ✗ | ✓ | ✗ | ✗ |
| Value aligned: investing in measurable positive outcome. | Certain types | Certain types | ✗ | ✗ |
| Impact generating: causing a measurable positive outcome | Certain types | Certain types | ✗ | ✗ |
| not interested in sustainability. | ✓ | ✓ | ✓ | ✓ |

Source: Platform on Sustainable Finance (2024): Categorisation of Products under the SFDR

This approach for a categorisation scheme for sustainable financial products is consistent with regulatory developments in other key jurisdictions.

In the UK, the FCA has introduced a labelling regime to categorise financial products according to their *sustainability objectives*. The aim is to ensure that any financial product marketed as sustainable clearly reflects the **diverse needs and preferences of investors, including i) Risk management, ii) Values, iii) Opportunities, iv) Positive sustainability outcomes**.⁹

In Switzerland, the Swiss Asset Management Association has introduced a self-regulatory initiative that mandates any financial product marketed as sustainable must clearly disclose its **sustainability objective(s)** beyond financial return. These sustainability objectives are defined as:

- alignment (including transition) with one or more specific sustainability goals (i.e. value-orientation), or/and
- contribution to the achievement of one or more specific sustainability goals (i.e. positive impact).¹⁰

It should be noted that **the sustainable finance regulatory framework already refers to the concept of 'sustainability-related objectives'** in financial product governance requirements under MiFID II.¹¹ Product manufacturers are required to consider sustainability-related objectives when defining the potential target market for a financial product and product distributors must include sustainability-related objectives in their product governance arrangements for ensuring that financial products are compatible with the needs, characteristics and objectives of the target market. This means investment firms must assess whether a product's sustainability factors align with the sustainability-related objectives of the identified client group and ensure that such products are distributed accordingly.

⁹ FCA (2023): Sustainability Disclosure Requirements (SDR) and investment labels

¹⁰ AMAS (2024): Self-regulation on transparency and disclosure for sustainability-related collective assets

¹¹ Delegated Directive (EU) 2021/1269 (together with Delegated Directive (EU) 2021/1257 for insurance products)

However, these provisions face a key shortcoming as the term 'sustainability-related objectives' is not defined in the MiFID II framework. This regulatory gap creates significant uncertainty and risks fragmented interpretation across investment firms.

RECOMMENDATION 1.1: The concept of sustainability-related objectives should be defined in Article 2, Definitions of the SFDR and related regulatory provisions (e.g. MiFID, IDD etc.). The following definition could serve as a starting point:

'A sustainability-related objective may be either impact-generating or alignment-seeking:

- An impact-generating sustainability-related objective refers to the intention to contribute to positive real-world impacts through the investment process.*
- A [value] alignment-seeking sustainability-related objective means aligning the investment with a defined set of sustainability factors.'*

RECOMMENDATION 2: Impact-generating financial products should be recognised by additional disclosure requirements under new SFDR categories of sustainable financial product.

As the overarching regulation governing disclosure of sustainability information associated with financial products and financial institutions, the SFDR's implementation since 2019 through several delegated acts has led to a complicated and at times inconsistent body of regulation.

In this context, research from the Sustainable Finance Observatory (formerly 2° Investing Initiative) on the demand, supply and distribution of retail sustainable financial products in Europe, documents **a structural misallocation of impact-oriented retail investment** in the EU:

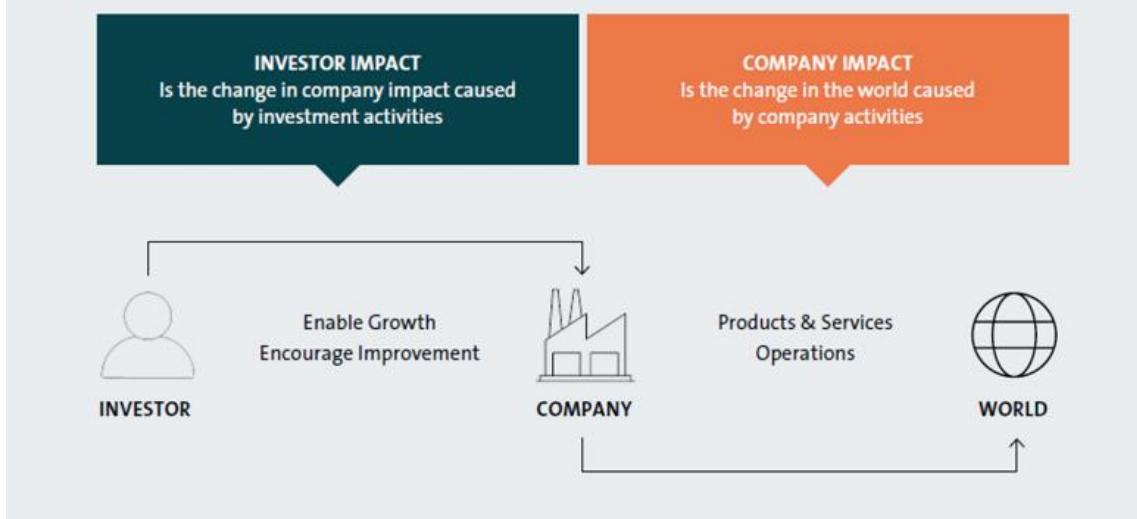
- **51% of EU retail investors want to generate real-world impact** with their investments, yet impact-generating investments **make up only 0.7–1.3% of the market in key countries such as Germany and Austria in 2023.**
- **27% of 450 Art. 8 and 9 funds** reviewed in 2023 **made misleading environmental impact claims**, while **76% of impact-oriented retail investors expected real impact from such claims.**
- **Advisor knowledge remains very weak on investor impact across Member States**, while mystery shopping campaigns **revealed that unsubstantiated environmental impact claims were made in 53% of advice meetings.**
- **A majority of impact-oriented retail investors** mistakenly believe that low-carbon funds directly reduce emissions, making them **vulnerable to misleading financial advice, marketing claims and potential exploitation.**
- This **market failure is estimated to lead to an unused multi-trillion market potential** for impact-generating financial products as well as **high consumer protection risks.**¹²

We consider that these problems stem from the fact that existing SFDR disclosures for sustainable financial products (Articles 8/9) do not accommodate impact-generating financial products and the concept of '*investor impact*' is not defined. Indeed, the critical issue in the current regulatory framework is the failure to distinguish 'impact-generating investments' from 'sustainable investments' as currently defined under SFDR Art 2 (17): '*an investment in an economic activity that contributes to an environmental or social objective ...*' This definition of sustainable investment requires investing in impactful company activities (i.e. focus on 'company impact' and 'impact alignment') but it does not require that anything changes in those company activities (as would be required for an investor impact and impact-generating focus).¹³

¹² Sustainable Finance Observatory (2025): Mind the Gap: Why European retail investors don't get what they want

¹³ See also Busch et al. (2021): Impact investments: a call for (re)orientation

Figure 2: Illustration of how investor impact can be differentiated from company impact



Source: Heeb/Kölbel (2021): Investor's Guide to Impact

The key determinant for impact-generating financial products is that they need to comply with minimum criteria which ensure investor impact. Existing SFDR disclosures for sustainable financial products (Articles 8/9) do not require investor impact and it seems that the same holds true for the 'sustainable' and 'transition' categories that the Commission may propose for the revised SFDR. **Without criteria for investor impact, these categories of sustainable financial product will only require company impact but not investor impact.**

In the context of the SFDR Review, **the EU Platform on Sustainable Finance recommended developing a legal definition of 'impact investing'** within the sustainable finance framework, clarify how it relates to existing definitions of sustainable investing and the EU Taxonomy, and determine how it can be integrated into the product categorisation scheme.¹⁴

We consider that this legal definition should be integrated at Level 1 and be based on a definition proposed by a group of researchers around Prof. Timo Busch¹⁵ which has been adopted in *Eurosif's Methodology for Market Studies on Sustainability-related Investments* and already tested in the market studies by the FNG in Germany and SSF in Switzerland.¹⁶ The principal advantage of this new approach is that it avoids using the term 'impact investing' itself, which has different interpretations across market participants while at the same time being compatible with impact investing definitions and principles.

¹⁴ Platform on Sustainable Finance (2024): Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance

¹⁵ Busch et al. (2021): Impact investments: a call for (re)orientation

¹⁶ See FNG (2024): Marktbericht nachhaltige Geldanlagen 2024 and SSF (2024): Swiss Sustainable Investment Market Study 2024

RECOMMENDATION 2.1: A new definition for impact-generating financial products should be integrated as a new paragraph in Article 2, Definitions of the SFDR. The following definition could serve as a starting point:

(*) An 'impact-generating financial product' has an objective and a strategy of contributing to positive real-world impacts through its investment process alongside a financial risk and return objective.

In addition to the legal definition at Level 1, mandatory disclosure requirements and minimum criteria for impact generating financial products should be integrated at Level 2 to prevent impact-washing.

This issue is well illustrated in the latest market report of FNG 2025¹⁷, showing that **self-disclosure according to Eurosif's *Methodology for Market Studies on Sustainability-related Investments* alone, is not sufficient to categorise impact-generating financial products**. Between the 2024 and 2025 FNG market reports, the self-declared share of impact-generating investments rose from 0.7% to 38% in Germany while it decreased from 1.4% to 0% in Austria. This dramatic increase of self-declared impact-generating investment in Germany and at the same time drop in Austria, cannot be evidenced by any observable significant market trends between both markets. This therefore raises concerns about self-reporting practices for impact-generating investments without binding disclosure requirements and minimum criteria.

ESMA's *Guidelines on funds' names using ESG or sustainability-related terms* are similarly not sufficient to categorise impact-generating financial products. First, SFO's *Market review of environmental impact claims of retail investment funds in Europe* revealed that less than 10% of fund's environmental impact claims stemmed from fund names, while 90% of environmental impact claims were used in legal documents (i.e. KIID, factsheet, prospectus) and commercial marketing materials (i.e. website, sales brochures, impact reports). More recently, SFO has also used the Impact Potential Assessment Framework (IPAF) to assess the impact potential of a sample 13 EU fund products which featured the term 'impact' in their names after the ESMA Guidelines on Fund Names became effective in May 2025. This test showed that only 4 out of 13 of these funds could meet minimum criteria to show potential to generate real-world impact (minimum IPAF Rating E) while the rest failed the test (IPAF Rating F).¹⁸

This evidence shows that additional mandatory disclosure requirements and minimum criteria to qualify as impact-generating financial products are necessary to address impact-washing risks.¹⁹

¹⁷ FNG (2025): *Marktbericht nachhaltige Geldanlagen 2025*

¹⁸ These results are not yet published but built on SFO's Impact Potential Assessment Framework (IPAF) which proved already to be able to distinguish the impact potential among financial products, see SFO (2024): *The Impact Potential Assessment Framework (IPAF) Pilot Test*

¹⁹ As an additional measure, Level 3 non-binding guidance could be developed to help financial institutions comply with additional disclosure requirements and minimum criteria and address impact washing risks.

RECOMMENDATION 2.2: Additional disclosure requirements and minimum criteria for impact generating financial products should be required in relevant articles defining the new SFDR categories of sustainable financial product at Level 1 (e.g. the proposed 'sustainable' and 'transition' categories). The detail of these additional disclosure requirements and minimum criteria should be integrated at Level 2, therefore the following regulatory drafting could be utilised in each article defining the new SFDR categories of sustainable financial product:

*(**) Where a financial product [under this article/in this category] is an impact-generating financial product, minimum criteria must be satisfied and further information must be disclosed to evidence its contribution to positive real-world impacts.*

*(***) The ESAs shall, through the Joint Committee, develop draft regulatory standards to specify the details of the presentation and content of the information to be disclosed pursuant to paragraph (**) above.*

When developing the draft regulatory technical standards referred to in the first subparagraph, the ESAs shall take into account the various types of financial products, their characteristics and the differences between them, as well as the objective that disclosures are to be accurate, fair, clear, not misleading, simple and concise.

*The ESAs shall submit the draft regulatory technical standards referred to in the first subparagraph to the Commission by [***].*

RECOMMENDATION 3: Additional disclosure requirements and minimum criteria for impact-generating financial products should cover the following generally accepted principles of impact investing:

- **Intentionality**
- **Measurability**
- **Impact Management**
- **Reporting**

As set out in RECOMMENDATION 2, additional disclosure requirements and minimum criteria for impact generating financial products should be integrated in relevant article(s) defining the new SFDR categories of sustainable financial product. It would then be relevant that these additional disclosure requirements and minimum criteria are specified in Level 2 Regulatory Technical Standards by the ESAs.

Currently the impact investing sector is characterised by different initiatives, methodologies and positions about how to effectively articulate the most relevant disclosure requirements and set minimum criteria effectively to ensure that impact-generating financial products do achieve real world impact. Nevertheless, these different initiatives, methodologies and positions do align around four generally accepted principles which should be followed for all impact-generating financial products: (a) intentionality; (b) measurability; (c) impact management and (d) reporting.²⁰

It will be necessary to set consultation and field testing with stakeholders across the finance sector and academia, given:

- the different academic and industry positions on the topic of impact investing;
- the need to consider interoperability with regulatory requirements in other jurisdictions; and
- the need to achieve the right balance with additional disclosure requirements and minimum criteria which are credible/science based while at the same time creating the right incentives for the impact-generating market segment to grow.

Such consultation and field testing will ensure the legitimacy and credibility of the additional disclosure requirements and minimum criteria for impact generating financial products.

A key aspect which needs to be covered by the minimum criteria relates to the concept of '**additionality**' or '**investor contribution**' which refers to the positive change directly attributable to the investor's action (i.e. investor impact). To demonstrate a minimum potential to achieve 'additionality' or 'investor contribution', key investor impact mechanisms should be applied. The following investor impact mechanisms are widely acknowledged by practitioners and academics:

- Growing new/undersupplied markets;
- Provision of flexible capital;
- Provision of non-financial support (which is typically applied by primary market financial instruments);
- Shareholder engagement (which is typically applied by public market financial instruments);

²⁰ See BAI et al. (2025): Recognition of impact investing in the EU Sustainable Finance framework and BAI et al. (2024): Position paper: Impact Investing in Alternative Investments

- Market Signalling; and
- Non-Market Signalling.²¹

A number of methodological frameworks can be used as a starting point to define minimum criteria for achieving a minimum potential of investor contribution (i.e. impact potential). For instance, the Impact Potential Assessment Framework (IPAF) from the SFO and the Fund Impact Assessment Grid from the Institute De La Finance Durable's (IFD) provide criteria to assess the impact potential of financial products and have both been successfully tested.²² A formal expert group should be mandated to research and articulate the baseline of minimum impact potential for impact-generating financial products. Obviously further labels or impact potential ratings might inform investors who seek to go beyond these minimum criteria, for instance to maximize the impact potential of their portfolios.

It should be noted that many disclosure requirements for impact-generating financial products should already be covered by the disclosure requirements in new SFDR categories of sustainable financial product (e.g. asset contribution and DNSH in the proposed 'sustainable' and 'transition' categories). Nevertheless, it will be critical to address the current deficiencies associated with Principal Adverse Impact (PAI) reporting to ensure that the revised PAI reporting framework aligns with the future changes to the European Sustainability Reporting Standards and is proportionate for different asset classes.²³

RECOMMENDATION 3.1: A formal expert group should be mandated to research and articulate the additional disclosure requirements and minimum criteria for impact-generating financial products. This could take the form of a Commission Expert Group or alternatively the Joint Research Council could be appointed to set up a working group.

Engagement with investee companies is a key mechanism by which public market investors can contribute to real-world impact.²⁴ It should be added that engagement is not restricted to equity owners. If some actions relying on shareholder rights are out of scope for bondholders, others are still operant. Fixed-income stewardship is getting more

²¹ See Impact Management Project (2019): A Guide to Classifying the Impact of an Investment and Heeb/Kölbel (2021): Investor's Guide to Impact

²² See SFO (2023): The Impact Potential Assessment Framework (IPAF) for financial products and IFD (2024): The grid for assessing a fund's impact potential. Note that a difference between the IPAF and the IFD grid is that the IFD grid can be also used to assess the 'intentionality' and 'measurability' of a financial product, while the current version of the IPAF (update planned in 2026) focuses fully on the 'additionality' of the actions of a financial product. Another key difference is that 'additionality' is not a mandatory minimum requirement in the IFD grid which means that a product could in theory score high without a very bad additionality score (which leaves the door open for impact washing, and which is not possible under the IPAF).

²³ A major reporting burden identified by private market investors under the current SFDR is around DNSH/PAI reporting, since if a financial market participant requests all mandatory PAIs from a start-up, this inquiry would not be proportionate in terms of reporting burdens. Different recommendations have been provided to address this issue, for instance in BAI et al. (2025): Recognition of impact investing in the EU Sustainable Finance framework and Platform on Sustainable Finance (2023): Platform Briefing on ESAs Consultation and SFDR

²⁴ See here an overview of the academic evidence for achieving collective impact on public markets through engagement compared to market signalling: SFO (2024): Collective investor impact in secondary markets

attention and financial institutions are developing engagement strategies for corporate fixed income and (to a lesser extent) for sovereign debt.

Engagement is therefore an option by which many impact-generating financial products can achieve real world impact across different asset classes. There is already a large academic literature and industry practitioner experience on the success factors for what makes engagement effective.²⁵

While all financial products across the new SFDR categories of sustainable financial products would benefit from credible engagement strategies to achieve their objectives, the additional disclosure requirements and minimum criteria for impact-generating financial products should clearly require a credible sustainability-related engagement strategy and its application to a meaningful proportion of the underlying portfolio. We consider that the recommendations from ShareAction and Eurosif in this area constitute the best starting point for defining these disclosure requirements and minimum criteria (please see Annex 2: *Shareholder engagement disclosure requirements and criteria*).

RECOMMENDATION 3.2: A 'credible sustainability-related engagement strategy' should be defined in Article 2, Definitions of the SFDR for relevant categories of sustainable financial products, and additional disclosure requirements and minimum criteria should be defined for impact-generating financial products which seek to use engagement as a strategy to generate real-world impact.

²⁵ See for instance SFO (2024): Collective investor impact in secondary markets

RECOMMENDATION 4: The MiFID and IDD suitability assessment requirements should be amended and grounded in the sustainability strategy of the financial product and align with retail investor sustainability-related objectives (i.e. impact and/or alignment).

The current MiFID and IDD suitability assessment requires a mandatory assessment of client sustainability preferences to determine if a client wants to invest sustainably. However, the fact that the current definition of sustainability preferences in MiFID and IDD delegated acts departs from a simple correspondence to the existing SFDR disclosures of sustainable financial product introduces complexity and uncertainty to this suitability assessment process. At the same time, the concept of sustainability-related objectives is only referred to in relation to product governance requirements (not in relation to the suitability assessment process itself).

The Commission should build on the SFDR Review to update the MiFID and IDD delegate acts on the suitability assessment and product governance requirements.

Rationalising the definition of sustainability preferences to align with the new SFDR categories of sustainable financial products as articulated in RECO1 and RECO2 is a necessary additional step. This would have three benefits:

- increased regulatory clarity and consistency, resulting in a lower information costs and greenwashing risks;
- a reduced risk of mismatch between client preferences and the financial products recommended; and
- in turn, a likely increase in sustainable investment flows.

Alongside rationalising the definition of sustainability preferences, there should be a further mechanism to assess client sustainability-related objectives during the suitability assessment, and ensure that the financial product recommendation achieves a match between the client sustainability-related objectives and the sustainability-related objectives articulated for the product.

Together, these changes would mean that impact-oriented retail clients would be much better served, as they could explicitly express a sustainability-related objective to achieve impact and a sustainability preference for impact generating financial products, which would then be reflected in the product recommendation.

These changes must be accompanied by adequate regulatory oversight of the suitability assessment by national regulators to ensure a market practice whereby sustainability preferences and sustainability-related objectives are properly integrated into product recommendations.

Assessing client sustainability-related objectives would require that the concept of sustainability-related objectives (as per the definition suggested in RECOMMENDATION 1.1) is explained to the client and the following questions asked:

- What do you want to achieve through the investment? (If you have several sustainability-related objectives, please rank from 1 to 2, 1 being the most important.)
 - Impact: Have a positive impact on the environment and/or society with the investment.

- Alignment: Align the investment with personal values.²⁶

The assessment of sustainability preferences should then be used to identify the more detailed financial product features for how the client can achieve its sustainability-related objectives. Following the recommendation of the Platform for Sustainable Finance, this might take the following form:

Sustainability preferences mean a client's or potential client's choice as to whether his or her investment should be

- aligned with his or her sustainability value by
 - not investing in activities or assets that are significantly harmful,
 - investing in assets that perform better than others within the same sector with respect to environmental, social and governance criteria,
 - investing mainly in activities or assets that can already be considered sustainable and/or avoid significantly harmful investments, or
 - Investing in measurable positive outcome (where investee companies exhibit performance improvements)
- or
- contribute to transformation of the economy by
 - Causing a measurable positive outcome.

FMPs could also collect information on whether clients' sustainability preferences have a focus on either environmental or social factors or a combination of them.

Source: *Platform on Sustainable Finance (2024): Categorisation of Products under the SFDR*

²⁶ See an example of the integration of sustainability-related objectives into the suitability assessment process here: Sustainable Finance Observatory (2023): Guidance and Questionnaire for assessing client sustainability preferences and motivations

Annex I: Empirical evidence for sustainability-related objectives of EU retail investors

Sustainable Finance Observatory (formerly 2° Investing Initiative) has run one of the largest public research projects on sustainability preferences and sustainability-related objectives of over 14.000 retail investors across 14 Member States between 2021-2024.²⁷

This has established a comprehensive overview of the financial and sustainability-related objectives and priorities of retail investors across Europe.

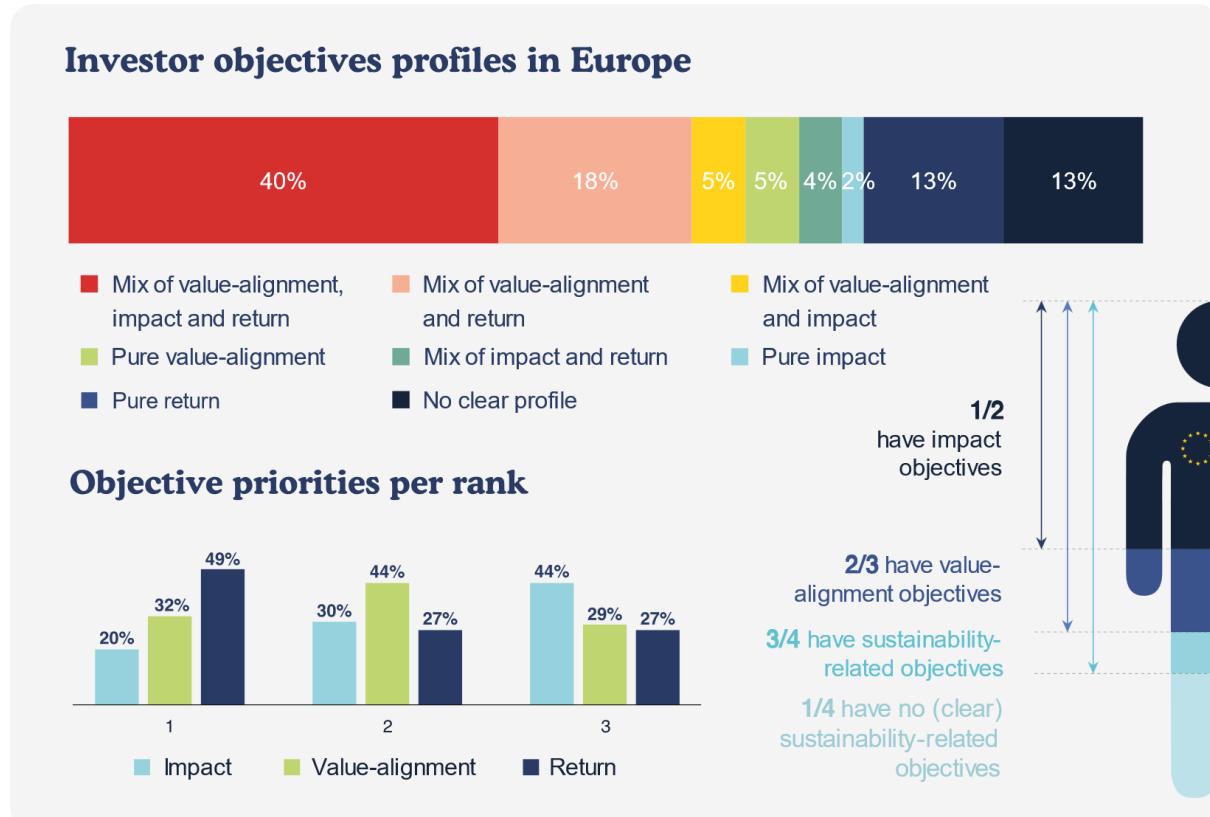
In surveys, participants were shown an educational video about different financial and sustainability-related objectives (i.e. maximising financial return, value alignment and impact). The following questions were asked with a 5-level Likert-scale from 'Very Important' to 'Not Important at all':

- You have documented in a previous question that your savings serve different financial goals. For each of those goals, **please express how important it is for you to align your savings with your personal values** by ticking the appropriate cell?
- You documented in a previous question that your savings served different financial goals. For each of those goals, **please express how important it is for you to use your savings to have a clear positive impact on the society or the environment** by ticking the appropriate cell?
- You documented in a previous question that your savings served different financial goals. For each of those objectives, please express how important it is for you **that your savings achieves the maximum possible return for the level of risk you accept to take** by ticking the appropriate cell?

Participants were asked these questions regarding their financial and sustainability-related objectives for each of their previously stated saving goals (e.g. save for retirement, generate a precautionary buffer, increase personal wealth, finance personal projects etc.). This was to test whether financial and sustainability-related objectives differ between saving goals. If participants ranked more than one financial and sustainability-related objective as important, they were asked to prioritise them in a follow up question. The results showed that individuals' investment objectives were highly consistent across their saving goals: in almost all cases, respondents selected the same importance and priorities for financial return, value alignment, or/and impact regardless of whether the goal was retirement, precautionary savings, wealth accumulation etc.

Therefore, we could aggregate the stated financial and sustainability-related objectives across all individual savings goals into a single investor profile (e.g. Mix of value-alignment and impact). The figure below shows the aggregated results on the financial and sustainability-related objectives and their priorities for all participants.

²⁷ Note that all research findings were made public. Find more information about the study structure, sample etc. in the report SFO (2025): Mind the Gap: Why European retail investors don't get what they want in Annex II and the full survey questionnaires and data sets under "Survey_ESIP_2021", "EEI_2022", "EUKI_2022", "Survey_sustainability_2023", "Survey_sustainability_france_2024" in github.com/SFObservatory/Data.SFO



Note: Countries: Denmark, Estonia, Germany, Greece, Ireland, Romania, Czech Republic, Belgium, Italy, Netherlands, Poland, Spain, Sweden, France; N=14109; year: 2021-2024. Percentages may not total 100% due to rounding.

Select quotes from qualitative interviews and focus groups in France are extracted below to illustrate anecdotally how retail investors with different profiles describe their objectives in their own words:



Across all countries in the sample, 13% of retail investors stated that maximising financial returns was their only important objective (therefore considering sustainability-related objectives was not relevant). Another 13% had no clear profile for their investments, stating that no investment objective was important or very important.

In contrast, 74% of retail investors had sustainability-related objectives in combination with (in most cases) the objective to maximise returns. Indeed, the most prominent profile (40%) was retail investors who state that all financial and sustainability-related objectives are important for their investments, thus seeking to maximise returns while aligning with their values and achieving impact.

When we look across all investor profiles, 51% of retail investors want to have impact with their savings (mostly in combination with other investment objectives). Value-oriented investors are an even bigger group with 68% of retail investors who wanted to align their savings with their values.

If participants had at least two financial and sustainability-related objectives and they had to prioritise their objectives, 49% of them stated that their financial objective had priority, while value-alignment ranked second (32%) and impact third (20%). **However, the results also show that around half of all sustainability-oriented retail investors prioritise their sustainability-related objectives over maximising financial returns.**

Several studies confirm that retail investors are willing to pay for sustainability.²⁸ Nevertheless, most studies do not systematically assess the specific sustainability-related objectives of participants. As a result, they fall short in explaining which sustainability-related objectives (i.e. impact and/or value-alignment) motivate retail investors to accept potential trade-offs in returns. In our view, this lack of granularity hampers a deeper understanding of the conditions under which retail investors are willing to compromise on financial performance. Therefore, more research is needed to unpack the trade-offs retail investors are willing to make across different financial and sustainability-related objectives.²⁹

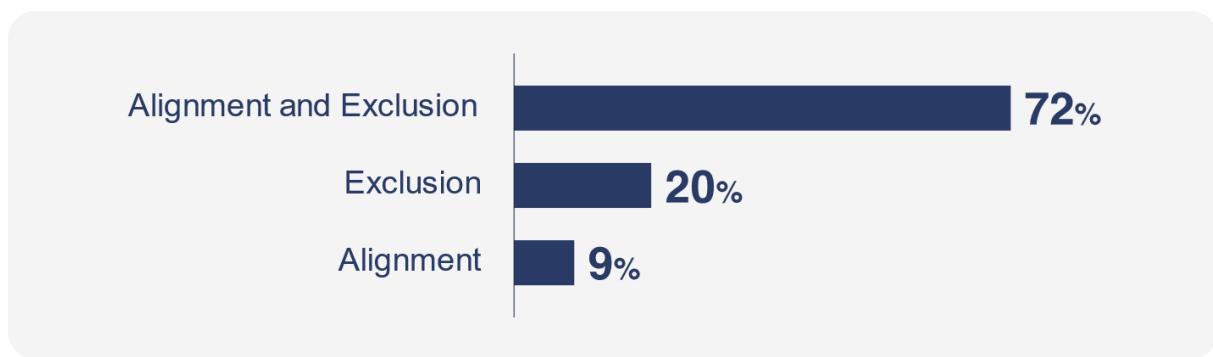
As mentioned elsewhere in this Policy Briefing, value-oriented retail investors can achieve their objective with financial products which exclude companies or sectors which conflict with personal values and/or which include only companies that reflect those values. In a 2021 survey conducted by the Sustainable Finance Observatory in 6 Member States³⁰, one goal was to understand the strategy preferences of retail investors who seek investments which are aligned with their values (as a stand-alone or mixed objective). In a first step, all survey participants were shown an educational video about different sustainable investing strategies. Afterwards, value-oriented investors were asked about their level of interest in the following strategies: exclusion, best-in-class or thematic investments. We merged the preferences for best-in-class and thematic investments to "alignment" strategies, since both strategies allow investment exposure to fully sustainable or relatively sustainable companies and were almost equally important for the respondents.

²⁸ For instance, Bauer et al. (2021): Get Real! Individuals Prefer More Sustainable Investments or Gutsche/Wetzel/Ziegler (2023): Determinants of individual sustainable investment behavior - A framed field experiment

²⁹ For instance, find a novel approach which assesses trade-offs between different investment objectives in a choice-based-conjoint analysis in Boos et al. (2024): Nachhaltigkeit in der Säule 3a

³⁰ Note that all research findings were made public. Find more information about the study structure, sample etc. in the report SFO (2025): Mind the Gap: Why European retail investors don't get what they want in Annex II and the full survey questionnaires and data sets under "Survey_ESIP_2021" in github.com/SFObservatory/Data.SFO

Strategy preferences of value-oriented investors (EU 6)



*Note: Countries: Germany, Greece, Estonia, Ireland, Romania, Denmark; N=2095; year: 2021.
Percentages may not total 100% due to rounding.*

While 72% of value-oriented investors preferred both channels for their investments, 20% were only interested in exclusion and a minority of 9% were only interested in alignment.³¹

³¹ Note: Percentages may not total 100% due to rounding.

Annex 2: Shareholder engagement disclosure requirements and criteria

Following the recommendations from ShareAction and Eurosif, we see merit in separating disclosure requirement on investor engagement and voting (stewardship). As per ShareAction recommendations:

'The following minimum criteria, indicators and reporting requirements related to engagement should inform the creation of product categories and disclosure templates.

For pre-contractual disclosures:

- Minimum criteria: disclosure of engagement, escalation and voting policies
 - Engagement policy with measurable and time-bound sustainability objective(s) aligned with science-based targets and/or international frameworks, including sectoral expectations.
 - Escalation framework, including a description of escalation tools of increasing strength and an escalation pathway that sets out expectations with time-bound milestones.
 - Sustainability-focused voting policy with intentions aligned with engagement objectives, underpinned by robust criteria.
 - Mapping of how engagement, escalation and voting strategies contribute to the achievement of the objective(s) and underlying criteria of the fund(s).
- Indicator: to measure how the FMP adheres to the minimum criteria on engagement³²
 - All products: rate of progress of engagements relevant to the fund.
 - Transition products: additional reporting on how engagement activities influenced product-level investment decisions

For periodic disclosures:

- Reporting on:
 - Implementation of engagement policy relevant to the fund, including:
 - Number of companies engaged, by topic, sector and region.
 - Success rate, or rate of progress, of engagements.
 - Outcomes of engagement, including progress against sustainability objectives and sectoral expectations.
 - Transition products: additional reporting on how engagement activities influenced product-level investment decisions.
 - Voting outcomes and rationale, by topic, sector and region.
 - Use and outcomes of escalation, by topic, sector and region"³³

As per Eurosif recommendations:

'A "credible sustainability-related engagement strategy" should include the following

- A formalised sustainability-oriented engagement/voting strategy with predefined, measurable, and time-bound sustainability objectives and targets.

³² See also different label approaches on how entity level disclosure and product level disclosure on sustainability-related stewardship can be combined in Appendix C in Climate and Company (2025): Transition Products – Conceptual Clarity & Implementation Guidance

³³ ShareAction (2025): An analysis of market practice to strengthen engagement disclosures under the Sustainable Finance Disclosure Regulation (SFDR)

- Voting rights should be exercised for topics related to the environmental and/or social transition of the company (with a comply or explain mechanism to anticipate possible operational issues preventing the exercising of voting rights).
- A sustainability-focused action plan to achieve those, including escalation measures and eventual divestment strategy.
- Disclosures including:
 - The number of explicit engagement actions carried out in line with the objective over the past period and the proportion of the fund concerned by at least one engagement action.
 - If relevant, additional engagement activities towards the benchmark administrator in line with the sustainability-related objective.
 - For collective actions, the degree of involvement of the management company.
 - Any other significant action taken with regard to the issuers in the portfolio.

Additionally, establishing an EU-wide stewardship code including asset managers but also third-party service providers (benchmark administrators, ESG ratings/data providers) could facilitate engagement efforts throughout the investment chain."³⁴

³⁴ Eurosif (2025): Policy recommendations for a fit-for-purpose SFDR June 2025

This project is part of the [European Climate Initiative \(EUKI\)](#) of the German Federal Ministry for Economic Affairs and Climate Action (BMWK).

The opinions put forward in this Policy Briefing are the sole responsibility of the author(s) and do not necessarily reflect the views of the Federal Ministry for Economic Affairs and Climate Action (BMWK)



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