

Deutsche Börse Group (DBG) welcomes the EC's review of the SFDR alongside its continued simplification and burden reduction efforts within the sustainable finance framework. Firstly, we fully agree with the objectives of the SFDR in fostering an investment in sustainable finance and secondly, we share the critique raised by various stakeholders on the shortcomings of the current framework.

Supporting policy option II, we want to highlight that from our perspective, a revised SFDR should: I) Align with the broader sustainable finance framework, in particular regarding recent amendments proposed in the Omnibus package, alongside establishing more precise definitions, such as "sustainable investment", harmonized across legislative frameworks (Taxonomy). II) Tailor disclosure requirements for more meaningful reporting. A one-size-fits-all reporting regime may not be suitable for all financial products, such as bespoke financial products with commodities as underlyings. Any Taxonomy-related disclosures must acknowledge data limitations. Prioritizing key information for investors should be a core principle. III) Establish distinctive product categories, going beyond just turning Article 8 and 9 into real product categories (as they are misunderstood right now), but include robust criteria that accommodate a variety of different investment strategies with varying levels of ambition, from "transitioning" to "impact" focused. This could improve (retail) investor understanding and help the EU to ensure a degree of global interoperability moving forward.

The goal of the sustainable finance framework is to increase the level of sustainable investments and decrease adverse impacts of investments on the environment. All financial instruments have the potential to serve this goal. We want to take the opportunity to highlight a persistent shortcoming in that respect. Under the current SFDR RTS, derivatives are treated asymmetrically: Long positions are included in the calculation of PAI indicators, thereby negatively affecting KPI ratios, while only net short positions are considered in the taxonomy-alignment ratios. This approach may inadvertently penalize the use of derivatives, despite their potential to support sustainable investment strategies. Derivatives form part of the tool kit of a portfolio manager to hedge risks and also to implement investments. In the latter case, derivatives are often used instead of the equivalent underlying cash basket or ETF to save costs by cheaper hedges. Thus, allowing for effective and cost-efficient hedging and contributing to reducing undue operational costs for financial market participants, recognizing derivatives as contributing to sustainability is justified and beneficial.

The inclusion of derivatives as a sustainable investment would not contribute to the identified SFDR limitation of lack of data availability. Especially, plain vanilla derivatives such as ETDs on single stocks, ETFs and indices have a direct connection to underlying assets and their contribution to sustainable investment can be easily calculated. They have a standardized nature and the possibility to calculate the sustainability proportion under SFDR. Futures and options with those underlyings can currently be assessed for sustainability proportion notional amounts or number of shares.

As such, we strongly advocate for the positive recognition of particularly plain vanilla derivatives as contributors to a green economy. Such inclusion would enable broader access to sustainable investments by extending the range of eligible financial products in sustainable finance without compromising the integrity of sustainable finance or increasing the risk of greenwashing.