LMA Loan Market Association

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Sustainable Finance Disclosure Regulation - Call for Evidence

To the Asset Management Unit of the Directorate-General for Financial Stability, Financial Services and the Capital Markets Union

I am writing on behalf of the Loan Market Association ("**LMA**"), which represents members in the primary and secondary loan markets in Europe, the Middle East and Africa ("**EMEA**"). Our membership reflects a broad and expanding range of participants in international loan markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution providers, and market infrastructure providers.

We welcome the European Commission's commitment to reviewing the Sustainable Finance Disclosure Regulation ("**SFDR Review**"), under its simplification agenda, to further encourage greater capital flows towards sustainable investment by focusing on decision-useful information. The LMA is committed to supporting the EU's approach while ensuring that its sustainable finance objectives remain unchanged. We see loan products as playing a vital role in financing the real economy and achieving a just transition to a sustainable and innovative economy.

Our work on sustainable finance aims at protecting the integrity of the sustainable lending market, supporting innovation, and driving increased liquidity towards sustainable outcomes. We have been involved in developing market standards in sustainable finance, such as the Green Loan Principles, Sustainability-Linked Loan Principles, and Social Loan Principles (together with supporting guidance and documentation), which are now widely used throughout the loan markets globally.

We believe that the SFDR Review should be dedicated to improving the sustainability reporting framework and its overall coherence, and that care must be taken to avoid creating further confusion. Therefore, it is important that any proposed reforms are evaluated for their market impact, while ensuring that market disruption and adaptation costs are kept to a minimum.

To this end, we propose some considerations for the Commission when making changes to the SFDR framework, including:

1. consider alignment, where possible, in reporting requirements across the SFDR, the Corporate Sustainability Reporting Directive ("**CSRD**") and the Taxonomy Regulation;
2. assess how the SFDR could learn from and align with international regimes, such as the UK's Sustainability Disclosure Requirements ("**SDR**") labelling regime;
3. consider how to deal with challenges with data availability; and.
4. consider the creation of a bespoke transition product category under the SFDR.

We look forward to developing our engagement with the Commission with a view to further supporting its legislative initiatives in this space.

We remain at your disposal for any questions you may have.

Best regards,

H Vanstone

Hannah Vanstone
Senior Associate Director
Loan Market Association

Key Considerations

The LMA would like to highlight key considerations for the Commission to keep in mind as it evaluates changes to the SFDR prior to outlining the main challenges that our members experience. A successful review of the framework should ensure the following:

I. **Extensive industry collaboration to effectively reduce reporting burdens**
Close collaboration with industry will be key to securing the success of this review, in reducing regulatory burdens and ensuring that financial institutions have access going forward to decision-useful sustainability information. Companies have already invested (in terms of both time and cost) in alignment with the reporting requirements to meet obligations under the SFDR. Engaging with market participants will help to ensure that simplification does not defeat the overarching goal of bringing greater transparency to end-investors. Care should be taken to avoid piecemeal revisions by working closely with industry to ensure that the resulting ecosystem yields decision-useful information.

II. **Focus on "decision-useful" information**

The primary objective of the SFDR is to equip investors with relevant and reliable sustainability information, enabling them to make well-informed choices regarding their investment decisions. To achieve this goal effectively, it is essential to prioritise the provision of decision-useful information. This means reducing reporting requirements deemed excessive or duplicative and ensuring that data disclosed is both meaningful and practical, allowing fund managers to meaningfully integrate sustainability considerations into their investment processes.

III. **A holistic approach to amending the SFDR to avoid unintended costs**
Amendments to the framework must minimise market disruption. Harmonisation should be ensured between the SFDR and related sustainability frameworks, including

the CSRD and the Corporate Sustainability Due Diligence Directive. It is also important to conduct a wider assessment of the impact of potential changes to SFDR, including the introduction of a labelling regime by having regard to potential disruption given the application of existing rules, including ESMA's Fund Name Guidelines, which have already come into force.

Challenges with the SFDR

I. **Misalignment of reporting definitions across sustainability frameworks undermines usability, comparability, and transparency**

Financial institutions face a wide regime of sustainability reporting requirements which suffer from inconsistent definitions and a lack of harmonisation, particularly across EU corporate sustainability reporting rules. This misalignment creates barriers to developing a cohesive and comparable reporting ecosystem. As a result, financial institutions struggle to access reliable and standardised sustainability data necessary to comply effectively with their reporting obligations and are subject to complex and burdensome reporting requirements. Inconsistencies not only place undue reporting burdens on firms but also hamper the effectiveness of the framework as a whole by creating uncertainty and reducing comparability. Greater alignment with global standards such as the ISSB's standards would also be beneficial.

II. **Lack of interoperability with international standards**

Given the cross-border nature of business and finance, reporting and disclosure standards must be as closely aligned as possible to ensure usability and reduce friction for multinational businesses and non-EU investors operating in the EU. There is currently a lack of interoperability between SFDR and the approach being taken by governments outside the EU, for example, the UK's SDR regime established by the Financial Conduct Authority. The lack of interoperability between regimes places additional burdens on EU companies and those looking to do business within the EU. This lack of interoperability relates to methodologies as well as the level of data granularity required and leads to a complex set of reporting requirements for firms operating cross-border. Compliance with multiple disclosure and reporting regimes has resulted in a significant cost burden on financial market participants and financial advisors.

III. **Challenges in accessing good quality, relevant, and comparable data**

The issue with Principal Adverse Impact Indicators in loan-related investments stems from challenges in data collection, including indicator relevance, data availability, and inconsistent approaches. This leads to varied methods in data gathering, analysis, proxies, reporting, scoring, and asset consideration. At the entity level, complexities increase due to diverse financial products and differing contractual disclosures. Loan products may follow industry standards or use varied reporting methods, raising doubts about the consistency and comparability of entity-level disclosures. Consequently, capturing comprehensive, reliable data is difficult, potentially resulting in inconsistent information and reduced transparency for investors. Market participants would, in particular, find it useful to have further clarity as to the correct approach to use when data is not reported and the circumstances/parameters for using estimates and proxies.

IV. **The current framework does not effectively capture investments in transition assets.**

Transition finance plays a crucial role in supporting a shift towards a climate-neutral economy, especially in hard-to-abate sectors. However, the SFDR does not effectively support disclosure of investments into transition activities. While the SFDR mandates disclosure of Taxonomy alignment, particularly for Articles 8 and 9, which include transition activities, this does not effectively capture investment in transition assets. By focusing on the outcome impact on investment activities, the SFDR lacks a focus on transition pathways. Lack of transparency into transition activities undermines greater capital flows into transition activities. Whilst a review of SFDR in order to address fundamental issues is welcome, must be balanced with consideration of the potential impact (including cost, time and resource) of implementing any changes, and so should be limited accordingly.

Annex 1
LMA

Since our foundation, the LMA has supported the loan markets, with a focus on enhancing liquidity, transparency, and sustainability. Today, with 880+ members in 69 jurisdictions, we represent an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution platforms and market infrastructure providers, spanning EMEA and beyond.

Through member representation on the LMA's various institutional committees and working groups, we actively engage with our members to ensure their voices are heard. Their input and guidance help shape the future of the loan markets, and these groups drive the delivery of positive outcomes.

Today, our activities are busier than ever, with a rapidly growing range of services offered to members. This includes an expanded library of documents, LMA Academy and training offerings, LMA Player and on-demand podcasts and webinars, increased focus on ESG and sustainability initiatives, and operational enhancements aimed at reducing settlement times.

Our goal remains to ensure the loan product retains its place as a critical financing tool in the market.

For more information, please visit our website: www.lma.eu.com