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European Securities and Markets Authority  
(ESMA)  
103 rue de Grenelle  
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Frankfurt, 19.02.2019

## **COMMENT TO CONSULTATION ON INTEGRATING SUSTAINABILITY RISKS AND FACTORS IN THE UCITS DIRECTIVE AND AIFMD**

SD-M® GmbH welcomes the opportunity to comment on ESMA's Consultation on integrating sustainability risks and factors in the UCITS Directive and AIFMD:

### **Operating conditions**

**Question 6: "Do you see merit in further elaborating in the provisions above on the identification and ongoing monitoring of sustainability risks, factors and indicators that are material for the financial return of investments?"**

SD-M would suggest that Member States or ESMA give further guidance or reference to existing Standards for relevant sustainability indicators with a material impact on the financial return of investments. These Standards might serve as an orientation or reference for the management companies, which have to take into account sustainability risks and factors.

SD-M's **global standard of standards for material ESG indicators** have been **developed since 2004** supported by the German Environment Ministry (BMU), the Sustainability Accounting Standards Board (SASB), accountants as well as global investors and analysts. This development was started to guide companies, investors and accountants regarding the disclosure of relevant non-financials key performance indicators in Management Reports according to the EU Modernisation Directive 2003/51/EC.

The copyrighted **SD-KPI Standard 2016-2021** currently defines **three very relevant "Sustainable Development Key Performance Indicators" (SD-KPIs) for 68 different industries**.

It is available in an

- **English version** ([http://www.sd-m.de/files/SD-KPI\\_Standard\\_2016-2021.pdf](http://www.sd-m.de/files/SD-KPI_Standard_2016-2021.pdf)),
- **Japanese version** ([http://www.sd-m.de/files/SD-KPI\\_Standard\\_2016-2021\\_JP.pdf](http://www.sd-m.de/files/SD-KPI_Standard_2016-2021_JP.pdf)) and
- **Chinese version** ([http://www.sd-m.de/files/SD-KPI\\_Standard\\_2016-2021\\_CN.pdf](http://www.sd-m.de/files/SD-KPI_Standard_2016-2021_CN.pdf)).

Since 2009, SD-M's **SD-KPIInform® database** has transparently evaluated SD-KPIs **for more than 5,000 companies** worldwide. SD-KPIInform allows asset owners, investment managers and index providers the systematic integration of material sustainability indicators into investment processes for equity and corporate bonds (SD-KPIIntegration®), cf. <http://www.sd-m.de/en/sd-kpinform.html>.

The **iSTOXX® SD-KPIIndex® family** has been developed by the index provider STOXX® and SD-M to **integrate material ESG indicators into the leading European mainstream benchmarks EURO STOXX 50, STOXX Europe 50 and STOXX Europe 600** by (slightly) overweighting or underweighting the components on the basis of their SD-KPIIntegration® Scores. The impact on the financial returns was an outperformance over a 5 year period, see:

**iSTOXX Europe 600 SD-KPI:**

<https://www.stoxx.com/document/Bookmarks/CurrentFactsheets/SXXGRSDM.pdf>

**EURO iSTOXX 50 SD-KPI:**

<https://www.stoxx.com/document/Bookmarks/CurrentFactsheets/SX5GTSDM.pdf>

**iSTOXX Europe 50 SD-KPI:**

<https://www.stoxx.com/document/Bookmarks/CurrentFactsheets/SX5GRSDM.pdf>

## **Risk management**

**Question 10: “Do you see merit in further specifying the content of the risk management policy by expressly listing key elements for the effective integration of sustainability risks (e.g. techniques, tools and arrangements enabling the assessment of sustainability risks, probability of occurrence and time horizon of sustainability risks with regard to the expected time of holding of the positions bearing the risks, quality of underlying data and methodologies etc.)?”**

It would be advisable to specify the content of the risk management policy by explicitly mentioning which standards, methodologies and tools for relevant sustainability indicators are used and how the material impact on the financial returns are assessed and proofed (see also answer to question 6 above).

SD-M would be happy to further explain the SD-KPI Standard 2016-2021 and the corresponding database and benchmarks to ESMA.