JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Response form for the Joint Consultation Paper concerning ESG disclosures

23 April 2020

Date: 23 April 2020
ESMA 34-45-904

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Responding to this paper

The European Supervisory Authorities (ESAs) invite comments on all matters in this consultation paper on ESG disclosures under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (hereinafter "SFDR") and in particular on the specific questions summarised in Section 3 of the consultation paper under "Questions to stakeholders".

Comments are most helpful if they:

- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

When describing alternative approaches the ESAs encourage stakeholders to consider how the approach would achieve the aims of SFDR.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

Q1 Insert your responses to the questions in the Consultation Paper in the present response form.

Q2 Please do not remove tags of the type <ESA_QUESTION_ESG_1>. Your response to each question has to be framed by the two tags corresponding to the question.

Q3 If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.

Q4 When you have drafted your response, name your response form according to the following convention: ESA_ESG_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA_ESG_ABCD_RESPONSEFORM.

Q5 The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments on this consultation paper can be sent using the response form, via the ESMA website under the heading 'Your input - Consultations' by **1 September 2020**.

Q6 Contributions not provided in the template for comments, or after the deadline will not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESAs Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725[1]. Further information on data protection can be found under the Legal notice section of the EBA website and under the Legal notice section of the EIOPA website and under the Legal notice section of the ESMA website.

[1] Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	Allianz SE
Activity	Insurance and Pension
Are you representing an association?	☐
Country/Region	Germany

Introduction

Please make your introductory comments below, if any:

<ESA_COMMENT_ESG_1>
Allianz welcomes the initiative by the ESAs to bring forward disclosure on material adverse impacts of financial institutions' activities onto the environment and society. Overall we believe that the intended goal of the proposed regulation would help the financial market and other stakeholders to make more informed decisions based on the disclosure requirements. However, we would strongly recommend to review the proposal to improve clarity and proportionality on the scope of disclosure, the underlying theory of change and materiality and the timing of legislative processes and reporting.

1. Clarity of definitions: The ESAs should elaborate on the concept and definition of adverse impact before proposing mandatory indicators. To ensure a technically feasible approach, the ESAs should test proposed requirements on existing financial portfolios and products before finalizing the RTS.
2. Theory of change: The proposed approach seems to focus on the actions of underlying investee companies rather than the actions of the investor. It would measure a snapshot but not the momentum. In this respect, exclusions are promoted in comparison with stewardship, engagement actions and long-term financing which can drive the transition to a sustainable economy.
3. Materiality: As not all investments are relevant with regard to adverse impacts, Principal Adverse Impact (PAI) disclosures should better consider materiality based on severity and likelihood of the impacts, which is strongly dependent on entity-specific portfolios. The assumption that the areas addressed in the proposed 32 mandatory indicators always lead to PAI is unjustified and represents a substantial burden, without justified benefits for information users.
4. Proportionality: The development of the RTS needs to consider insurers' different size, nature and scale of their activities. Requirements should also differentiate between financial market participants and financial advisers. Administrative burden for financial players and disadvantages to investors need to be fully assessed to ensure requirements are proportional and feasible.
5. Information and data:
    - All disclosures should be technically feasible and adequately consider existing issues and especially gaps with ESG data quality and availability. To avoid that market participants are pressured to disclose information and indicators neither sufficiently reliable nor yet available, reasonable efforts by financial market participants to acquire respective data should be sufficient.
    - ESAs should consider a phased-in approach until the necessary ESG data is made available at the level of investee companies as part of the upcoming new Non-Financial Reporting Directive (NFRD) obligations in a comparable, reliable and public format, possibly via a centralized EU data register in a first step. Ultimately, we would support a global data register considering the global coverage of our investment portfolio.
6. Timing: The ESAs should assess and report to the co-legislators on the implementation challenges and related timing implications in their proposal, e.g. Level 1 is very likely to become applicable before the related, final Level 2 measures are even adopted.
7. Reporting period: In the public hearing of the ESAs on 2 July, ESMA set out the view of the ESAs that reporting would be required not only for investments at a given reporting date (e.g. 31 December), but also for investments that were held at a certain point in time or period during the whole reference period. While we understand the ESAs are concerned with the risk of window

dressing, there are no sufficient benefits to justify the excessive burden for financial market participants to report at this level of granularity. Allianz stresses that, for PAI consideration, it is crucial to focus on those assets that are held at a specific date, i.e. at the end of the year, rather than during the whole reference period.

8. Benefit for consumers and other users of non-financial information: Financial illiteracy, complexity and information overload are three well-known obstacles for good consumer disclosure. It is key that the ESAs take due account about the needs and limitations of consumers and other users of non-financial information.

More broadly, it is essential to ensure that there is consistency across related policy developments including the Taxonomy Regulation, the NFRD review, and amendments to the Solvency II and Insurance Distribution Directive (IDD) delegated acts with respect to sustainability preferences.
<ESA_COMMENT_ESG_1>

- **: Do you agree with the approach proposed in Chapter II and Annex I – where the indicators in Table 1 always lead to principal adverse impacts irrespective of the value of the metrics, requiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an "opt-in" regime for disclosure??**

<ESA_QUESTION_ESG_1>
Allianz welcomes the European Commission's objectives to make the economy more sustainable. It should be noted that this process needs to be coherent with ongoing policy developments on sustainable finance and market reality. In this respect, the approach taken in the draft RTS and in the proposed level of standardization is premature and requires a detail of disclosures that is not consistent with available market information. In addition, it risks putting high pressure on financial market participants, without delivering sufficient benefits for users of this information.

While Allianz is fully supportive of the necessity of improved disclosures, it encourages the ESAs to adopt a more flexible and realistic approach - at least until related and essential legislation (e.g. Taxonomy Regulation, NFRD) has been finalized and to better take into account the following implementation challenges:

- Clarity of definitions: The ESAs should elaborate on the concept and definition of adverse impact indicators before proposing mandatory indicators. Transparency of adverse sustainability impacts (ASIs) at entity level is a relatively new concept, which requires a common understanding of ASIs if financial market participants are expected to identify and report on them.
- Theory of change: The proposed approach seems to focus on the actions of underlying investee companies rather than the actions of the investor. It would measure a snapshot but not the momentum and direction of a company. In this respect, exclusions are promoted in comparison with stewardship and engagement actions which can drive the transition to a sustainable economy (e.g. the carbon emissions of a company will be the same regardless of whether an investor buys or sells its shares in that company, the investor's engagement with the company to decrease them is key). Adverse impact indicators based on this approach may result in a misleading negative snapshot of the investments, ignoring far more important trajectories and transition plans. For instance, some firms may be prioritizing transition and impact investing in high emitting companies and using stewardship and related long-term financing to encourage them to set meaningful and measurable pathways to net-zero. Despite this being one of the most impactful approaches for a financial market participant, the RTS may work as a disincentive here. The impact of such an engagement will only translate into reduced emissions after several years, i.e. become evident in the PAI historical comparison disclosure.
- Materiality: The draft RTS link the concept of adverse sustainability impacts to a risk dimension (e.g. see problem definition). However, the draft RTS appears to prioritize standardization over a risk-based approach. An assessment of the principal adverse impacts should take into account the likelihood and the severity of a risk materializing, which is strongly dependent on entity-specific portfolios. Specifically, the materiality of ASIs differs widely across industries and assets. In addition, financial market players are better placed to assess what impacts are principal. This is why the approach proposed for the indication of principal adverse impact indicators as per Article 6(d) appears to be more appropriate: it requires a materiality assessment and a risk-based prioritization based on severity and frequency of occurrences in the portfolio of a given entity, without ignoring portfolio-specific characteristics, geographies, etc.
- Information and data: All indicators should be technically feasible and adequately consider existing issues with ESG data quality and availability. At present, such ESG-related data, and even less so for adverse impacts, is not readily available or sufficiently reliable at the level of investee companies to be disclosed with the level of precision proposed in the draft RTS, especially on a fund by fund basis due to poor global corporate disclosure. Information received by investee companies is often of poor quality, while that provided by ESG data providers is often inconsistent. This issue is exacerbated by the global nature of investment portfolios and by reliance on asset managers. Respective data for other asset classes, i.e. sovereign bonds is even less available. Therefore, while guidance on presentation of existing adverse sustainability impacts is appreciated, we note that:

  - Proposed indicators should not be mandatory at this stage unless reliable standardized ESG data necessary to produce indicators is available and published by investee companies.
  - Additionally, whilst the NFRD plays an important role in delivering ESG information required by insurers to assess their investments in corporates, there is also a need for EU governments to disclose reliable standardized ESG information necessary to enable insurers to produce indicators and to assess their holdings of bonds issued by regional or national governments.
  - Such ESG data must be available in a standardized format and electronically in a way that facilitates access and minimizes the cost for investors and other users of the information. In this respect, Allianz invites the ESAs to avoid the proposed level of granularity of the PAI indicators and to consider a phased-in approach where the necessary ESG data is made available at the level of investee companies (i.e. as part of their NFRD reporting obligations) in a comparable, reliable and public format, possibly via a centralized EU data register in a first step. Ultimately, we would support a global data register considering the global nature of our investment portfolio. To ensure a technically feasible approach, we encourage the ESAs to test proposed requirements on a number of existing financial portfolios and products before finalizing its proposal.

- Scope: In view of the very broad diversification and wide range of asset classes within an insurer's security assets, it is necessary to clarify which asset classes should be taken into account to identify and report on the PAI. On one hand, our understanding is, that most indicators in Annex 1 focus on equity and corporate bonds (based on the term "investee company") while it seems not to address ASIs for other asset classes such as real estate, mortgages, project finance or sovereign bonds. On the other hand, recital 3 also notes that "an investment in an investee company or an entity includes direct holdings of capital instruments issued by those entities and any other exposure to those entities through derivatives or otherwise". In this respect it needs to be considered, that most indicators are currently only available for corporates (see more details in the answer to Q3). Finally, it needs to be explained how derivatives should be taken into account.
  While standardization is relevant to the presentation and harmonization of indicators, the scope of PAI should be consistent with the availability of ESG data to comply with proposed disclosures. Therefore, it is essential, in order to achieve the goals of the regulation, that the requirements of the RTS are linked with the scope and information requirements under the forthcoming revised NFRD, which is currently considered by policymakers as the main tool for ESG disclosures by investee companies. Such consistency will ensure financial market participants have all the data they need to comply efficiently and consistently with the regulation, as it will ensure a unified approach to assessing sustainability and PAI/Do-No-Significant-Harm (DNSH) factors.
  Allianz invites the ESAs to take into account in the proposed RTS the fact that the availability of ESG data for investee companies outside the EU will not be improved by the NFRD nor the Taxonomy Regulation, as they do not apply to companies based in America or Asia for example. Given the global nature of the investment universe of European insurers, the proposed RTS should allow financial market participants not to disclose PAI for investments outside the EU when ESG data is not available.
- Consistency of legislation: Proposed legislation should be coherent and consistent with related policy developments, while avoiding contradictions and allowing proposed disclosures to remain sufficiently stable over time. In this respect, the link between the Taxonomy Regulation and the RTS on the SFDR should be better clarified. In practice, the proposed disclosure regime should better consider upcoming work under the Taxonomy framework, i.e. the RTS regarding the DNSH principle. As the DNSH and the PAI pursue the same regulatory objectives, i.e. they are intended to avoid "significant adverse effects" on the environmental objectives of the Taxonomy and on sustainable investments under the SFDR, they should be largely consistent and, where relevant, use the same approaches for determining their criteria and indicators. For example, if the Taxonomy bases the DNSH for mitigation on greenhouse gas emissions, then the PAI should prefer greenhouse gas emissions to alternative measures of PAI related to mitigation. This would avoid confusion for all information users/providers and it would be more consistent from a data perspective. Similarly, data needed for the requested indicators should also be compatible with the Benchmark Regulation. Under no circumstances should two different data sets on these two concepts

have to be collected. Such an approach would be confusing for all parties involved (investee companies, financial market participants, research/rating agencies and customers) and difficult to understand or communicate. Furthermore, it would be highly inefficient, costly, time-consuming and prone to error to have two different data sets.
Equally important, also required PAI indicators and ESG data under the reviewed NFRD should be consistent. For example, the principle of dual materiality, which applies under NFRD, and the concept of a set of mandatory PAI indicators should not contradict each other. In addition, whereas the ESAs acknowledge that there is a lack of ESG data, the mere indication that the data situation will improve does not solve the problem for financial market participants, which are supposed to collect and disclose these data as early as 30 June 2021 (see also section on timing).

- Timing: The SFDR will apply from 10 March 2021 on. However, the Level 1 is very likely to become applicable before the related, final Level 2 measures are even adopted, thus creating significant compliance challenges and liability risks for market players, as well as confusion for investors. Moreover, the timing of the application of the RTS should consider that the ongoing NFRD review has the objective to better standardize non-financial information. We are concerned about the risk to start reporting on a first list of indicators that will change in the coming years, while the EFRAG will propose new standardized non-financial indicators. Allianz suggests that the ESAs consider potential implementation challenges and related implications, e.g. for the timeline.
- Benefit for consumers and other users of non-financial information: Financial illiteracy, complexity and information overload are three well-known obstacles for good consumer disclosure. It is key that the ESAs take due account about the needs and limitations of consumers and other users of non-financial information.

Given the above mentioned challenges, Allianz suggests that at this stage, most indicators in Table 1 are used as guidance and remain subject to an "opt- in" regime for a transitional period, accounting for materiality considerations (for more details see Q3). We would also appreciate that financial market participants be able to limit disclosures to the share of their portfolio for which information is available and material.
<ESA_QUESTION_ESG_1>

- **: Does the approach laid out in Chapter II and Annex I, take sufficiently into account the size, nature, and scale of financial market participants activities and the type of products they make available?**

<ESA_QUESTION_ESG_2>
The development of the RTS needs to consider insurers' different size, nature and scale of activities. Specifically, we note the following points:

- The ESAs should consider the possibility of differentiating between financial market participants to ensure that requirements are proportional and feasible. The burden of implementing and continuously complying with the SFDR is particularly large for smaller financial market participants. The regulation should fully assess and take into account the administrative burden for financial players and disadvantages to investors. A balanced setup should be found where on the one hand the public is adequately informed and on the other hand smaller market participants are not put in a cost/effort disadvantage in comparison with larger participants. For example, some players may be requested to issue periodic reports only in case of material changes or with a different frequency, based on the risk profile.
- Insurers should have sufficient flexibility in implementing and dealing with the proposed requirements in line with the specific risk profile of their activities and portfolios, including in-vestment allocations and geographies. A certain degree of discretion at the level of financial market participants can result in more practical and cost-effective disclosures, without reducing the information value for consumers.
- Proposed disclosures should remain sufficiently stable over time and consider upcoming work under the Taxonomy framework, i.e. the empowerment under Article 8 of the Taxonomy Regulation, and ongoing developments, i.e. the review of the NFRD. This will avoid that market participants have to change their disclosures twice within a relatively short time and will facilitate implementation.

- Minor investments (exact threshold to be defined) should be out of scope for PAI reporting requirements to reduce reporting efforts and concentrate on the material holdings and impacts. We would further suggest to exclude reporting on investments into companies, which will not be required to report under the revised NFRD (e.g. SMEs, investments outside the EU), when respective ESG data is not available.
- The portfolios of insurers (general account) are very diversified in comparison to the portfolios of funds, which is also due to the supervisory requirements regarding the Prudent Person Principle (PPP). Reporting against such a comprehensive amount of indicators for a highly diversified portfolio is hardly manageable, neither comprehensible for the client nor of interest to the clients. Securitized bonds and mortgages make up a big proportion of our portfolio. For these asset classes there is no such data on the required indicators available and probably won't be in the near future. Further, it is necessary to clarify which asset classes should be taken into account to identify and report on the PAI, e.g. with respect to sovereigns, private debt and project finance. In addition, applying a look through on fund investments as envisaged by the ESAs according to the public hearing on 2 July, is excessively burdensome and - if at all - only possible with further data collection from the fund manager. Taking these challenges into account, we would recommend to reduce the reporting requirements regarding the general account of insurers (for more details see "scope" Q1 and "phased-in approach" Q3).
- Referring to SFDR Article 4 (1) (a), "Financial market participants shall publish and maintain on their websites where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts", it should be clarified that in case the assets of an insurance company are managed by one or more asset managers or investment firms (whether on a discretionary client-by-client basis or through a collective investment undertaking) and neither the concrete investment decision is under the discretion of the insurance company nor further arrangements on the consideration of principal adverse impacts of investment decisions are laid down, a comply-or-explain approach is sufficient. Along the lines of the regulation within the Shareholders Rights Directive II (Article 3g (2) 2SRD II), where the concrete investment decision is under the discretion of the asset manager or investment firm, the insurance company shall make a reference as to where such information on the consideration of principal adverse impacts on investment decisions has been published by the mandated asset manager or investment firm in order to avoid bureaucratic redundancies.
- Referring to the "Description of principal adverse sustainability impacts" as set out in the draft RTS table 1 Annex 1, we would like to note the following: As asset owners (and product owners) we only make strategic investment decisions and give guidelines to our asset managers and don't make investment decisions on a single issuer level. We therefore stress that, for the PAI statement, it is crucial to focus on those assets that are held at a specific date, i.e. at the end of the year, rather than on the investment decisions and movements during the whole reference period.
- For financial advisers, the proposed RTS should not just duplicate the requirements asked from the financial market players (Articles 3, 4, 5, 6 of the SFDR). A large part of insurance distributors are SMEs or individuals. Some of them may not have a website to publish the information needed and the RTS should not impose such a requirement.

<ESA_QUESTION_ESG_2>

- **: If you do not agree with the approach in Chapter II and Annex I, is there another way to ensure sufficiently comparable disclosure against key indicators?**

<ESA_QUESTION_ESG_3>

Overall considerations

For financial market participants to disclose detailed PAI indicators, ESG data necessary for compliance with the SFDR should be made publicly available by investee companies that are required to report under the renewed NFRD. This would be a proportional and efficient solution to achieve efficient and comparable disclosures. The purchase of ESG data from rating agencies and active data collection by financial market participants are inefficient given the scope and nature of financial market participants' investments and do not address the issue of availability and comparability of ESG data. In addition, it is key that proposed disclosures do not become a de facto requirement forcing market participants to rely on third party

providers of ESG data and research to obtain necessary ESG data, ever more so at times when ESG data is to be used by more and more stakeholders and companies.

Required information should be available in a standardized and electronic format supplied by the investee companies to a central, publicly accessible, free of charge EU data register in a first step. Ultimately, we would support a global data register considering the global coverage of our investment portfolio**.** This would minimize the cost for investors and other information users, but also eliminate the multitude of different requests of information for preparers of non-financial information. In this respect, we note that the need for standardization and for broad coverage of ESG information is leading to strong market concentration of ESG research providers and agencies, which are developing into oligopolistic structures. The existence of publicly available information - especially under a centralized database - can drastically lower the cost of ESG data collection, especially for small-sized companies. We encourage the ESAs to liaise with the European Commission, which has already outlined a proposal for such an ESG data register in its consultation paper on the Renewed Sustainable Finance Strategy.

Further, we appreciates that the ESAs recognize in Article 7(2) that there are instances when information cannot be obtained from investee companies, but we point out that the lack of data may limit the ability of insurers to make as much progress as they would like on the identification of PAI and it represents a real challenge for compliance with the new regulatory requirements. Therefore, we encourage the ESAs to consider applying our proposal below for a phased-in approach with the objective to allow financial market participants to implement comparable and meaningful disclosures.

Proposed approach
Allianz suggests a sequential approach to the coming-to-force of the regulation.

Phase 1: Transitional period from March 2021 until non-financial reporting standards are sufficiently defined and implemented by investee companies i.e. one year after the implementation of the standardized reporting by companies under the revised NFRD. During this transitional period we would recommend to focus disclosure requirements on a number of key indicators, where data is already widely available and which is material for most sectors. Data would only be reported for equity and fixed income exposure into listed corporates.

- Greenhouse gas emissions data:
  - Indicator 1-3: GHG/carbon emissions; GHG/carbon foot print, weighted average carbon/GHG intensity, only scope 1 and 2 and only for fixed income and equities for listed corporates.
  - Indicator 4: Solid fossil fuel sector exposure (whereby this should be weighted exposure to reflect ownership weight, i.e. 0.1% ownership in a solid fossil fuel sector company should result in different figure than 2% ownership).
- In addition, we would propose a more forward looking indicator: Share of investments into companies, which do not have Science-Based Target initiative (SBTi) approved GHG reduction targets.
- Indicator 17: Implementation of fundamental ILO Conventions.
- Indicator 18: Board gender diversity.
- Indicator 21: Share of investments in entities without policies on the protection of whistleblowers.
- Indicator 23: Share of investments into companies without a human rights policy.
- Indicator 24: Share of investments into companies without a human rights due diligence process.
- Indicator 29: Exposure to controversial weapons.
- Indicator 30: Anti-corruption and anti-bribery policies.

During this phase, PAI disclosures should be driven by materiality considerations on a portfolio basis. Given the novelty of capturing PAI, taking into account PAI based on materiality considerations, such as the investment volumes in investee companies within a portfolio, would allow financial market participants to focus on most relevant PAI for its specific portfolio, without the risk of negatively affecting the incentive for diversification within a portfolio. Financial market participants would need to be transparent about the approach chosen and disclose it on their website.

In addition, financial market participants would need to provide a description of policies to assess PAI, including a description of the actions to address principal adverse sustainability impacts, engagement policies and adherence to international standards.
The other indicators would remain voluntary during this phase.

Phase 2: One year after the implementation of the new reporting standards under the NFRD by investee companies: Beyond information already disclosed in the first phase, during this phase, additional disclosure on further key indicators (on the condition these indicators have been standardized under the revision of the NFRD).
These indicators could be:

- Indicator 5: Total energy consumption from non-renewable sources and share of non-renewable energy.
- A biodiversity indicator based on the standardization of non-financial indicators under NFRD. We recommend waiting for this standardization to find a suitable indicator for investors as indicators 9, 10, 11 are not the most appropriate at portfolio level.
- Indicator 25: Number and nature of identified cases of severe human rights issues and incidents.

Those additional indicators would then only be reported for companies subject to the NFRD, i.e. European based companies in a first step.
Other indicators should remain voluntary, but they should be disclosed when the financial market participant identifies them as being PAI based on its materiality assessment.

Phase 3: Extension across asset classes and non-NFRD companies, when respective data is sufficiently available.

While the recognition in Article 7(2) that there are instances when information might not be obtained from investee companies is welcome, it is key that market participants are not pressured to disclose information and indicators which are not considered sufficiently reliable. Otherwise, these disclosures may end up having limited benefit to information users and even be misleading and can bear reputational and legal risks for market participants. Therefore, Allianz suggests introducing ”reasonable best efforts” as a wording for Article 7.
<ESA_QUESTION_ESG_3>

- **: Do you have any views on the reporting template provided in Table 1 of Annex I?**

<ESA_QUESTION_ESG_4>
Summary: The summary section required under Article 5(1)(d) is a duplication of the more detailed information already required to be disclosed and in its current form provides no added value. A single disclosure standard should be created that contains only the information that is truly necessary. This should not preclude additional information from being provided on an optional basis.

Description of principal adverse sustainability impacts: The assumption that certain key areas of adverse impacts are always principal is not justified. Financial market participants should be able to identify the most relevant indicators based on a materiality assessment and a risk-based prioritization for their individual portfolios. While Allianz supports transparent disclosures and understands the need to assess investment portfolios against the European Commission’s objectives of mitigation and adaptation, it does not consider that all 32 mandatory indicators are necessarily principal, according to a robust risk-based approach. The approach is considered excessively burdensome for market participants, without having counterbalancing benefits for information users. We suggest to identify some key indicators, which can be considered as principal across all sectors and geographies and reduce the number of indicators as such. For more details on indicators see also Q3 and Q5.

Description of policies to identify and prioritize principal adverse sustainability impacts: We think such policies as described in Article 7 (1) do only add value if the financial market participants have some flexibility in identifying the most relevant indicators based on a materiality assessment and risk-based prioritization for their individual portfolios. As it currently reads the policies shall be mostly describing how the

table in Annex I was completed, which we do not consider as very value adding. Further, to avoid that market participants are pressured to disclose information and indicators not sufficiently reliable, we suggest adopting "reasonable best efforts" as a wording for Article 7.

Description of actions to address principal adverse sustainability impacts: Allianz encourages the ESAs to maintain the wording of the regulation. Therefore, we propose that the following wording is added in Article 8: "The section referred to in point (d) of Article 4(2) shall contain the following information, where relevant:".
We are also concerned that the level of detail required on tracking the effectiveness of actions taken to reduce adverse impacts is excessive and prone to window dressing. The effectiveness of some actions can be highly subjective. Therefore, disclosures should be limited to robust evidence and concrete actions.

Engagement policies: We consider the information in Article 9 in general as appropriate for publication on the website. However, we see a certain overlap with the previous section "description of actions to address principal adverse impacts" which also considers engagement as one key action. Therefore, we recommend to limit this point to general engagement policies and not again point out specific engagement actions taken to address principal adverse impacts.

References to international standards: We agree with Article 9 on the disclosure of responsible business conduct codes and internationally recognized standards for due diligence and reporting.
However, we note that climate scenarios and scenario analysis are a fast-developing practice with limited convergence so far. Furthermore, the breakdown of scenarios to regions, sectors and asset classes is just emerging, especially for 1.5°C scenarios. Hence, the application of climate scenario analysis and resulting indicators may significantly vary based on the choice of scenarios, assumptions, portfolio coverage, methodologies for alignment or risk-focused analyses, etc. For these reasons, it is key that the wording "where relevant" is maintained.
<ESA_QUESTION_ESG_4>

- **: Do you agree with the indicators? Would you recommend any other indicators? Do you see merit in including forward-looking indicators such as emission reduction pathways, or scope 4 emissions (saving other companies´ GHG emissions)?**

<ESA_QUESTION_ESG_5>

- Certain key areas of adverse impacts, notwithstanding their importance, should not be necessarily classified as "principal" without prior assessment (see also response to Q1 on materiality).
- Pending a clarification of the meaning of adverse impacts in different areas, it is not completely clear under which assumptions some of the proposed indicators capture adverse impacts. We recommend that the ESAs elaborate on the concept of adverse impact and limit proposed public disclosures to observable and verifiable facts. Accordingly, the name of indicators should not risk being biased or leading to value judgments: in the absence of a full-spectrum ESG Taxonomy, the name of the indicators should not qualify their outcomes, e.g. excessive CEO pay, insufficient whistle-blower protection.
- If indicators are to be classified as mandatory, these need to be assessed prior on their materiality for the respective industries to avoid the collection of immaterial indicators on large scale. Several of the currently proposed indicators are only material for certain sectors (for examples, see below). At an aggregate level it will be impossible to differentiate between those companies for which certain indicators are just not material and those that are to be considered as "non-sustainable":
- See below more detailed feedback on specific indicators.
    - Deforestation policy: Only material to certain sectors linked to forest risk commodities, e.g. agriculture, food, construction and building, forestry, energy, tourism, transportation, industrials.
    - Number and nature of identified cases of severe human rights issues and incidents: It is not clear what is meant by "nature of" and if this means that each identified case shall be

described or put into a certain category. If the latter, those categories would need to be defined as part of the indicator.
    - Total energy consumption from non-renewable sources and share of non-renewable energy consumption: Data is not available across all sectors. The GWh data is less available than percentage data.
    - Indicator on water emissions: The definition of "water emissions" is not clear and the relevance of this metrics is dependent on the local context of operations. The data availability, as disclosed by companies, is minimal. Assuming that the definition of "water emissions" pertains to discharges to water, the relevance of this metric is limited to selected sectors reliant on water for operations (manufacturing, utilities, some industries in the capital goods sector).
    - Indicators on waste: There is only minimal disclosure by companies as this is only relevant to certain sectors e.g. construction and buildings, manufacturing, transportation, health care, consumer services.
    - Investment in investee companies without workplace accident prevention policies: Relevance of this metric is limited to activities associated with high workplace accident rates and high frequency of fatalities, including selected manufacturing activities, energy, industrials, and extractive operations.
- Regarding the GHG emissions indicators (1-3), we suggest to report per greenhouse gas (e.g. CO2, methane, SF6 etc.). When purely relying on CO2equivalents (CO2e), which is referred here, it is not possible to understand if these emissions stem from CO2, methane, SF6 or else. The emission sources and decarbonization levers are rather different for the individual gases, hence we recommend to have this in an disaggregated way.
- Overall, producing and disclosing proposed indicators is challenging without non-financial reporting standards in place to allow financial market participants to fulfil their disclosure obligations and to better assess the risks linked to sustainability-related factors.
- The draft RTS should also provide minimum guidance on how government bonds, local government bonds, supranational entities or any other asset that is not issued by a company should be treated. For this, public entities should also provide the necessary ESG data to a centralized data register.
- Standardized and comparable data on emissions reduction pathways is not sufficiently available yet. We see this, however, as a very useful indicator to add a forward looking perspective to the PAI disclosure and would support to include such indicator, once data is more robust.
- Finally, to avoid information which lacks accuracy and objectivity to the detriment of information users, complex indicators such as scope 4 emissions should as of now remain on an optional basis, and should be further investigated in the context of the NFRD review. Also, scope 3 is something that is slowly being built up and for now all initiatives are only considering this in certain sectors, thus this reporting should not require it yet.
- Furthermore, the number of mandatory indicators is too large and should be reduced to an understandable level - also in the interest of the customers. With a view to the large amount of information that a customer has to process for a financial product anyway such a large number of indicators concerning adverse sustainability impacts is not in the interest of comprehensibility.

<ESA_QUESTION_ESG_5>

- **: In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in also requesting a) a relative measure of carbon emissions relative to the EU 2030 climate and energy framework target and b) a relative measure of carbon emissions relative to the prevailing carbon price?**

<ESA_QUESTION_ESG_6>
As noted above, producing and disclosing proposed indicators is challenging without non-financial reporting standards in place. Allianz believes that this should be further investigated in the context of the NFRD review, the empowerments under Articles 8 and 25 of the Taxonomy Regulation.
<ESA_QUESTION_ESG_6>

- **: The ESAs saw merit in requiring measurement of both (1) the share of the investments in companies without a particular issue required by the indicator and (2) the share of all companies in the investments without that issue. Do you have any feedback on this proposal?**

<ESA_QUESTION_ESG_7>
Most of the suggested indicators have to be reported on (1) the share of the investments and (2) the share of all companies in the investments. We note that the second category is not meaningful as it is blind to vastly different exposures of diversified portfolios to the respective companies. Furthermore, it increases the information, already complex and numerous, provided to customers. Therefore, we suggest that the reporting for each indicator shall only be based on the first category (based on the value of the investments and not on the number of companies).

Furthermore, when calculating the share of investments, it must be clear what this indicator is aiming at measuring. Insurers usually have a very diversified investment portfolio including all sorts of assets (government bonds, unlisted equity, bonds, loans, infrastructure, etc.). This makes the calculations less straightforward compared to an equity portfolio of listed companies (see response to Q1).

Having said that, non-financial reporting standards are essential to be able to precisely measure such share of investments, especially considering the different types of investment instruments used in financial markets. We believe that a finalized Taxonomy and available ESG data at the level of investee companies would be necessary for a consistent and robust assessment.
<ESA_QUESTION_ESG_7>

- : **Would you see merit in including more advanced indicators or metrics to allow financial market participants to capture activities by investee companies to reduce GHG emissions? If yes, how would such advanced metrics capture adverse impacts?**

<ESA_QUESTION_ESG_8>
Allianz believes that a finalized Taxonomy and available ESG data at the level of investee companies would be necessary for a consistent and robust assessment of activities by investee companies to reduce GHG emissions. Regulatory requirements related to such classification should therefore remain voluntary until all aspects of the Taxonomy are sufficiently developed, especially those related to enabling and transitional activities. This will ensure that financial market participants deliver a realistic picture and avoid penalizing unfairly some economic activities. Further, as financial market participants will be required to report on their Taxonomy-aligned investments, we think the aspect of "capturing GHG reduction activities" will be already sufficiently covered by the Taxonomy reporting. Thus we do not see a merit in also including this here.
<ESA_QUESTION_ESG_8>

- **: Do you agree with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators?**

<ESA_QUESTION_ESG_9>
Allianz agrees with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. We look at sustainability in a holistic sense, considering all environmental, social and governance (ESG) factors contributing to sustainable investments, in recognition of the implicit connection of these components. Also in this case, we note that there are challenges for investors to have access to reliable information sources (e.g. a company will tend not to report on human rights violations in case of breaches).

At the same time, we acknowledge that the current EU policies focus on environmental aspects. For this reason, we suggest that the adverse impacts for social considerations (with the exception of those suggested in Q3) as defined in Table 1 remain voluntary:

- for a transitional period, e.g. until necessary data is available under the non-financial reporting standards.
- and/or until the assessment of social objectives is evaluated under Article 26 of the Taxonomy Regulation and minimum safeguards are developed as per Article 18 of the Taxonomy Regulation

This will ensure consistency with EU legislation.

In addition, we recommend consideration of indicators that are truly principal, based on a materiality assessment run by the financial market participant. Not all indicators are relevant/material for all industries. For more detailed feedback on the indicators as such, please see Q5.
<ESA_QUESTION_ESG_9>

- **: Do you agree with the proposal that financial market participants should provide a historical comparison of principal adverse impact disclosures up to ten years? If not, what timespan would you suggest?**

<ESA_QUESTION_ESG_10>
Allianz believes that the duration of the historical comparison should consider a 3-year horizon in line with usual periodic reporting. This will help comparison in terms of data stability. In addition, this will make the requirement less burdensome in terms of records of information, without affecting the quality of information provided to information users.
<ESA_QUESTION_ESG_10>

- **: Are there any ways to discourage potential "window dressing" techniques in the principal adverse impact reporting? Should the ESAs consider harmonising the methodology and timing of reporting across the reference period, e.g. on what dates the composition of investments must be taken into account? If not, what alternative would you suggest to curtail window dressing techniques?**

<ESA_QUESTION_ESG_11>
The selection of indicators risks encouraging window dressing if they are not based on observable and verifiable facts. This is why it is crucial that a common understanding of adverse impact is reached and that proposed indicators are consistent with ongoing policy work on the Taxonomy Regulation and the revision of the NFRD. The evaluation of actions taken to reduce adverse impacts is also to a great extent subjective.

Allianz does not believe that more granular requirements and harmonization of methodologies will be a suitable solution to these issues. While guidance on disclosures is useful, financial market players should retain sufficient flexibility in implementation of the regulation and be able to adopt the methodologies most suited to their specificities and risk profiles.

As noted above, non-financial reporting standards will be key for reliable disclosures. At the same time, they will help the fight against green-washing and window dressing.

Regarding the timing of reporting, harmonization of the reporting date of asset holdings would be welcomed (i.e. 31 December). However, for consistency with the date of companies' financial reporting, the dates of the composition of investments need to consider staggered implementation/disclosure periods for investors compared to investee companies. Depending on when investee companies report the required data on indicators in a given year, necessary data from investee companies could only be taken into account by an investor with a lagging time period ranging of up to one year. Timing of reporting should also be carefully considered for investments which are not directly managed by the insurers, for which ESG

data is not directly available. In addition, it is key to note that there should be a separation of financial reporting requirements and ESG reporting to avoid operational overload and allow flexibility in terms of internal processes and reporting timetables. Finally, more frequent reporting from financial market participants should be optional.

In the public hearing of the ESAs on 2 July, ESMA set out the view of the ESAs that reporting would be required not only for the investments at a given reporting date (e.g. 31 December), but also for investments that were held at a certain point in time or period during the whole reference period. While we understand the ESAs are concerned with the risk of window dressing, there are not sufficient benefits to justify the excessive burden for financial market participants to report at this level of granularity.

Allianz stresses that, for PAI consideration, it is crucial to focus on those assets that are held at a specific date, i.e. at the end of the year, rather than during the whole reference period. In this respect, we note that:

- Reporting on all assets that were held, even if they were hold for a short period of time within one reference year and also when those are no longer held at the end of the reference period, is not technically feasible and realistic in terms of required resources from financial market participants.
- Insurers must act in the best interests of their customers, in line with the PPP in Article 132 of the Solvency II Regulation, and providing for a liquidity, duration and asset-liability management appropriate to their liabilities as part of their risk management. In addition, the draft delegated acts on the integration of sustainability risks in Solvency II explicitly oblige insurers to take into account sustainability risks within the PPP and their risk management, and also to consider the long-term impact of their investment decisions on sustainability factors (stewardship approach). All these regulatory requirements already prohibit insurers from engaging in window dressing. The PAI assessment of the investments during the whole reference period is well proxied by the assessment at the end of the reference period. First of all, as liability-driven long-term investors, insurers are obliged to provide for a strategic asset allocation and have no incentive to alter their portfolios before the end of the reference period to communicate lower PAI. Second, for liquidity management, insurers generally do not hold cash, but (short-term) bonds: Taking all these investments (e.g. held for liquidity reasons) into account with a view to consider PAI would be an impractical academic exercise, which would not be meaningful, nor serve consumer benefits.

<ESA_QUESTION_ESG_11>

- **: Do you agree with the approach to have mandatory (1) pre-contractual and (2) periodic templates for financial products?**

<ESA_QUESTION_ESG_12>
This level of prescriptiveness is unprecedented and inappropriate for interim and periodic reports.

The SFDR requires that disclosures of information for insurance products are done according to Article 185(2) of the Solvency II Directive and Article 29(1) of IDD. These disclosures allow for a degree of flexibility and are mostly detailed at national level. Therefore, Allianz notes that inflexible requirements under SFDR are not compatible with the general rules of IDD or Solvency II and should not be introduced through these RTS. The same applies to pension products, the information requirements for which are stipulated predominantly by national legislation. The following would, for example, be more appropriate for customer disclosures:

- National disclosure format resulting from Solvency II and the minimum harmonization approach taken in IDD.
- Link in the PRIIPs KID “Other information” section to the available information – note that the KID “What is the product?” section already provides for the possibility to indicate whether a product has sustainability objectives.

Accordingly, no new specific pre-contractual information template should be introduced, unless its use is optional. The SFDR objectives are fully achieved by the provisions of the RTS with regard to content, order and titles of the information. This leads to better understanding for the customers without overloading them with information. Further standardization by way of specific templates is not required and would have

to be compatible to the vast variety of different products encompassed by the SFDR and different national practices. Avoiding the use of new specific pre-contractual information templates would also help insurance companies, especially small and medium entities, as well as insurance distributors to mitigate the compliance effort to produce, deliver and explain to customers new templates. Consequently, both insurance companies and distributors would be facilitated in the offering of products in the scope.

Should the ESAs pursue the introduction of templates, Allianz would urge the ESAs not to provide mandatory prescriptive templates. While the need for a minimum level of standardization is clear, optional use of templates (provided all the required information is clearly provided) should be considered, as this is more coherent with the minimum harmonization principle of IDD. This leads to a better understanding for the customers without overloading them with information.

Finally, the time pressure the ESAs are under to finalize the RTS is well understood, however, Allianz regrets that draft templates were not provided for comments as part of this consultation. If mandatory templates are to be produced at a later date, there will need to be a second consultation so that stakeholders can provide feedback on the usefulness and feasibility of these templates.

In addition, we encourage the ESAs to perform consumer tests in order to collect insights about the needs of consumers, including the testing of any disclosure material and format in digital and smart phone format according to the needs of consumers. Financial illiteracy, complexity and information overload are three well-known obstacles for good consumer disclosure. Consequently, it is very important that the ESAs take due account about the needs and limitations of consumers. Allianz therefore encourages the ESAs to carry out consumer tests to collect insights about the needs of consumers before finalizing its proposal.

The timeline stipulated on Level 1 is already extremely ambitious. It does not seem possible for mandatory templates to be developed, consulted and finalized while still leaving an adequate implementation period for financial market participants. The ESA should clarify their intentions as soon as possible in order to allow market participants to proceed with the implementation of the rules instead of waiting for further requirements.

For periodic reporting to customers, Allianz asks the ESAs to allow flexibility in terms of delivery to customers: Each financial market participant should be free to deliver this periodic reporting to its customers in the way that is most suited (by mail, e-mail, website or any other electronic means).
<ESA_QUESTION_ESG_12>

- **: If the ESAs develop such pre-contractual and periodic templates, what elements should the ESAs include and how should they be formatted?**

<ESA_QUESTION_ESG_13>
As stated above, mandatory templates should not be introduced for SFDR disclosures. In case optional templates are developed, they should include the minimum data fields to be included, the order in which information should appear, and potentially key definitions. This would ensure a degree of comparability between products while respecting the minimum harmonization principle of IDD and respecting national specificities in IDD implementation.

It is also crucial that any templates provided are digital friendly and do not follow the restrictive approach used in PRIIPs. A degree of flexibility allows financial market participants to tailor disclosed information to the type of product offered. This would allow manufacturers to provide appropriate information to customers and adapt information to be suited to the full range of products in scope. In this respect, the use of references and links to pre-existing and available information, if already reported elsewhere, is welcome and should be encouraged.

Regarding the specific elements that are proposed in Article 14 (similar for Article 15), Allianz believes that:

- There is no need to have two separate sections for (a) “a description of the environmental or social characteristics promoted by the financial product” and (c) “investment strategy”, since the investment strategy by necessity will reflect the environmental and social characteristics that the financial product aims to promote. It is two sides of the same coin. In addition, we find the detailed specification of point (a) in Articles 15 and 24 (narrative and graphical representation) confusing.
- Point (b) ”No sustainable investment objective” goes beyond the requirements of Level 1, since Level 1 only requires financial market participants to disclose information about how the environmental and social characteristics are met (also applies to Article 34(3), 36 (b) and 38). This narrative for Article 8(1) and 8(2) products could be misleading for the final customer, especially as from 2023 with the company's disclosure on every product; by reporting just the negative sentence "This product does not have..." we believe that customers may understand as "This product is not sustainable". It may be sufficient to add a simple sentence before, such as "This product is considered as sustainable by the company, but the product does not have sustainable investment among its objectives".
- Point (e) “Use of derivatives” should not be at odds with Solvency II. Please refer to response to Q26.

For periodic reporting to customers, Allianz asks the ESAs to allow flexibility in terms of delivery to customers: Each financial market participant should be free to deliver this periodic reporting to its customers in the way that is most suited (by mail, e-mail, website or any other electronic means).
<ESA_QUESTION_ESG_13>

- **: If you do not agree with harmonised reporting templates for financial products, please suggest what other approach you would propose that would ensure comparability between products.**

<ESA_QUESTION_ESG_14>
Rather than producing templates, the RTS should specify only what information needs to be disclosed without specifying the format of these disclosures. The provisions of the RTS on the order and the titles of the information ensure its recognizability across the sectors. Optional guidance on best practice for making these disclosures within the various existing disclosure regimes could then be provided to assist companies in making these disclosures in the most effective way, while still allowing the format to be adapted to reflect the specific nature of the product and any applicable national rules.

However, it would be desirable, particularly with a view to the intended harmonization, to give more details on the requirements an Article 9 product has to fulfill. For instance:
- Specification whether a certain proportion of sustainable investments in the investment portfolio backing the Article 9 product is required.
- Clarification if the good governance practice only needs to be applied on sustainable investments or to all investee companies as for Article 8 products.
- Clarification that the DNSH principle is only applicable on the sustainable investments underlying an Article 9 product.

<ESA_QUESTION_ESG_14>

- **: Do you agree with the balance of information between pre-contractual and website information requirements? Apart from the items listed under Questions 25 and 26, is there anything you would add or subtract from these proposals?**

<ESA_QUESTION_ESG_15>
Allianz appreciates the effort to keep the pre-contractual information as short and concise as possible against the background of the Level 1 text. It is an undisputed fact that the provision of too much information makes it less likely that the customer will take note of the information at all. This holds true for information provided on a durable medium as well as on websites. Excessively detailed information requirements should therefore be avoided.

The ESA may wish to consider consumer testing of the information in order to ensure that the level of detail is not counterproductive. Please note that the purchaser of a life insurance product already receives a multitude of documents based on information requirements in other legislation. Therefore, while excessively detailed information should generally be avoided, the pre-contractual information is particularly vulnerable to information overload.

Allianz suggests that pre-contractual disclosure be limited to a 2-page summary of the most important information, and all other information should be made available on the website. Complex information is generally more accessible on a website, where technical features (such as layers and menus) make it easier to navigate. In order to avoid duplication of information, a single disclosure requirement should be created where possible, containing only the information that is absolutely necessary. Allianz questions the need for the provision of any further information to be mandatory and welcomes the possibility for market participants to provide supplementary information on an optional basis, where relevant. This includes the requirement to prepare a summary of the disclosures provided by Article 10 SFDR.

The requirement to use the language of the home Member State of the financial market participant and a "language customary in the sphere of international finance" should be replaced. In addition to being unclear it is also at odds with existing EU legislation and national rules requiring customer information to be provided in the language in which the product is marketed (see e.g. Article 185 (6) Solvency II, Article 23 (1) (c) IDD). Existing rules on the language in which product information is provided should be relied upon instead.

Should the ESA wish to provide for an optional summary, the limitation to 2 sides of A4 when printed should be reviewed. This provision is unnecessarily restrictive and not digital friendly. In other areas of pre-contractual information legislators are looking to move away from paper-based requirements to allow for truly digital distribution. Requirements relating to paper-based measures should be removed as they are not "future-proof" and will not allow for the layering of information or the incorporation of information by reference.

In order to reduce the administrative burden with regard to products which incorporate funds (unit-linked products), Allianz would appreciate a clarification that information requirements on the website can be complied with by providing a link to the relevant information on the website of the fund provider.

For Multi Option Products (MOPs), information needs to be collected for all options offered. As all financial market participants need to disclose information by 10 March 2021 and will probably not be able to share information upfront due to the extremely tight timelines, market players offering MOPs Article 8/9 will highly likely not be able to disclose the relevant information or cross references in time. We propose to introduce a staggered implementation timeline for financial market participants offering MOPs in order to take into account the interdependencies.
<ESA_QUESTION_ESG_15>

- **: Do you think the differences between Article 8 and Article 9 products are sufficiently well captured by the proposed provisions? If not, please suggest how the disclosures could be further distinguished.**

<ESA_QUESTION_ESG_16>
The distinction between "sustainable investment products" and "products that promote environmental or social characteristics" is not clear. More guidance in Level 2 is needed to determine when a product will qualify for either product category and to facilitate compliance from insurers. Unless more guidance is given, national supervision might end up having substantially different interpretations. One major example concerns products which combine an investment option chosen by the investor with an investment in the insurer's collective fund (as is the case with unit-linked products which offer a guaranteed maturity value or with unit-linked pension products which include the payment of annuities after maturity). These products constitute a sizeable part of several markets of insurance-based investment products and pension products.

In the absence of a clear definition, it is also difficult to assess which information is necessary to well capture and distinguish the features of the two categories. The confusion is exacerbated by a number of requirements, e.g. Article 15(2) on the sustainable investments with environmental or social objectives (this also makes it difficult to present the narrative and graphical representations requested in Articles 15.1 (b) and 15(2), or Article 18 on sustainability indicators used to measure the attainment of the environmental or social characteristics. There is no need to show sustainable investments for Article 8 products as this only leads to confusion between Article 8 and Article 9 products. Furthermore, measurement should only be necessary for Article 9 products which have a measureable objective, not for Article 8 products. This is also the case with regard to Article 16 (2) which transfers a part of the information requirements from Article 9 to Article 8 products. Additionally, it is unclear where the demarcation lies between Article 8 and 9 investment products, or whether a product can apply to both. Furthermore, it is completely unclear what information is to be provided under Article 15 (2) (b); A less extensive definition of "all other types of exposures" would be necessary in order to limit the volume of data reasonably. In our view, it would also be useful to introduce thresholds in particular for but not limited to the information under Article 15 No. 2 (b) (iii) and Article 24 (2) (b) (iii) (investments in different sectors and sub-sectors including the fossil fuel sectors).

Currently the only detailed guidance provided to financial market participants is the Taxonomy Regulation. Unfortunately, the ESAs conclude that the SFDR does not feature a link of environmentally sustainable investments to the Taxonomy Regulation (page 8 of the consultation paper) but give no further guidance on how to differentiate between these two categories. Further clarification is needed to harmonize multiple definitions regarding sustainable investments.

The warning message required by Article 16 (1) and Article 34 (3) is, in our view, misleading and should be removed. It is highly unlikely that the average investor will know the legal meaning of "sustainable investment" as defined by Article 2 (17) SFDR. Neither will he be aware of the exact differentiation between Article 8 and 9 SFDR, which is, so far, unclear even to most experts. As a result, the investor may understand the warning as contradictory to the environmental or social characteristics promoted by the product. There is also no need for the warning. The investor receives accurate information on the precise sustainability related characteristics of the product in accordance with the provisions of the RTS.
<ESA_QUESTION_ESG_16>

- **: Do the graphical and narrative descriptions of investment proportions capture indirect investments sufficiently?**

<ESA_QUESTION_ESG_17>
The RTS are not sufficiently clear with respect to the graphical representation and to the narrative (see also answer to Q13 and Q18). Allianz does not understand the rationale for the requirement to distinguish between direct and indirect holdings, and wonders what the added value would be for customers.

Indirect investment may be in the form of investment funds, where the insurer does not own the underlying assets, but rather is a unit holder in the fund of collective investment. Applying a look through on fund investments in order to show the required information is burdensome and - if at all - only possible with further data collection from the fund manager. Which is again linked to challenges with respect to data collection. Indirect investments may also be in the form of derivatives. Bearing in mind the broad spectrum of derivatives, it is difficult to give a comprehensible graphical and narrative description of investment proportions including indirect investments. At least further guidance would be needed on how indirect investments should be considered.

Allianz also questions what the sectoral criteria would be to classify investments in companies involved in different sectors (see also response to Q18). Additionally, it is not clear how instruments, such as government bonds should be classified.
<ESA_QUESTION_ESG_17>

- **: The draft RTS require in Article 15(2) that for Article 8 products graphical representations illustrate the proportion of investments screened against the environmental or social characteristics of the financial product. However, as characteristics can widely vary from product to product do you think using the same graphical representation for very different types of products could be misleading to end-investors? If yes, how should such graphic representation be adapted?**

<ESA_QUESTION_ESG_18>
The requirement in the graphical representation to differentiate between sustainable investments and investments contributing to the attainment of the characteristics of the product is confusing and it implies that a product under Article 8 could still have environmental or social objectives. In case exclusions are implemented in order to meet an environmental characteristic, it is not easy to show this in a graphical presentation.

In addition, Allianz observes that the same graphical representation for very different types of products will end up misleading end-investors, as it does not consider the constraints and the allocation of different products types. Experience shows that graphic representations are particularly vulnerable to be misinterpreted by consumers as they imply a level of comparability which they often cannot provide. There is also a tendency of consumers to overlook footnotes which explain about the limited informative value of the presentation. In particular cases, graphic representations may be helpful to the understanding of the relevant data. Whether or not this is the case should, however, be decided by the provider of the product based on the characteristics of the particular product in question. The allocation of different types of products in different financial instruments risks misleading customers, potentially to the detriment of other relevant information to make an investment decision (e.g. a product investing a lot of the funds in government bonds would tend to look less “sustainable” since government bonds presumable would be classified as “remainder”).

Furthermore, the presentation of the same information in a graphical way, and as a narrative, leads to duplications which should be avoided in the interest of the investor.

Should the ESAs pursue the requirement of a graphical representation, Allianz would urge the ESAs to perform a test run of the requirement on a range of actual products in order to fully assess the challenges that this requirement is associated with.

Finally, we appreciate that this graphical representation is not required for MOPs, at wrapper level. According to Article 22 and 32, there is a derogation for financial products with underlying investment options, so that Article 15 and 24 do not apply to MOPs. Indeed, it is not feasible for the graphic to capture the nature of the overall product where a retail investor can choose between a large number of underlying funds, and a graphic representation at the level of each underlying fund is more workable.
<ESA_QUESTION_ESG_18>

- **: Do you agree with always disclosing exposure to solid fossil-fuel sectors? Are there other sectors that should be captured in such a way, such as nuclear energy?**

<ESA_QUESTION_ESG_19>
Allianz suggests that sectoral disclosures are developed in line with the Taxonomy Regulation and based on the classification at activity level as provided by investee companies.

As power generation activities that used solid fossil fuels are clearly excluded from sustainable activities as classified in the Taxonomy Regulation (Article 19–3 “The technical screening criteria referred to in paragraph 1 shall ensure that power generation activities that use solid fossil fuels do not qualify as environmentally sustainable economic activities”), the RTS should follow the same approach as the Taxonomy Regulation, i.e. start by reporting on solid fossil-fuel exposures as they are those harming climate change mitigation the most. Further sectoral exposures could be proposed at a later stage, in line with the definitions and the development of the Taxonomy.

If sectoral disclosures are required, it will be necessary to give more precise information on how to define such investments and what companies should take into account (e.g. X% of revenues stemming from the production, processing, distribution, storage or combustion of fossil fuels? Threshold on turnover or energy mix? All companies/entities involved in production/consumption of fossil fuels? How to assess corporate investment in a large diversified company involved in coal or for a government bond?).

Guidance on more detailed disclosures should be investigated at a later stage, in the context of the empowerment under Article 25 of the Taxonomy Regulation.
<ESA_QUESTION_ESG_19>

- **: Do the product disclosure rules take sufficient account of the differences between products, such as multi-option products or portfolio management products?**

<ESA_QUESTION_ESG_20>
Allianz has some concerns regarding the lack of clarity of the application of these rules to MOPs. It should be clarified that where a MOP qualifies under Article 8 or 9 of the regulation, Articles 14-21 and 23-31 of the RTS do not apply, and MOPs manufacturers would only need to comply with Article 22 and 32 of the RTS. It would also be helpful for the RTS to explicitly state that this means no information on the product wrapper would need to be disclosed.

Allianz understands that a MOP qualifies under Article 8 of the regulation where one or more of the underlying investment options promote environmental or social characteristics or have sustainable objectives. As such, Allianz appreciates that only those sustainability-related options have to comply with Article 22 of the RTS. As regards the requirement under Article 22(b), it is important to clarify that merely a reference to the information provided by the underlying investment options is sufficient (and not the information itself). Given the large number of options available for some products this is the only feasible way of providing the information.

In the case of MOPs that qualify as financial products under Article 9, recital 35 says that “all its investment options should qualify as financial products”, while Article 32 refers to “a range of investment options” that qualify as Article 9 financial products. Allianz would like to ask for clarification weather for a MOP to qualify as a financial product referred to in Article 9, all its investment options should qualify as Article 9 financial products? If so, does the part of the MOP, that is allocated in the general account, also have to comply with the requirements of Article 9?

However should a provider wish to repackage variations of a MOP in order to qualify as an Article 9 product, then it should be able to do so, otherwise very few would be able to qualify. In that case, end-investors should be provided with the summary list of these investment options in accordance with this regulation and with clear indications to which investment options the information relates.

The acknowledgement in Recital 36 that overall disclosures for MOPs will be lengthy is appreciated. However, there is no specific obligation under Article 29(1) IDD to give preference to certain underlying options when selling a multi-option product. It appears that this is a general reference to the requirement to provide “appropriate information” rather than implying a specific regulatory requirement for MOPs.

Questions remain, however, with regard to unit-linked insurance products, so called hybrids, where part of the investment is allocated to a fund chosen by the policyholder and another part to the insurer’s collective pool in order to ensure a guaranteed maturity value. The same applies to unit-linked products where the investment in the funds chosen by the policyholder is limited to a part of the product’s lifespan (typically the savings phase where the capital is transferred to the collective pool for the payment of annuities during the retirement of the policyholder). It is very important that insurers are able to rely on Article 22, Article 32 and Article 52 of the RTS also with regard to the fund component of these products in order to avoid the burden of having to develop and maintain sustainability information for all conceivable combinations of funds and collective pool.

In addition, the RTS should provide the necessary clarity on closed business, i.e. for products that are no longer available to purchase but are managed for the benefit of existing policy holders. For these products, the ESAs should clarify that, no product level disclosures would apply, including in cases where a customer switches underlying funds. In addition, for closed-book entities it should be clarified that website reporting is not required by the product manufacturer.
<ESA_QUESTION_ESG_20>

- **: While Article 8 SFDR suggests investee companies should have "good governance practices", Article 2(17) SFDR includes specific details for good governance practices for sustainable investment investee companies including "sound management structures, employee relations, remuneration of staff and tax compliance". Should the requirements in the RTS for good governance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?**

<ESA_QUESTION_ESG_21>
Allianz does not believe that it is appropriate for the specific details included in Article 2(17) to be applied to Article 8 products through the RTS. Good governance practices are analyzed in various ways by financial market participants in a manner that is appropriate to the varying nature of investee companies.

The list in Article 2(17) SFDR is not exhaustive and forms only part of the broader definition of a "sustainable investment". Applying only part of this definition to Article 8 products is potentially confusing.
<ESA_QUESTION_ESG_21>

- **: What are your views on the preliminary proposals on "do not significantly harm" principle disclosures in line with the new empowerment under the taxonomy regulation, which can be found in Recital (33), Articles 16(2), 25, 34(3), 35(3), 38 and 45 in the draft RTS?**

<ESA_QUESTION_ESG_22>
On one hand, the DNSH principle of the Taxonomy appears to be a narrow concept related specifically to thresholds on the sustainability assessment of economic activities while on the other hand, the adverse impact appears to be a risk-based concept related to how investments affect sustainability factors.

Despite this, we share the view of the ESAs that there is a strong link between the two concepts and see value in a degree of alignment that recognizes how these two concepts will exist in parallel. Nevertheless, Allianz believes that the current drafting should clarify these concepts and provide guidance on the difference between principal adverse impact and the concept of DNSH where alignment is not possible.

Furthermore, Allianz believe that the proposals on the DNSH principle with regard to Article 8 products (Articles 16(2), 34(3), 36 (b) and 38 of the draft RTS) are unhelpful. Introducing such requirements for Article 8 products only exacerbates the confusion about the distinction between Article 8 and Article 9 products and risks overloading consumers with unnecessary information. DNSH requirements should apply only to sustainable investments.

Finally, Allianz agrees with the wording in Recital 33: "Financial market participants should be transparent with regard to the criteria used, including any potential thresholds set, in order to assess that the investments qualifying as sustainable do not significantly harm environmental nor social objectives.

Allianz believes information on management of controversies could also help to explain how the sustainable investment does not significantly harm the sustainable investment objectives.
<ESA_QUESTION_ESG_22>

- **: Do you see merit in the ESAs defining widely used ESG investment strategies (such as best-in-class, best-in-universe, exclusions, etc.) and giving financial market participants an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such widely used strategies?**

<ESA_QUESTION_ESG_23>
Allianz does not believe that there would be added value in defining such strategies further. In addition, there are challenges in the overall risk management of adverse impact assessments, for instance there is limited room for insurers' discretion and the approach can create an obligation to take adverse impact in all investment strategies, possibly creating conflict between the insurer's regulator obligations and their fiduciary duties to act in the best interests of their clients.
<ESA_QUESTION_ESG_23>

- **: Do you agree with the approach on the disclosure of financial products' top investments in periodic disclosures as currently set out in Articles 39 and 46 of the draft RTS ?**

<ESA_QUESTION_ESG_24>
While Allianz supports transparency, it notes that the chosen approach cannot be excessively burdensome, and it needs to balance adequate value for customers and burden for financial market participants. We would further like to take note that reporting on top investments might not be possible due to confidentiality agreements. We would suggest that this information requirement should be deleted completely, as it adds no value to customers.
<ESA_QUESTION_ESG_24>

- **: For each of the following four elements, please indicate whether you believe it is better to include the item in the pre-contractual or the website disclosures for financial products? Please explain your reasoning.**

1. **an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy - in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);**
2. **a short description of the policy to assess good governance practices of the investee companies - in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);**
3. **a description of the limitations to (1) methodologies and (2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product - in the draft RTS below it is in the website disclosure under Article 34(1)(k) and Article 35(1)(k); and**
4. **a reference to whether data sources are external or internal and in what proportions - not currently reflected in the draft RTS but could complement the pre-contractual disclosures under Article 17.**

<ESA_QUESTION_ESG_25>
All four elements (a-d) listed in this question should indeed be provided to consumers, and in fact are already included in various existing mandatory disclosures. Insurers provide details of their approach to sustainability in their sustainability policy, while the impact on their investment strategy would be detailed in their investment policy. For insurers in particular, the new requirements in the draft delegated acts under SII require this information to be available to investors. Likewise, separate risk policies are engagement policies are already produced.

Rather than requiring this information to be provided via a separate "short description" of the existing policies or requiring the policies to be reproduced for the purposes of the regulation, links in the website disclosures should be sufficient. The policies are already readable and are intended to be used by investors and so we see no need for them to be shortened or summarized under this regulation.

It should be borne in mind that there are insurance undertakings holding several hundred thousand investments. Necessary information should - where this is possible with regard to the provisions on Level 1 - be provided on the website. Complex information is usually more easily accessible for the user if provided on a website than if it is part of an extensive patchwork of different product information provided on paper or on another durable medium.
<ESA_QUESTION_ESG_25>

- **: Is it better to include a separate section on information on how the use of derivatives meets each of the environmental or social characteristics or sustainable investment objectives promoted by the financial product, as in the below draft RTS under Article 19 and article 28, or would it be better to integrate this section with the graphical and narrative explanation of the investment proportions under Article 15(2) and 24(2)?**

<ESA_QUESTION_ESG_26>
Allianz does not see the added value on a separate section on derivatives. Regarding the numerous information to disclose, a focus on derivatives is not necessary and seems excessive and complex for end-investors. The use of derivatives should be covered in the financial market participant's investment and risk policy instead.

Allianz also highlights that a separate section would be superfluous as, with regard to the insurance sector, the usage of derivatives is already covered under the PPP (Article 132 (4) of the Solvency II Directive dictates that the use of derivative instruments shall be possible only insofar as they contribute to a reduction of risks or facilitate efficient portfolio management).
<ESA_QUESTION_ESG_26>

- **: Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?**

<ESA_QUESTION_ESG_27>
The implementation costs of such a sophisticated disclosure system are much higher than estimated in the preliminary impact assessment. References to potential implementation costs date from 2018 and therefore could not take into account the requirements of this draft RTS and the numerous indicators. This holds true for market participants, financial advisers and insurance distributors.

The impact assessments produced by the ESAs do not give due consideration to the range of different financial market participants and financial advisers to which these requirements will apply. In particular, the significant compliance costs that complying with Article 12 and 13 will entail for insurance distributors are not considered.

Insurance distributors are often small enterprises consisting of a small number of employees. Under existing legislation there are no requirements to produce, analyze or disclose information of this nature and doing so solely for the purpose of SFDR compliance will entail significant costs and efforts that go well beyond the level of expertise of some smaller enterprises. In addition, the cost benefit analysis envisages small IT costs for making changes to facilitate website disclosures. For small intermediaries this will not be the case.

We also note that many of the costs related to compliance with SFDR are fixed and unrelated to the size of the financial market participant or adviser, this necessarily means the relative compliance cost for smaller intermediaries will be higher.

Finally, we point out that there might be conflicting results from Taxonomy screening and PAI analysis. The following example illustrates this issue by showing how a sustainable investment according to the Taxonomy screening criteria and the result of the principal adverse impact analysis of the same investment can lead to contradictions.

An aluminum producer uses an efficient process to produce aluminum with relatively low CO2 emissions. This economic activity can be classified as "green" according to the Taxonomy criteria (Article 5 of the Taxonomy Regulation). At the same time, these CO2 emissions are nevertheless included in the calculation of the PAI for the greenhouse gas emissions indicator. This means that, although this investment is classified as "green" for the Taxonomy, the CO2 emissions of this activity (via aggregation at the company level) have a negative impact on the PAI relative to other investments in companies whose CO2 emissions are lower or not significant.
This shows that the technology-neutral approach of the Taxonomy is not reflected in the PAI concept, potentially leading to wrong incentives or window dressing. For example, in order to reduce the indicator of greenhouse gas emissions in the PAI concept and present their entire portfolio more favorably, investors may be inclined to reduce their investments in CO2-intensive industries or to increase their investments in companies from sectors with lower CO2 emissions. While reducing investments in CO2-intensive industries has environmental advantages, this approach would be detrimental both in terms of investment activity for the economy as a whole, in terms of diversification of the portfolios of insurers or other financial market participants, and even in terms of financial stability by inflating demand for some types of investments or by affecting the funding cost for some sectors.
<ESA_QUESTION_ESG_27>