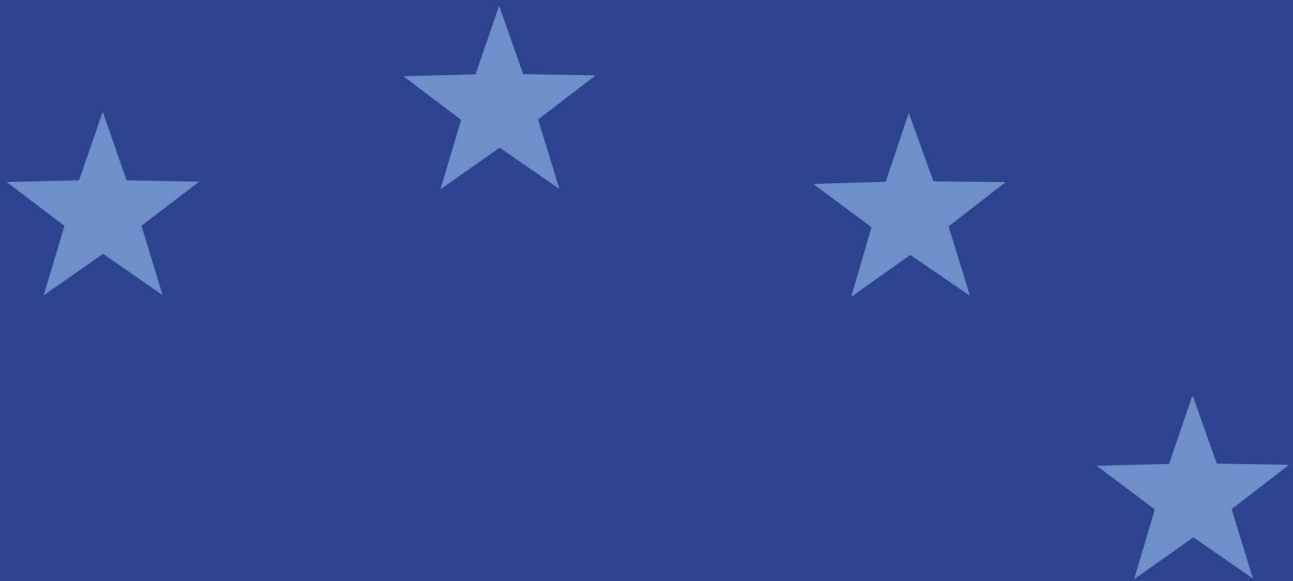


**Response form for the Consultation Paper on the Draft advice
to European Commission under Article 8 of the Taxonomy
Regulation**



Responding to this paper

ESMA invites responses to the questions set out throughout this Consultation Paper and summarised in Annex II. Responses are most helpful if they:

- respond to the question stated and indicate the specific question to which they relate;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **4 December 2020**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

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

- Insert your responses to the consultation questions in the form "Response form_Consultation Paper on TR Article 8 advice", available on ESMA's website alongside the present Consultation Paper (www.esma.europa.eu → 'Your input – Open consultations' → 'Consultation on advice under Taxonomy Regulation Article 8').
- Please do not remove tags of the type <ESMA_QUESTION_TRART8_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- 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.
- When you have drafted your response, name your response form according to the following convention: ESMA_TRART8_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA_TRART8_ABCD_RESPONSEFORM.
- Upload the form containing your responses, in Word format, to ESMA's website (www.esma.europa.eu under the heading 'Your input – Open consultations' → 'Consultation on advice under Taxonomy Regulation Article 8').

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. If you do not wish for your response to be publicly disclosed, please clearly indicate this by ticking the appropriate box on the website submission page. 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 ESMA's rules on 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 ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading '[Data protection](#)'.

Who should read this paper?

This Consultation Paper may be of particular interest to non-financial undertakings and asset managers covered by Article 8 of Regulation (EU) 2020/852 (the 'Taxonomy Regulation') as well as to investors and other users of non-financial information



General information about respondent

Name of the company / organisation	MSCI ESG RESEARCH LLC
Activity	Data/ Ratings Provider
Are you representing an association?	☐
Country/Region	North-America

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_TRART8_1>

MSCI appreciates the opportunity to comment on the Consultation Paper – Draft advice to European Commission under Article 8 of the Taxonomy Regulation.

MSCI ESG Research

For over 40 years, MSCI ESG Research has measured and modelled Environmental, Social and Governance (ESG) risk^a. MSCI is a leading provider of ESG ratings, indexes and analytical tools. We aim to help investors integrate ESG across their entire investment process; powering better investment decisions.

Our solutions:

*First ESG provider to assess companies based on industry financial materiality, dating back to 1999. Only dataset with live history (12+ years) demonstrating economic relevance^b. For over 11 years, we have rated companies on their exposure to, and management of, industry-specific ESG risks. We rate nearly 14,000 issuers representing more than 680,000 securities, with 90% of equity and fixed income market value. Our research is used by over 1,400 clients globally. Clients can use ESG ratings to support fundamental and quant analyses, portfolio construction and risk management and thought leadership and engagement.

* MSCI ESG Indexes: MSCI is the world's largest provider of ESG indexes with over 1,500 ESG equity and fixed Income Indexes leveraging MSCI ESG Research data to support ESG integration, screening and impact approaches. Several global asset owners have selected MSCI ESG Indexes, with over \$180 billion allocated in recent years^c. The indexes can also be used as the basis for exchange-traded-funds and other index-based products.

* MSCI ESG Analytics: Our ESG research, data and indexes are available within MSCI's analytics systems. MSCI Analytics clients can explore ESG exposures on 680,000 securities and 8 million derivatives to support security selection, portfolio construction, stress testing, and risk and performance attribution analysis.

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes.

For the purposes of the ESG metrics for the ESG benchmarks disclosures, the ESG metrics are provided by MSCI ESG Research LLC. MSCI ESG Indexes are provided by MSCI Inc. and utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Limited is the benchmark administrator for the MSCI Indexes under the EU Benchmark Regulation. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

- a. Through MSCI ESG Research and its legacy companies KLD, Innovest, IIRC, and GMI Ratings*
- b. Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007*
- c. Based on publicly available information in press releases published from 2014 to date<ESMA_COMMENT_TRART8_1>*

Q1 For this KPI, do you agree with the proposed approach to defining turnover (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_1>

We welcome the proposed standardisation of disclosure by issuers. The proposed approach to defining turnover seems appropriate.

If the Turnover figure used differs from Revenue figure included in the Financial Statements, the difference should be disclosed alongside an explanation for the difference.

<ESMA_QUESTION_TRART8_1>

Q2 For this KPI, do you agree with the proposed approach to when turnover can be counted (bullet b in the draft advice)?

<ESMA_QUESTION_TRART8_2>

Yes

<ESMA_QUESTION_TRART8_2>

Q3 For this KPI, do you agree with the proposed approach to defining CapEx (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_3>

We welcome the proposed standardisation of disclosure by issuers. The proposed approach to defining CapEx appears to be a pragmatic one.

<ESMA_QUESTION_TRART8_3>

Q4 For this KPI, do you agree with the proposed approach to when CapEx can be counted, including the definition of 'plan' (bullet b in the draft advice)?

<ESMA_QUESTION_TRART8_4>

Yes

<ESMA_QUESTION_TRART8_4>

Q5 For this KPI, do you agree with the proposed approach to defining OpEx (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_5>

We welcome the proposed standardisation of disclosure by issuers. The proposed approach to defining OpEx appears to be a pragmatic one.

<ESMA_QUESTION_TRART8_5>

Q6 For this KPI, do you agree with the proposed approach to when OpEx can be counted, including the definition of 'plan' (bullet b in the draft advice)? With reference to the TEG's inclusion of the words "if relevant" in relation to OpEx, in which situations should it be possible to count OpEx as Taxonomy-aligned?

<ESMA_QUESTION_TRART8_6>

We agree with the proposed approach, including the definition of 'plan'.

We agree with the scenarios presented in paragraph 92 relating to when OpEx should be counted. In addition, OpEx may be relevant in cases where an activity has not yet become revenue generating, but has started to incur operating costs, where production lead times are lengthy.

<ESMA_QUESTION_TRART8_6>

Q7 Do you believe that any of the suggested approaches covered in questions 1 to 6 above will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_7>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_7>

Q8 Do you agree that sectoral specificities should not be addressed in the advice, as proposed in Section 3.2.3?

<ESMA_QUESTION_TRART8_8>

Yes. This does not contradict the recommendation to disclose at Group and Activity Level (and preferably at OpCo level as well).

<ESMA_QUESTION_TRART8_8>

Q9 Do you agree with the requirements for accompanying information which ESMA has proposed for the three KPIs?

<ESMA_QUESTION_TRART8_9>

Yes

<ESMA_QUESTION_TRART8_9>

Q10 Do you consider that the requirement to refer to the relevant line item(s) in the financial statements for each KPI ensures sufficient integration between the KPIs and the financial statements?

<ESMA_QUESTION_TRART8_10>

Yes

<ESMA_QUESTION_TRART8_10>

Q11 Do you agree with ESMA's suggestion to permit compliance by reference, so that non-financial undertakings may present the accompanying information elsewhere in the non-financial statement than in the immediate vicinity of the KPIs, as long as they provide a hyperlink to the location of the accompanying information?

<ESMA_QUESTION_TRART8_11>

Yes. For users of the information, presenting the accompanying information in the vicinity of the standard table is optimal, however compliance by reference may suffice, provided the referencing is sufficiently precise to allow users to unambiguously identify the relevant sections.

<ESMA_QUESTION_TRART8_11>

Q12 Do you consider there are additional topics that should be considered by ESMA in order to specify the content of the three KPIs? If yes, please elaborate and explain the relevance of these topics.

<ESMA_QUESTION_TRART8_12>

Yes. It would be useful to include those activities that are potentially or partially aligned through the nature of the activity and meet some of the non-quantitative aspects of the technical criteria but do not yet meet the specific quantitative thresholds.

<ESMA_QUESTION_TRART8_12>

Q13 Do you believe that providing the suggested accompanying information will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_13>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_13>

Q14 Do you agree that non-financial undertakings should provide the three KPIs per economic activity and also provide a total of the three KPIs at the level of the undertaking / group? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

<ESMA_QUESTION_TRART8_14>

Yes, the three KPIs should be provided per economic activity in our view and at the level of the undertaking/Group. Where the group issues bonds to fund a specific operating company or group of companies, the three KPIs should be provided at this level also – to allow bond investors to access and report on data specific to their investment.

<ESMA_QUESTION_TRART8_14>

Q15 Do you agree that where an economic activity contributes to more than one environmental objective, non-financial undertakings should explain how they allocated the turnover / CapEx / OpEx of that activity across environmental objectives and where relevant the reasons for choosing one objective over another?

<ESMA_QUESTION_TRART8_15>

Yes

<ESMA_QUESTION_TRART8_15>

Q16 Do you agree that non-financial undertakings should provide information on enabling and transitional activities?

<ESMA_QUESTION_TRART8_16>

Yes

<ESMA_QUESTION_TRART8_16>

Q17 Do you agree that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives? If not, please provide your reasons

and address the impact of your proposal to financial market participants along the investment chain.

<ESMA_QUESTION_TRART8_17>

Yes. However, we note that the details for the remaining four environmental objectives are not yet finalized and thus any disclosure provided prior to such finalization of these four objectives would be provisional at best and may not be comparable with future year disclosures.

<ESMA_QUESTION_TRART8_17>

Q18 Do you agree that non-financial undertakings should be required to provide the three KPIs for economic activities which are covered by the Taxonomy, economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy?

<ESMA_QUESTION_TRART8_18>

Yes. It would be useful but not necessary.

<ESMA_QUESTION_TRART8_18>

Q19 Do you agree with the proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021?

<ESMA_QUESTION_TRART8_19>

Yes

<ESMA_QUESTION_TRART8_19>

Q20 Do you consider that there are specific elements in ESMA's draft advice which are not in line with the information needed by financial market participants in order to comply with their own obligations under the Taxonomy Regulation and the SFDR? If yes, please specify in your answer.

<ESMA_QUESTION_TRART8_20>

No

<ESMA_QUESTION_TRART8_20>

Q21 Are there points that should be addressed in ESMA's advice in order to facilitate compliance of financial market participants across the investment chain? If yes, please specify.

<ESMA_QUESTION_TRART8_21>

Taxonomy-alignment does not include the specific requirements for SFDR for disclosure of adverse impact indicators. These two disclosure regulations should align as the SFDR is dependent on issuer disclosure.

<ESMA_QUESTION_TRART8_21>

Q22 Do you believe that ESMA's detailed proposals under Section 3.3 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_22>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_22>

Q23 Do you consider there are additional topics that should be considered by ESMA in order to specify the methodology that non-financial undertakings should follow? If yes, please elaborate and explain the relevance of these topics.

<ESMA_QUESTION_TRART8_23>

Consideration of materiality and inclusion of a scoring mechanism (where supplemental metrics can be used to verify the company data) would allow investors to better understand the relevance of the data.

<ESMA_QUESTION_TRART8_23>

Q24 Do you agree that in order to ensure the comparability of the information disclosed under Article 8(2) of the Taxonomy Regulation and as such facilitate its usage, ESMA should propose the use of a standardised table?

<ESMA_QUESTION_TRART8_24>

Yes, utilising a standardized table would ensure consistency in the application of identifying and reporting Taxonomy-aligned business activities.

<ESMA_QUESTION_TRART8_24>

Q25 Do you consider that the standard table provided in Annex III of this Consultation Paper is fit for purpose? Do you think the standard table provides the right information, taking into account the burden on non-financial undertakings of compiling the data versus the benefit to users of receiving the data? If not, please explain and provide alternative suggestions to promote the standardisation of the disclosure obligations pursuant to Article 8 of the Taxonomy Regulation.

<ESMA_QUESTION_TRART8_25>

Yes

<ESMA_QUESTION_TRART8_25>

Q26 Do you agree that the disclosure in the three standard tables should comply with the formatting rules mentioned in Table 5?

<ESMA_QUESTION_TRART8_26>

Yes

<ESMA_QUESTION_TRART8_26>

Q27 Do you believe that ESMA's detailed proposals under Section 3.4 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_27>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_27>

Q28 Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.

<ESMA_QUESTION_TRART8_28>

Yes

<ESMA_QUESTION_TRART8_28>

Q29 This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?

<ESMA_QUESTION_TRART8_29>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_29>

Q30 Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.

<ESMA_QUESTION_TRART8_30>

Yes

<ESMA_QUESTION_TRART8_30>

Q31 Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?

<ESMA_QUESTION_TRART8_31>

Yes. It would allow for those activities not directly linked to revenue to qualify such as enabling and transitional activities under the Taxonomy.

<ESMA_QUESTION_TRART8_31>

Q32 Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?

<ESMA_QUESTION_TRART8_32>

Governments and public-private partnerships have an important role to play in the green transition and in financing the transition, however we note that there are practical limitations to isolate and compare taxonomy alignment investments in country reporting.

As revenues are not an appropriate metric for sovereigns, the share of government expenditure that is taxonomy aligned would be the appropriate metric in our view, if the data limitations could be overcome.

The disclosure recommended for sovereign bond benchmarks by TEG Final Report on Climate Benchmarks and Benchmark's ESG Disclosures includes at s.3.3.2.3 disclosures that may be instructive.

<ESMA_QUESTION_TRART8_32>

Q33 Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?

<ESMA_QUESTION_TRART8_33>

The denominator should consist of the value of eligible investments.

<ESMA_QUESTION_TRART8_33>

Q34 Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?

<ESMA_QUESTION_TRART8_34>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_34>

Q35 Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?

<ESMA_QUESTION_TRART8_35>

Yes

<ESMA_QUESTION_TRART8_35>

Q36 Do you believe the proposed advice will impose additional costs on asset managers? Please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_36>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_36>

Q37 What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?

<ESMA_QUESTION_TRART8_37>

Limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies will limit the total portfolio coverage and may well miss out aligned activities that are located in the EU but where the reporting entity is based outside the EU.

Reporting by companies outside the scope of the Non-Financial Reporting Directive companies on a voluntary basis or on the basis of the reporting requirements applicable to that company could be considered for inclusion, as this allows greater total portfolio coverage. Reporting by asset managers on companies outside the scope of Non-Financial Reporting Directive companies could be considered to be included as a separate line item.

<ESMA_QUESTION_TRART8_37>

Q38 Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?

<ESMA_QUESTION_TRART8_38>

This approach may under-represent aligned investments at some companies while over-represent others, particularly those with operations focused in jurisdictions with less-developed sustainable economies.

In our view, it is therefore important that any methodology be carefully calibrated and be limited to usage where voluntary disclosure (per Q37 response) is unavailable.

<ESMA_QUESTION_TRART8_38>

Q39 Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?

<ESMA_QUESTION_TRART8_39>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_39>

Q40 How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?

<ESMA_QUESTION_TRART8_40>

Futures should be considered potential Taxonomy-aligned investments in our view. We suggest that a working group could be created to consider the methodological approach for futures.

<ESMA_QUESTION_TRART8_40>

Q41 What are the costs and benefits associated with the different options for non-reported activity coverage, netting and derivatives treatment presented above? Please provide a quantitative estimate for each option, distinguishing between one-off and on-going costs.

<ESMA_QUESTION_TRART8_41>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_41>

Q42 Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?

<ESMA_QUESTION_TRART8_42>

A standardized table would ensure consistency in reporting.

<ESMA_QUESTION_TRART8_42>

Q43 Do you agree with presenting accompanying information in the vicinity of the standard table?

<ESMA_QUESTION_TRART8_43>

For users of the information, presenting the accompanying information in the vicinity of the standard table is optimal, however compliance by reference may suffice, provided the referencing is sufficiently precise to allow users to unambiguously identify the relevant sections.

<ESMA_QUESTION_TRART8_43>

Q44 Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?

<ESMA_QUESTION_TRART8_44>

Yes, this would provide the methodology behind the incorporation of principal adverse impacts considerations and how company disclosures on these areas are considered in due diligence.

<ESMA_QUESTION_TRART8_44>

Q45 Do you agree with adopting the same formatting criteria as presented in Section 3.4.2 for the asset manager KPI disclosure?

<ESMA_QUESTION_TRART8_45>

Yes

<ESMA_QUESTION_TRART8_45>

Q46 What are the one-off and on-going costs of setting up the reporting and disclosure under this obligation? Please clarify the type of costs incurred and provide a quantitative estimation where possible.

<ESMA_QUESTION_TRART8_46>

TYPE YOUR TEXT HERE

<ESMA_QUESTION_TRART8_46>