ASSOGESTIONI
associazione del risparmio gestito

ASSOGESTIONI REPLY TO ESA's CONSULTATION PAPER CONCERNING TAXONOMY-RELATED SUSTAINABILITY DISCLOSURES

Question 1: Do you have any views regarding the ESAs' proposed approach to amend the existing SFDR RTS instead of drafting a new set of draft RTS?

Assogestioni[1] fully supports the ESAs approach to integrate the DA stemming from the Taxonomy Regulation (TR) into the SFDR RTS and appreciates the publication of a consolidated text as part of the consultation paper.

With reference to the RTS, specific attention should be given to the timing of the coming into force of the two sets of RTS (those related to SFRD and those related to TR) to ensure that they come into force at the same time, avoiding unnecessary confusion.

At the same time, considering the complexity of the regulation and also considering the timing of the coming into force of the regulation aimed at ensuring the availability of ESG data originating from issuers (art 8 of the TR and revision of the NFRD), we recommend allowing for a 1 year transition phase where a best effort approach is allowed.

Across the various pieces of regulation that are defining the sustainable finance playing filed, consistency is paramount, with particular reference to the methods, definitions, and the use of the "green asset ratio" under Article 8 of the Taxonomy Regulation and SFDR RTS.

Furthermore, we would encourage the publication of a consolidated text also with regards to the level 1 regulation, namely the SFRD /Regulation (EU) 2088/2019 and the TR (Regulation (EU) 852/2020). In our view this would be a practical support to the understanding and implementation of a complex regulatory framework and would help ensure consistency among all elements of the regulation representing the basis of sustainability regulation for financial market participants.

Question 2: Do you have any views on the KPI for the disclosure of the extent to which investments are aligned with the taxonomy, which is based on the share of the taxonomy-aligned turnover, capital expenditure or operational expenditure of all underlying non-financial investee companies? Do you agree with that the same approach should apply to all investments made by a given financial product?

We agree that the three indicators that have been identified – Turnover, Capex and Opex – are appropriate indicators to measure the Taxonomy alignment of an issuer. Turnover is probably the most mature of the three and, relatively speaking, the easier for the issuer to calculate and make available but over time and with the coming into force of the various

[1] Assogestioni is the Italian asset management association. Its members – including both domestic and global players – manage 2.5 trillion € invested in funds, discretionary portfolios and mandates.

regulations and standards, all three indicators should become increasingly available and reliable.
The three indicators allow to consider both issuers that have already achieved a certain level of taxonomy alignment in their operations – as reflected into their turnover – but also those issuers that are greening their activities and are investing into that process and those where “green” operating expenditure are more relevant that the actual capital expenditure.

The indicators focus on different aspects of the activity of an issuer and can all be more or less relevant at different times/for different categories of issuers. While theoretically each issuer could be best assessed by selecting one or the other of the three indicators, to ensure consistency and clarity to the end investor, at portfolio level, we do support ESAs approach in requiring that the same approach should apply to a given financial product and one indicator to be used for all the issuers of the same underlying portfolio. It would be to the FMP to choose one of the 3 indicators, to clearly state what is the indicators used and explain why that indicator has been selected.

While we are aware that could lead to potentially different % of taxonomy alignment for the same portfolio, we consider that to be an acceptable outcome as long as clear indication of the indicator used and an explanation of the reason of the choice.

Question 3: Do you have any views on the benefits and drawbacks of including specifically operational expenditure of underlying non-financial investee companies as one of the possible ways to calculate the KPI referred to in question 2?

While at this stage there may be some operational difficulties in calculating the OpEx, in our view it could be a useful indicator that could allow the measurement and monitoring of the level of the alignment of the taxonomy at operational level. It should be left to the FMP to assess whether, also in line with its investment strategy, OpEx is the relevant indicator to be adopted.

Question 4: The proposed KPI includes equity and debt instruments issued by financial and non-financial undertakings and real estate assets, do you agree that this could also be extended to derivatives such as contracts for differences?

Derivatives are a very heterogenous category that includes a large variety of instruments that can be used to quite different ends. Simply including derivatives in the perimeter of KPI calculation might lead to a representation of the alignment that might be misleading for the end investor. On the other side, excluding derivatives altogether may distort the calculation in favour of more traditional products, penalizing some categories of products – for instance target funds which, by construction, use derivatives more extensively not necessarily to the detriment of the ESG approach - or limiting the use of instruments that may enhance the efficiency or the risk/return ratio of a product while pursuing its ESG characteristics/objectives.

In our view, further thought is required on the matter in order to develop shared guidelines on how and to what extent derivatives could be considered.

Question 5: Is the use of "equities" and "debt instruments" sufficiently clear to capture relevant instruments issued by investee companies? If not, how could that be clarified? Are any specific valuation criteria necessary to ensure that the disclosures are comparable?

The use of "equities" and "debt instruments" seems sufficiently clear to capture relevant instruments issued by investee companies.

Question 6: Do you have any views about including all investments, including sovereign bonds and other assets that cannot be assessed for taxonomy-alignment, of the financial product in the denominator for the KPI?

Considering that the main objective of these indicators is to offer clarity to the end investor through a concise, high level, comparable figure showing the share of the clients' money invested in taxonomy aligned activities, we believe it to be appropriate to include all investments in the denominator. While this may not give a thoroughly accurate view of the composition of the portfolio with regards to the non -taxonomy aligned share of the portfolio (which could be made of both non assessable and not aligned activities), we do consider this to be acceptable as long as the meaning of the % is clearly stated. We also expect that the development and broadening of scope of the taxonomy to gradually improve the meaningfulness of the indicator.

Question 7: Do you have any views on the statement of taxonomy compliance of the activities the financial product invests in and whether those statements should be subject to assessment by external or third parties?

We agree with the proposed statement of Taxonomy compliance, but we do not see a need for these statements to be supervised or audited by external or third parties. In our view the market and standards are still developing; in consideration of the already heavy burden placed on FMP to align with the regulation, we would recommend not to prescribe a third-party assessments, at least at this stage.

We should also consider that some form of third party assessment is already offered to those investors that will subscribe to Ecolabel products.

Question 8: Do you have any views on the proposed periodic disclosures which mirror the proposals for pre-contractual amendments?

As companies begin to report their taxonomy alignment only in 2022, the periodic disclosures level 2 requirements should enter into application in 2023, given that investors will not have the data available for periodic disclosures in 2022 yet.

We agree that it makes sense to mirror the pre-contractual disclosures as laid down in the proposed RTS for the periodic disclosures, as it is important to ensure coherence with the structure of the SFDR RTS on the other side, we would recommend deleting the section "Why does the financial product invest in economic activities that are not environmentally sustainable?". While this issue could be interesting from the point of view of the policymaker, in our view it would not be necessarily relevant for the retail investor, at least not in terms of informing him/her on how his assets are invested. Including this question would only add complexity and lead to confusion rather than clarity. In addition, as the Taxonomy Regulation is a transparency tool rather than an obligation to invest a minimum share of assets in certain categories of activities, we do not consider it appropriate to demand a "justification" regarding the choice to invest in taxonomy compliant activities or not.

With regards to the section "what methodology was used for the calculation of the alignment with the EU Taxonomy and why", we understand it to be limited to the explanation of the indicator chosen for the calculation (Turnover, Capex, Opex – see above). Any further information should be optional and not encouraged at this level as it would further complicating the communication. Additional information regarding the methodology, where appropriate, should be part of the website disclosure.

Question 9: Do you have any views on the amended pre-contractual and periodic templates?

There are some uncertainties regarding the scope of application of the TR and its RTS as well as with the meaning of the percentage of alignment to the Taxonomy.

With the regards to the former, our understanding is that the FMP offering SFDR art 8 products that promote environmental characteristics and invest partially sustainable investment in the portfolio and art 9 products that have an environmental objective are in scope of the Taxonomy and should apply the Taxonomy to indicate which of the 6 environmental objectives (as per art.9 TR) are being considered (art 5.a.1 TR) and what proportion of it is aligned with the taxonomy (as described in art 3 TR). In our opinion this approach leads to a very complex "layering" of the classification, not easy to understand for the final investor. In this context the use of the percentage to indicate the alignment with the taxonomy is not always appropriate and could be potentially misleading.

While for "existing" products such as, for instance, mutual and pension funds, the taxonomy percentage can represent a "picture" of the situation of the portfolio at a certain point in time, prior to when the investor will invest in the product, and could therefore be relatively easily calculated and relevant for the investor, the same would not apply to FP such as, for instance, institutional mandates and portfolio. While in the precontractual disclosure for this type of products the identification of certain E/S characteristics that will be promoted or sustainable objective that will be pursued can be part of an investment policy and strategy, the identification ex ante of a quantitative percentage of taxonomy aligned investment (a minimum target) would be too restrictive and go beyond what is envisaged in the level 1 Regulation. For this reason, we would it regards it as more appropriate to allow for a more qualitative disclosure of the alignment with the Taxonomy, also in consideration of the continuously evolving nature of the latter.

Question 10: The draft RTS propose unified pre-contractual and periodic templates applicable to all Article 8 and 9 SFDR products (including Article 5 and 6 TR products which are a sub-set of Article 8 and 9 SFDR products). Do you believe it would be preferable to have separate pre-contractual and periodic templates for Article 5-6 TR products, instead of using the same template for all Article 8-9 SFDR products?

In our view a unified template should be adopted while flexibility should be given in the implementation with regards to the omission of some sections/questions, where not relevant.

Question 11: The draft RTS propose in the amended templates to identify whether products making sustainable investments do so according to the EU taxonomy. While this is done to clearly indicate whether Article 5 and 6 TR products (that make sustainable investments with environmental objectives) use the taxonomy, arguably this would have the effect of requiring Article 8 and 9 SFDR products making sustainable investments with social objectives to indicate that too. Do you agree with this proposal?

In line with our response to Q10, when a product as social/environmental objectives that should be indicated, when that it is not the case, no mention of this element should be required.

Question 12: Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?

Although this was mentioned in the impact assessment, we would like to reiterate the high burden placed on the Financial Market Participants to comply with the SFDR and Taxonomy disclosures requirements when trustworthy and comparable data on Taxonomy alignment is not available.

11th May 2021