European Securities and Markets Authority

EUROPEAN BANKING AUTHORITY

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Response form for the Joint Consultation Paper concerning Taxonomy-related sustainability disclosures

European Securities and Markets Authority
EBA EUROPEAN BANKING AUTHORITY
EIOPA EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY
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Responding to this paper

The European Supervisory Authorities (ESAs) welcome comments on this consultation paper setting out the proposed Regulatory Technical Standards (hereinafter "RTS") on content and presentation of disclosures pursuant to Article 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088 (hereinafter Sustainable Finance Disclosure Regulation "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:

- Insert your responses to the questions in the Consultation Paper in the present response form.
- 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.
- 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: ESA_ESG_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA_ESG_ABCD_RESPONSEFORM.
- 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 12 May 2021.
- 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	Bloomberg L.P.
Activity	Other Financial service providers
Are you representing an association?	☐
Country/Region	UK

Introduction

Please make your introductory comments below, if any:

<ESA_COMMENT_ESG_1>
The Taxonomy should provide clarity to investors and asset owners regarding the environmentally sustainable nature of their investment product. While the information provided by companies and financial institutions may be used for other purposes, one of their primary usages is to help calculate Taxonomy alignment and thus the environmental integrity of the investment or investee company.

It is therefore essential that when investors aggregate the underlying constituents of a financial product, they are comparing like for like. This also means that the source of the underlying data should be consistent, comparable and of suitable integrity. Bloomberg feels strongly that the data and methodology required under Article 8 should carry into reporting obligations under Articles 5 and 6.

Bloomberg also recognises the important role of data vendors in supporting the Taxonomy alignment of a full investment universe, and not just isolated to those companies subject to Article 8 disclosures. Bloomberg therefore suggests that estimates and proxies for companies outside the scope of Article 8 disclosures are also considered acceptable for Financial Market Participants reporting under Articles 5 and 6.

Bloomberg believes that Taxonomy reporting, in its first phase, should be limited to long-only cash instruments. Bloomberg recognises the importance of derivative instruments in sustainable investment strategies, but full treatment of all derivative instruments with regard to Taxonomy reporting needs careful consideration before this is implemented.

Bloomberg supports the alignment between CSRD, SFDR and Taxonomy reporting frameworks and also asks for considerations with other international frameworks (e.g., TCFD and IFRS) in order to encourage greater harmonisation on Taxonomy-related disclosures (and ESG in general). In this light, it is important to note that many European companies, especially financial institutions, maintain operations outside of the EU and are therefore subject to different reporting regimes. This rise in multiple standards for sustainable reporting across jursidictions should be taken into account when designing reporting requirements to ensure they fit within international frameworks (e.g. TCFD and IFRS). All parties have a role to play to encourage greater harmonisation on disclosures around taxonomy alignment and the broader ESG factors. Bloomberg recognises the important role of CSRD in achieving this objective.
<ESA_COMMENT_ESG_1>

Q1 : 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?

<ESA_QUESTION_ESG_1>
Bloomberg supports the ESAs' proposed approach to amend the existing SFDR RTS instead of drafting a new set of draft RTS. Doing so will provide a 'single rulebook' for Financial Market Participants (FMPs), reducing complexity and potential confusion that could arise from two separate sets of RTS. In order for the Taxonomy Regulation to be effective and achieve its intended purpose, it is important to have consistency between relevant pieces of sustainable finance regulation, especially around Article 8 and Articles 5 and 6 under the Taxonomy Regulation.

With that, Bloomberg recommends reporting against both the Principle Adverse Impacts (PAI) under the SFDR and Taxonomy alignment for Articles 8 and 9 products, even if they do not pursue environmental or social objectives but do have social, governance and/or environmental characteristics. Requiring funds to disclose PAI data in addition to their taxonomy alignment will increase access to these very important data points, allowing end-investors to make better informed decisions when allocating capital towards sustainable investments and allowing for easier comparison between products offered by different managers.
<ESA_QUESTION_ESG_1>

Q2 : 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?

<ESA_QUESTION_ESG_2>
Bloomberg is supportive of reporting requirements focusing on turnover and expenditures (CapEx and relevant OpEx) alignment as defined by the 3 KPIs. Bloomberg also agrees that reporting of the 3 KPIs should inform the percentage of alignment a financial product has to the Taxonomy, and that the 3 KPIs should not relate to the operational activities of the financial institution.

For disclosures under Articles 5 and 6, Bloomberg would recommend a common methodology to disclosure requirements under Article 8 for financial institutions to ensure consistency amongst the ratios applied to financial products which pursue environmental objectives or have environmental characteristics. We would also encourage FMPs to disclose their ratio based on CapEx and OpEx (or the reported expenditures of the underlying companies) where and when feasible and to the extent possible.

Bloomberg also recommends that % Taxonomy-aligned is used to represent underlying data both sourced from a reporting corporate and 'potential' or 'estimated' alignment along with the method and data used to derive it. Where a financial participant has used proxies or estimates to derive alignment in the absence of corporate disclosure, information related to the methodology used and consistency with the precautionary principle should be provided. Bloomberg would stress that any rules around reporting potential or estimated alignment should be fiscally aligned, not calendar aligned, and updates to reporting rules should have a minimum 12 month notice period. For instance, if a new rule has a go-live date of 1 January 2022, then company reporting in fiscal year 2021 should take into account the new rule. This will ensure that any updates or amendments to a specific rule are applied retrospectively to one fiscal year.

There are two methods of deriving alignment, when not reported:

1) Estimated alignment can be made on 'last available' information; for example, last available revenue compared with last available ESG data. This could mean that revenue reported in 2020 is compared with ESG data in 2019.
2) Estimated alignment can apply the revenue made to the same fiscal year of the ESG data reported. A company can only be estimated to be aligned when they have provided both revenue and ESG content within the same fiscal year.

Bloomberg requests that any estimates will apply the revenue made to the same fiscal year of the ESG data, as this is more comparable to the true reported data provided by companies subject to Article 8 disclosures.

Regarding requirements around DNSH, Bloomberg would note that companies who are already operating at a level by which they are substantially contributing to mitigation or adaptation objectives may not yet meet the DNSH crtieria or have insufficient information readily available to disclose on Day 1 of the current reporting go-live date. Across most Taxonomy activities, DNSH requires a corporate discloser to conduct two primary assessments of their business:

1. Climate Risk Assessment: where a company is expected to perform a thorough climate risk assessment of their business and have a plan to remedy any findings (as set out in Appendix E of the Mitigation Annex in the Delegated Acts)
2. Environmental Impact Assessment: where the required mitigation and compensation measures for protecting the environment are implemented. It is noted that this requirement relates to projects and not necessarily to an entire entity, as assessed in a revenue/equity based model.

In some cases, for specific Taxonomy activities, a company is also expected to perform an environmental degradation risk assessment. To perform an adequate assessment of a business and either have a fully approved and consulted plan, or have mitigated any identified risks, will take time. For a company wishing to raise project finance using the Taxonomy, the expectation is that they will meet the DNSH requirements at the maturity of their project. For an equity investment, the expectation is that the company is already compliant with DNSH to report Taxonomy-aligned turnover.

Bloomberg therefore recommends that DNSH is phased in with respect to turnover reporting with a 12-month lag to the effective date, as has been applied to Scope 3 reporting under both the Benchmarks Regulation (BMR) and PAI reporting regime under the SFDR. This would allow companies who substantially contribute to an environmental objective, but are in the process of completing their DNSH due diligence, to claim Taxonomy alignment on the basis that DNSH criteria are met within the 12 month period.
<ESA_QUESTION_ESG_2>

Q3 : 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?

<ESA_QUESTION_ESG_3>
Bloomberg agrees with the recommendation that ratios for asset managers, banks and investment firms are based on what they finance and invest in rather than on overall revenues or expenditures. It is important that the primary ratios for asset managers, insurers and investment firms capture the proportion of their overall Taxonomy-aligned AUM. Bloomberg agrees with the numerator and denominator as defined by ESMA. Similarly for banks, the primary ratios should capture the proportion of their Taxonomy-aligned lending and investment portfolios.

Bloomberg recommends that disclosure should follow a waterfall logic, whereby:

1. If the asset's use-of-proceeds are Taxonomy-aligned; take the proportion of alignment
2. If not, take either the issuer or parent's Taxonomy-aligned turnover or expenditure (dependent on the product's reporting preference, so long as this approach is consistenly applied for the investment product)
3. Apply this percentage as per the portfolio weighting of the holding; as detailed by ESMA.

Overall, we would encourage FMPs to voluntarily disclose all three KPIs when feasible (e.g. when all underlying investments are CSRD companies) or for the portion of their funds where data is available.
<ESA_QUESTION_ESG_3>

Q4 : 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?

<ESA_QUESTION_ESG_4>
Bloomberg recommends that all eligible investment types should apply consistently across the SFDR and Taxonomy reporting obligations under Articles 5, 6, and 8. These are not currently consistent, as the SFDR accounts for the use of derivatives products and the Taxonomy does not.

To mitigate confusion amongst FMPs, Bloomberg believes that reporting under the Taxonomy and SFDR should only apply to cash equity and debt products; with the option to provide detailed explanations on how the derivatives within a sustainable investment product are aligned with the sustainable objectives of the fund. Bloomberg would therefore recommend the following to be excluded: cash, goodwill, sovereign debt (except for Taxonomy-aligned use-of-proceeds debt instruments) and all derivatives. Any exclusions based on asset classes should be applied consistently at the asset manager-level and portfolio-level, in addition to credit portfolios and for investment firms.

Bloomberg recognises that derivatives are used in sustainable investment products, but an accurate respresentation of Taxonomy alignment for derivatives needs careful and detailed consideration before implementation.

Bloomberg also believes that a methodology should be developed to apply the Taxonomy to sovereign debt and public sector actors beyond use-of-proceeds financial instrument.

There should be a clear treatment for the short selling of eligible investment products. The Taxonomy was specifically designed to facilitate capital towards environmental sustainable activities; therefore, it should be a long-only reporting obligation. Furthermore, the inclusion of certain instruments for shorting positions in reporting would conflict with the primary objective of what the Taxonomy was deisgned to achieve, as there is no adequate measure for shorting harmful activites. Notably, this would incentivise FMPs to short using non-eligible investment types so that such activities are not counted in the overall Taxonomy alignment score.
<ESA_QUESTION_ESG_4>

Q5 : 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?

<ESA_QUESTION_ESG_5>
The response to Question 3 is also applicable here, whereby disclosure should follow a waterfall logic:

1. If the asset's use-of-proceeds are Taxonomy-aligned; take the proportion of alignment
2. If not, take either the issuer or parent's Taxonomy-aligned turnover or expenditure (dependent on the product's reporting preference, so long as this approach is consistently applied for the investment product)
3. Apply this percentage as per the portfolio weighting of the holding; as detailed by ESMA.

Bloomberg believes estimated and company reported alignment can count for steps 1 and 2, in so far as the methodology and data sources are transparent.

Following this logic will ensure that disclosures are clear and comparable across instruments. Bloomberg would stress that where a Turnover or CapEx/OpEx value is applied, it should be done so in a consistent manner for all investee companies within that product.
<ESA_QUESTION_ESG_5>

Q6 : 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?

<ESA_QUESTION_ESG_6>
Bloomberg is supportive of using the financial product's AUM as the denominator. This is the best way to achieve full clarity to the end investment community. It is also important to represent the portion of an investment product that is eligible and then aligned to the Taxonomy to help the asset owner understand the investment's sustainable strategy. Bloomberg agrees with the ESAs that AUM, regardless of the proportion of eligible and non-eligible investment, should be the consistently applied denominator.

Bloomberg believes that calculations with variable denominators between products would be confusing and, in turn, could be misleading to the end investment community. We support the waterfall logic that is currently proposed by the ESAs, such that:

1. If the asset's use of proceeds align with the Taxonomy, then apply that percentage value
2. If not, does the investee company have turnover or CapEx/OpEx aligned with the Taxonomy, and apply that percentage value.

As mentioned in the response to Question 5, where a Turnover or CapEx/OpEx value is applied, it should be done so in a consistent manner for all investee companies within that product. It should be clear in the FMP's disclosure statement whether they are disclosing based on Turnover or CapEx/OpEx models.

Bloomberg believes that Taxonomy alignment should be measured against the full investment product. This will enable asset owners to have a better informed discussion about what proportion of their AUM they want allocated towards Taxonomy-aligned products.

Bloomberg strongly supports the use of 'estimated alignment' reporting for a number of reasons. First, not all companies will self-report their Taxonomy alignment, but investors should be able to demonstrate the non-CSRD Taxonomy-aligned investment activities. There also needs to be a distinction between a company's Taxonomy disclosure vs. a third-party-derived Taxonomy alignment; from a supervisory perspective there are concerns with greenwashing in calling a third party computed value 'Taxonomy-aligned'. With the Taxonomy Regulation, companies should be encouraged to take responsibility for their alignment to the Taxonomy criteria. To facilitate this, companies which voluntarily self-report (either via revenue, expenditures, or use-of-proceeds) their Taxonomy alignment should be able to count this value as 'Taxonomy-aligned', as long as the value is independently verified. It is important to maintain a distinction between self disclosure and third-party opinion on the operations of the company.

Bloomberg would also highlight that the overall score of the investment product will be derived from the proportion of aligned and potentially/estimated aligned activities financed/invested in. Therefore, both values represent investment directed to environmental sustainable outcomes. If 'potentially/estimated alignment' is not allowed, then investment products will only be allowed to report the proportion of activities that have self-disclosed their alignment. This would ultimately lead to under-representation of the sustainable nature of the investment product. Furthermore, if investor-derived alignment is allowed to be considered as 'Taxonomy aligned' in their disclosure with no distinction between estimated and non estimated values, there is the inherent risk of inaccurate or incomplete methodologies without clarity between corporate self-disclosure and third-party-derived values.
<ESA_QUESTION_ESG_6>

Q7 : 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?

<ESA_QUESTION_ESG_7>

Bloomberg agrees that financial institutions which claim a Taxonomy-aligned percentage should be subject to either an internal audit process or verification from independent third-parties. With respect to 'potentially/estimated aligned' information in reporting, FMPs should provide an explanation, similar to Article 13(2) of the Commission Delegated Regulation (EU) 2020/1818 on:

- the approach and research methodology that they have used, and the main assumptions and precautionary principles underlying those estimations;
- the external data sets used in the estimation;

Bloomberg would also recommend FMPs to provide further information around the scope of the audit and who performed it, regardless of whether its done internally or by a third-party verifier.
<ESA_QUESTION_ESG_7>

Q8 : Do you have any views on the proposed periodic disclosures which mirror the proposals for pre-contractual amendments?

<ESA_QUESTION_ESG_8>
Bloomberg is able to adapt to market preference regarding disclosure templates as our data is able to accommodate any of the proposed models.
<ESA_QUESTION_ESG_8>

Q9 : Do you have any views on the amended pre-contractual and periodic templates?

<ESA_QUESTION_ESG_9>
The response to Question 8 is also applicable here.
<ESA_QUESTION_ESG_9>

Q10 : 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?

<ESA_QUESTION_ESG_10>
Bloomberg supports unified pre-contractual and periodic templates for all Article 8 and 9 products, including Article 5 and 6 products under the Taxonomy Regulation. As highlighted in the response to Question 1, Bloomberg recommends reporting against both PAI and Taxonomy alignment for Articles 8 and 9 products, even if they do not pursue environmental or social objectives but do have social, governance and/or environmental characteristics.
<ESA_QUESTION_ESG_10>

Q11 : 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?

<ESA_QUESTION_ESG_11>
Bloomberg would note that there needs to be consistency in the application of reporting under SFDR and the Taxonomy Regulation. Article 8 or 9 products should report both SFDR PAI and Taxonomy alignment, until the Taxonomy Regulation is complete with the potential introduction of a social taxonomy and

significant harm taxonomy. At that time, the SFDR PAI reporting regime can be decommissioned as the more thorough reporting model that will follow the Taxonomy Regulation.

Bloomberg believes that consistent reporting for products defined under Articles 8 and 9 SFDR will help the end asset owner understand and compare financial products between managers. Any election into or out of SFDR PAI and Taxonomy reporting will create confusion, notably for those products who pursue more general environmental, social and governance strategies. A cleaner and simpler reporting model for all Article 8 and 9 products would be the favoured approach.
<ESA_QUESTION_ESG_11>

Q12 : 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_12>
No further comments.
<ESA_QUESTION_ESG_12>