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| Response form for the Joint Consultation Paper concerning Taxonomy-related sustainability disclosures |
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| Date: 17 March 2021  ESMA34-45-1218 |

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](https://www.esma.europa.eu/press-news/consultations) 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]](#footnote-2). Further information on data protection can be found under the [Legal notice](http://www.eba.europa.eu/legal-notice) section of the EBA website and under the [Legal notice](https://eiopa.europa.eu/Pages/Links/Legal-notice.aspx) section of the EIOPA website and under the [Legal notice](https://www.esma.europa.eu/legal-notice) section of the ESMA website.

# General information about respondent

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| Name of the company / organisation | Click here to enter text. |
| Activity | Choose an item. |
| Are you representing an association? |  |
| Country/Region | Choose an item. |

# Introduction

Please make your introductory comments below, if any:

<ESA\_COMMENT\_ESG\_1>

A key goal of the Taxonomy is to provide clarity to investors and their end asset owners when investing in green or sustainable financial products.

The Platform, when considering reporting obligations for Financial Market Participants under Articles 5, 6 and 8 have based our recommendations on 6 principles:

* Principle 1: Integrity
* Principle 2: Relevance
* Principle 3: Proportionality
* Principle 4: Consistency
* Principle 5: Predictability
* Principle 6: International application

On this basis, please find the recommendations of the Platform on the proposal by the ESAs.

The Platform recognises the importance of Article 8 disclosures from financial and non-financial corporates within the scope of CSRD to inform the reporting required under Articles 5 and 6. The Platform agrees with the ESAs’ view that it is essential that the Article 8 data used by investors to report under articles 5 and 6 is clear, consistent and comparable. This will be particularly important for financial institutions that will have to report against Articles 5 and 6 and 8; as well as for large financial institutions whose asset management business will have to report against articles 5 and 6, as well as at entity-level within SFDR.

The Taxonomy does not operate in a regulatory vacuum. It is intrinsically related to the CSRD - which is currently being revised and the SFDR (as recognised in this RTS), but it might also be affected by other pieces of legislation such as the Benchmark Regulation, AIFMD, MiFID II suitability, the Eco-Label as well as by national requirements (e.g., Article 29 of the Energy Law in France) or the InvestEU and Common Provisions Regulation for shared management funds or other European Commission (EC) sectorial strategies. The success of the entire regulatory package will be determined by how interconnected, consistent, aligned and complementary the different regulatory pieces are in practice.

Coherence between the different sustainable finance regulations is an important and necessary precondition for the Taxonomy to work in practice, especially consistency between Article 8 and Articles 5 and 6 within the Taxonomy Regulation. The Platform’s recommendations in this response draw upon a few key themes:

1. The ability to use and apply the 3 KPIs detailed in Article 8 of the Taxonomy Regulation to inform the percentage of alignment a financial product has to the EU Taxonomy. The Platform believes that:
   * 1. Investors should report on both revenues for all equity (private or public) and general purpose debt funds, and on CapEx/OpEx for the part of the fund they have the underlying information.
     2. The only exception is for use-of-proceeds based products, for which an investor should report on expenditures (proceeds-alignment) unless the % of alignment is unknown. The Taxonomy should be applied in a waterfall logic, with priority given to Taxonomy-aligned use of proceeds to debt products followed by any general-purpose debt or equity where the Taxonomy-aligned revenue or CapEx of the issuer or parent would apply.
     3. This means that there will be some very specific cases where investors might have to split reporting to avoid adding apples to carrots because the fund contains both use of proceeds and shares/general purpose bonds with no information on expenditures. Clarity is needed on which KPI will be used per the type of asset class or financial instrument within such hybrid funds.
     4. The Platform believes that investors can choose either KPI or a combination of those for selection purposes. They just need to be clear ex-ante of their strategy (selection process needs to be specified in pre-contractual disclosures).
     5. While turnover will be undoubtedly the most used KPI given the difficulties to access CapEx and OpEx alignment for non-EU companies, we should foster the use of CapEx and OpEx as part of the decision-making process (and encourage investors to ask non-EU companies to voluntarily disclose their CapEx alignment).
     6. When investors disclose CapEx alignment, financial institutions will be excluded from the numerator and be treated as excluded asset classes as CapEx alignment will only be available for their CSRD investments and/or lending.
2. The ability for all Financial Market Participants, be they asset managers, banks or insurers, to clearly and consistently apply the Taxonomy to their financial products. The Platform observes inconsistencies in approach across these financial actors and asks for that to be addressed, in particular:
   * 1. There should be consistent application of numerators and denominators for financial products, including the consistency of in-scope asset classes. The Platform asks for the following to be excluded: cash, goodwill, sovereign debt (except for Taxonomy-aligned use-of-proceeds debt instruments) and derivatives initially, with a view to recommend more detailed derivative based reporting in three-years’ time.
3. The ability for non-CSRD companies – such as non-listed SMEs and international holdings who are not themselves obliged to report their Taxonomy alignment, but who may form a meaningful part of a sustainable investment product – to voluntarily disclose ‘taxonomy estimated alignment’. The Platform recommends the inclusion of ‘taxonomy estimated alignment’ as a voluntary additional disclosure for non-CSRD companies, using a revenue-based model (given the impossibility to model CapEx and OpEx alignment).
4. Harmonising the reporting obligation for SFDR Articles 8 and 9 products across both regimes.
5. Recognition that the Taxonomy is still evolving and that the reporting obligations should be revisited in three years to assess the inclusion of any subsequently proposed social or significant harm Taxonomy, and the treatment of derivative instruments (as well as other asset classes).

The Platform would highlight that there is a proliferation of reporting frameworks appearing across markets that reflect multiple expectations. Many European companies operate globally and are subject to different reporting regimes; financial institutions more so. At the same time, there are other jurisdictions that are developing their own taxonomies, some of which are based on the EU Taxonomy. It is therefore in the interest of all to take into consideration how reporting requirements fit within international frameworks (e.g., IFRS) and to encourage greater harmonisation on Taxonomy-related disclosures (and ESG in general). <ESA\_COMMENT\_ESG\_1>

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?

<ESA\_QUESTION\_ESG\_1>

The Platform is supportive of working towards combining SFDR and the Taxonomy Regulation reporting obligations, where it impacts both Articles 8 and 9 products. This will simplify the reporting obligation placed on sustainably marketed products and recognise the interconnection between pursuing an environmental strategy without negatively impacting other sustainable factors, as detailed in the Principle Adverse Indicators (PAI) list. Nevertheless, we recognise that more work needs to be done to fully harmonise both reporting requirements.

The Platform agrees with ESAs that investors should not have to report on PAIs for the portion of their Articles 8 and 9 funds that are aligned with the Taxonomy. The Platform also recognises that investors will need to report SFDR PAI against all investments that are not aligned with the Taxonomy under Articles 8 and 9. But given that PAIs are calculated at company-level and the Taxonomy at activity-level, in practice investors might decide to report on both for the entire fund. This means that for operational simplicity a Financial Market Participant may wish to report SFDR PAI against all investments under Articles 8 and 9, due to:

* Investment products with both environmental and social objectives
* Investment products with social objectives, in the absence of a social Taxonomy
* Investments with environmental objectives but where a portion of the investee companies are not yet operating in eligible Taxonomy sectors

The Platform believes that a reporting framework should treat SFDR Articles 8 and 9 products similarly in that:

* If the Article 8 or 9 product is promoting or pursuing environmental objectives, then the periodic and pre-contractual disclosures is permitted to only report using a detailed Taxonomy assessment.
* The Taxonomy assessment is the true indication of environmental sustainability of such a product, and should take priority over SFDR PAI in delivery to the end asset owner.
* The Platform supports the inclusion of principle adverse indicators in the CSRD, to be used as a reference to assess whether companies are meeting minimum social safeguards for investee companies not currently in the scope of the Taxonomy Delegated Acts.

The Platform believes that there should be further work to harmonise the SFDR and Taxonomy reporting regime, when work on the proposed social Taxonomy and significant harm (SH) Taxonomy has concluded. If developed, a harmful-activities Taxonomy would be the right instrument to capture SH across portfolios. Such Taxonomy could replace most environmental indicators – with probably the notable exception of carbon emissions.

The PAIs have taken, as starting point, the same principles embedded in the minimum social safeguards of the Taxonomy Regulation – the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD MNEs and the ILO conventions. However, the UNGPs are not clearly specified in the SFDR PAIs. We believe that a clear mention of the UNGPs will improve consistency between both regulations. The Platform considers that further work is needed to converge towards one set of social indicators (minimum safeguards, CSRD and PAIs within SFDR). In order to ensure that minimum social safeguards are interpreted and are fully consistent with SFDR, we recommend the EC to identify a handful of salient indicators in line with social PAIs, and the future CSRD. These indicators could be used as a reference to assess whether non-NFRD (CSRD) companies meet minimum social safeguards. It will also facilitate consistency in the assessments made between European and non-European companies.

On this basis, the Platform recommend a revision of the Delegated Acts on Articles 5, 6 and 8 in three-years’ time in order to integrate the learning and data developments together with the legislative changes currently in the pipeline – including the CSRD and the potential extension of the Taxonomy to cover social objectives and/or harmful activities.

<ESA\_QUESTION\_ESG\_1>

1. : 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>

The Platform agrees with reporting requirements focus on reporting turnover and expenditure (CapEx and OpEx) alignment, as defined by the 3 KPIs. Investors should be able to use and apply the 3 KPIs detailed in Article 8 of the Taxonomy Regulation to inform the percentage of alignment a financial product has to the EU Taxonomy.

The Platform also believes investors should report on revenues for all equity (private or public) and general purpose debt funds, and on CapEx/OpEx for the part of the fund they have the underlying information.

The Platform would recommend that an exception should be made for use-of-proceeds based instruments for which an investor should report on expenditures (proceeds-alignment) unless the % of alignment is unknown. This means that there will be some very specific cases where investors might have to split re-porting to avoid adding apples to carrots because the fund contains both use of proceeds and shares/general purpose bonds with no information on expenditures. Clarity, in these cases, is needed on which KPI will be used per type of asset class or financial instrument within such hybrid funds.

The Platform believes that investors can choose either KPI or a combination of those for selection purposes. They just need to be clear ex-ante of their strategy (selection process needs to be specified in pre-contractual disclosures).

While turnover will be undoubtedly the most used KPI given the difficulties to access CapEx and OpEx alignment for non-EU companies, the Platform recommends fostering the use of CapEx and OpEx as part of the decision-making process (and encourage investors to ask non-EU to voluntarily disclose their CapEx alignment). Capex and OpEx as defined by ESMA and the TEG play an invaluable role in transition finance.

The Platform agrees with using the definition of ‘net turnover’ in Article 2(5) of the Accounting Directive as the reference point. We recommend IFRS preparers to count the amounts that are presented as “revenue” according to IAS1 paragraph 82(a) in line with ESMA’s proposed definition, and as it relates to the turnover or revenue of the underlying investee company. The Platform also agrees with the descriptions of CapEx and OpEx provided by ESMA.

When investors disclose CapEx alignment, financial institutions will be excluded from the numerator and be treated as excluded asset classes as CapEx alignment will only be available for their CSRD investments and/or lending.

The Platform agrees that reporting of the 3 KPIs relate to the investment activities and not the operational activities of financial institutions. Reporting the turnover and CapEx breakdown by environmental objectives, in addition to transitional and enabling activities, is essential. Special attention should be given to the ratios of financial institutions as it pertains to Articles 5 and 6 disclosures:

* The Platform recommends a common methodology is applied to the Article 8 disclosure requirements for financial institutions, so that their ratios can be cleanly and consistently applied to financial products which pursue environmental objectives or have environmental characteristics.
* Financial Market Participants need clear guidance on which ratio for each type of financial institutions ought to be used (e.g., insurers might have to disclose two ratios and banks several ratios).
* The Platform would also recommend the disclosure of one primary ratio per institution based on turnover (or the turnover disclosures of the underlying companies). Financial actors should also disclose their primary ratio based on CapEx and OpEx (or the reported expenditures of the underlying companies) where and when feasible and to the extent possible.
* Asset managers, insurers (as key asset owners) and investment firms’ primary ratios (to be used by investors for reporting against Articles 5 and 6) should capture the proportion of their AUM aligned with the Taxonomy. Likewise for banks, the primary ratios should capture the proportion of their lending and investment portfolios aligned with the Taxonomy as expressed in the ESAs proposals for the different financial actors. In concrete:
  + The Platform recommends that the primary ratio for asset managers should correspond to the portion of their investments that are Taxonomy-aligned. The Platform agrees with the numerator and denominator as defined by ESMA.
  + In line with EIOPA, insurers should be treated as asset managers when it comes the ratio to be used by investors, for example, the proportion of the insurer’s or reinsurer’s ’ ‘investments’ – in relation to ‘total investments’ – that are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable.
  + The Platform supports the need for banks to disclose the overall level of alignment of their eligible financing activities (including lending and equity holdings) with the Taxonomy, or the ‘Main KPI’ as specified by EBA.
    - However, the approach to calculate this ratio diverts from that of asset managers and insurers in the following ways: (i) it adds two financial activities of different nature (lending and investments); (ii) the denominator does not reflect all assets; and (iii) it adds up CapEx and turnover.
    - While the Platform proposes to use the GAR as the ratio for Articles 5 and 6, we think the denominator should include all assets regarding lending and investments.
    - Given the importance of bank lending, banks should also disclose the breakdown of investments and lending. The disclosure of credit portfolios alignment as a subset of the GAR gives a non-deniable opportunity to regulators and policymakers to be able to monitor and track the evolution of banks’ sustainable lending practices.
    - The same exclusions as for asset managers and insurers should apply to the numerator, and the denominator should cover the entire lending and investment portfolio.
* Until the first revision of reporting requirements, the Platform recommends excluding from the numerator the following asset classes and financial instruments, regarding investments for insurers, reinsurers and asset managers (as well as for the investment-related reporting of banks) as appropriate for each financial institutions: cash, goodwill, derivatives, sovereign debt (except for Taxonomy-aligned use-of-proceeds debt products), foreign currencies, commodities, precious metals and cryptocurrencies.

The Platform would note the following additional recommendations geared to ensure consistency and provide clarity to end investors:

* Financial Market Participants should be allowed to differentiate in their reporting between the portions of a fund that are aligned and the ones which have been estimated to be aligned on a voluntary and complementary basis. Both values represent investment directed to environmentally sustainable outcomes.
* While the overall score of the investment product will be the proportion of aligned and estimated aligned activities financed, the Platform recommends that the % Taxonomy-aligned metric is given when the data has been sourced from a reporting corporate or from a methodology\* that an investor may be using with regard to its lending or investment practices.
* Investors should be able to claim Taxonomy alignment for the use-of-proceeds of the assets invested in, or when the proportion of revenue or capex of the issuing or investee company is unknown, where it meets the detailed technical screening criteria (TSC) within the Delegated Acts.
* Where Taxonomy alignment has been derived from a third-party source, and not directly reported by the issuing or investee company, the Platform would recommend this is clarified in a supplementary statement.
* Any third-party derived alignment should be clearly explained with the method and data used to derive it. This will provide transparency to the end asset owner, where a financial participant has used proxies or estimates to derive alignment in the absence of a corporate disclosure.
* When CSRD-like data is privately collected, including those through estimations based on company data, the Platform would recommend that the EC develop a set of criteria that will frame the methodologies for the use of modelled data, estimates and proxies, and develop guidelines on criteria for such methods wherever possible to ensure that such estimations are not conducive to the risk of greenwashing. Financial actors should also disclose details of the methodologies used - the sources of their estimations, the nature of the proxies and the methods used to calculate estimated alignment. The Platform is in support of the ESAs’ recommendation to the EC to develop an official methodology when no information is available (coefficient-based).
* The Platform recommends the precautionary approach shall be applied whenever the interpretation of the Taxonomy legislation or the data available to assess compliance is discretionary.

The Platform recommends that any use of estimates or proxies shall comply with the following requirements:

1. Financial Market Participants that use estimations that are not based on data provided by a reporting corporate under Article 8 of the Taxonomy Regulation, shall document and make public the methodology upon which such estimations are based, including:
2. the approach and research methodology that they have used, and the main assumptions and precautionary principles underlying those estimations;
3. the external data sets used in the estimation;
4. Financial Market Participants that use estimations that are based on data provided by an external data provider shall formalise, document and make public all of the following information:
5. the name and contact details of the data provider;
6. the methodology used and the main assumptions and precautionary principles, where available;
7. a hyperlink to the website of the data provider, and to the relevant methodology used, where available\*\*.

\*Please note that the Platform is recommending the EC to establish a set of mandatory criteria for all methodologies used for estimating Taxonomy alignment.

\*\*This recommendation is based on the PAB/CTB requirements related to DNSH data sets, available at [EUR-Lex - 32020R1818 - EN - EUR-Lex (europa.eu)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2020.406.01.0017.01.ENG&toc=OJ%3AL%3A2020%3A406%3ATOC)

<ESA\_QUESTION\_ESG\_2>

1. : 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>

While the Platform agrees on ESMA’s definitions for turnover, capital expenditure and operational expenditure, we are conscious of the difficulties of obtaining the last two for non-CSRD companies given that estimating CapEx and OpEx alignment might be a serious challenge if not provided by companies as CapEx and OpEx cannot be modelled. Financial institutions disclosures should reflect that constraint and therefore disclose alignment in terms of expenditures only for their part of their portfolios for which they have the information.

This means that financial market participants can only disclose CapEx and OpEx alignment for their EU-based investments or for those non-EU companies that voluntarily decide to provide the information. The Platform’s recommendation on ‘estimated alignment’ reporting for non-CSRD is only applicable to turnover or revenue based reporting, or applicable to use-of-proceeds of applicable debt products.

The Platform agrees with the recommendation that asset managers, banks and investment firm ratios are based on what they finance and what they invest in rather than on overall revenues or expenditures of the institutions themselves. As highlighted in the response to Question 2, asset managers, insurers (as key asset owners) and investment firms’ primary ratios should capture the proportion of their AUM (as defined by ESMA) aligned with the Taxonomy; and for banks the proportion of their on-balance sheet lending and investment portfolios aligned with the Taxonomy.

The Platform recommends that companies count CapEx and OpEx where costs incurred relate to assets or processes which meet or are part of an activity- or asset-specific investment plan to meet the technical criteria specified in the Taxonomy.

The Platform 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 consistently applied for the investment product)
3. Apply this percentage as per the portfolio weighting of the holding; as detailed by ESMA.

Please note that the proceeds of some green bonds and use-of-proceeds instruments might be the reflection of a combination of CapEx and those operational expenditures attached to the project(s). If the issuer is a public sector actor only those green bonds for which the alignment can be calculated will be able to be included as there is no country reporting against the Taxonomy.

Furthermore, the use of one KPI for overall fund-alignment reporting should not undermine the use of all three for selection purposes. The Platforms encourages Financial Market Participants to voluntarily disclose all three when available (e.g., when all underlying investments are CSRD companies) or for the portion of their funds that the data is available.

<ESA\_QUESTION\_ESG\_3>

1. : 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>

The Platform recommends that in scope or included investment types should apply consistently across the SFDR, and EU Taxonomy Regulation reporting obligations under Articles 5, 6 and 8. To simplify reporting, the Platform believes that Taxonomy and SFDR reporting should apply to cash equity and debt products.

Our suggestion for the KPI is:

*1 Derivatives do not qualify as in scope investments. Please see further comments on treatment of derivatives qualified below.*

*2 Green corporate and sovereign bonds issued under EU-GBS qualify for 100% of their value. Green or use-of-proceeds corporate and sovereign bonds issued under a different framework qualify for the proportion of value that corresponds to the share of proceeds used for environmentally sustainable economic activities (see definition RTS). If the portion of proceeds invested in line with the Taxonomy is unknown, then the % of turnover, CapEx and OpEx can be used as a proxy for the calculation (ie. Such green bonds are treated as general purpose bonds). Note that if the issuer is a public sector actor only those green bonds for which the alignment can be calculated will be able to be included as there is no country or public sector reporting against the Taxonomy.*

Exclusions in terms of asset classes should be consistent at the asset manager-level and portfolio-level, as well as for credit portfolios and investment firms. As highlighted above, the Platform recommends the exclusions of cash, goodwill, sovereign debt (except for Taxonomy-aligned use-of-proceeds debt products), foreign currencies, commodities, precious metals and cryptocurrencies.

Nonetheless, the Platform acknowledges that the treatment of derivatives requires careful consideration. Derivative instruments may be used:

* For market access, notably into emerging markets where the investor does not have direct access to purchase the underlying security;
* For hedging activities, for example related to mitigating interest rate or equity market risk; and
* As part of a sustainable investment strategy.

Derivative instruments, whether exchange-traded or over-the-counter, require careful consideration in the context of Taxonomy-aligned reporting. Concerns regarding the use of derivatives in Taxonomy reporting would be:

* Lack of ownership of the underlying asset, and no direct transfer of capital to the underlying company.
* The notional value of derivative contracts far outweighs the issuance value of the underlying securities; as seen with credit markets where physical settlement on default was not possible as the CDS contracts notional far exceeded the debt issued.
* Permitting derivatives would allow for Taxonomy inflation, misrepresenting the scale of investment in the Taxonomy-aligned activity.
* If Taxonomy reporting permits only certain types of derivative instruments, then arbitrage opportunities are created between permitted and non-permitted derivative instruments (e.g., if a single name CDS/TRS counts and a basket does not, then this will incentivise investing behaviours to avoid Taxonomy reporting or exaggerate Taxonomy alignment)
* Derivative contracts do not generate real capital for real economy substantial contribution.

The Platform therefore recommends the exclusion of derivatives at this stage in calculating the Taxonomy alignment of the investment product. An in-depth analysis on how the Taxonomy could or should be applied for the different types of derivatives will be necessary before including them in the scope, and the Platform recommends their examination in the future. Careful and detailed consideration on the treatment of both long and short derivative positions should be given in three years time, because of the complexity and variety of use cases with derivatives.

The Platform encourages those investors who use derivatives in their funds to explain how they relate to the Taxonomy, as part of the qualitative disclosures. This is supported by current guidance on treatment of derivatives within SFDR. The Platform equally recommends the development of a methodology to apply the Taxonomy to sovereign debt and public sector actors beyond use-of-proceeds financial instruments in the future.

Private assets classes are investments that are not exchange traded, but can be part of an investment portfolio and a financial product as defined under SFDR. These asset classes are therefore relevant when reporting Taxonomy alignment. Just like for listed assets, the Taxonomy-aligned revenue of these investments could be included in the numerator of the KPI calculation.

The Platform recommend the inclusion of the following private asset classes:

a) Infrastructure

Infrastructure activities play an important role in the EU Taxonomy. Here is a selection of infrastructure activities that are Taxonomy eligible:

• Transmission and distribution of electricity

• Transmission networks for renewables (like green hydrogen)

• Transportation networks for CO2

• Infrastructure for rail transport and low carbon road transport

• Various adaptation activities

Various pension funds have exposure to real estate assets (funds). Infrastructure assets include a variety of activities like toll roads, renewable energy equipment and networks, rail, airports, hospitals etc. The investments can be either equity or debt instruments.

b) Private real estate

Private real estate activities span a broad range of investments in different types of real estate: offices, shopping centres, distribution centres and residential properties. The Taxonomy alignment of these properties can be calculated using the screening criteria for real estate.

c) Private equity, venture capital and hedge funds

Private equity, venture capital funds and hedge funds can be regarded as non-listed equity funds.

d) Securitization

Some institutional investors invest in securitisation funds. These can be mortgages, car loans or, for example, mortgage backed securities. In analogy with the calculation of the GAR for a bank, the outstanding amount invested in these types of loans could be checked for Taxonomy alignment and be included in the numerator of the KPI calculation. The Platform has recommended the inclusion of mortgages in addition to car loans and leases for households as part of the credit ratio for banks.

Private asset classes may not be relevant for UCITs that exclusively invest in listed securities. However, for AIFs, portfolio management and pension products, private asset classes are often a substantial part of the asset mix.

<ESA\_QUESTION\_ESG\_4>

1. : 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 Platforms agrees with the ESAs that cash equity and debt products (including qualified green sovereign debt products) should be eligible investment types. The Platform also observes that certain financial instruments (sovereign and non-sovereign) used in development finance may be subject to disclosure requirements. The nature of these financial instruments is such that the full due diligence needed under TSC and DNSH may not be possible due to the communities the instrument purports to serve (e.g., rural areas, least developed regions).

Similarly, for blended finance instruments, comprised of public and private players, the complexity of the fund or bond’s internal project governance is often cumbersome to maintain to the detriment of the projects’ success, as prices may be too high or reporting costs may be deducted as fees and do not go to the identified community to be served by the instrument. Adding requirements and expenses for Taxonomy-related reporting would therefore be counterproductive.

Development finance also crosses geographical jurisdictions, with recipients or underlying projects located outside the EU, where local or regional legal specificities may apply.

Given the factors above, the Platform recommends that the principle of proportionality should apply. The Platform also recommends establishing a dialogue with international financial institutions, including the EIB and EBRD as members of the Platform, to identify key challenges and solutions for development finance and investments in least developed countries.

The Platform recognises that the lack of predictability might seriously hinder the issuance of green bonds, green loans, and, more generally, could discourage the development of asset- or activity-specific investment plans geared to meet Taxonomy threshold requirements given the uncertainty that surrounds thresholds for transitioning activities. For example, during the life of a green bond, it is likely that some thresholds of the TSC in the EU Taxonomy may become lower, especially for activities in transition. Without a degree of grandfathering of TSC adherence and the bonds in question, this would lead to the immediate loss of the EU Green Bond Standard (GBS) status for that particular bond, which would undermine the demand and issuance of such products. There is therefore a serious need to reconcile the practicalities and realities of the bond with the Taxonomy reporting requirements with the demands of investors with respect to their green or ESG portfolios (including, in particular, disclosure obligations).

Therefore, the Platform recommends the grandfathering of the EU GBS and the examination of Taxonomy-aligned use of proceeds declared in debt products.

Furthermore, the prospectus and impact report should report against the Taxonomy (based on available trajectories for SC and DNSH): targeted Taxonomy alignment for the former, and achieved for the latter, including performance on DNSH and minimum safeguards. The Platform would note that potentially other financial instruments could be grandfathered for a pre-determined period of time. There is also a strong call from the market to recommend the grandfathering of existing credible legacy green financial instruments, notably GBP-aligned bonds, and in due course bonds issued under the EU GBS. However, the decision of which type of instruments should be made on a case-by-case basis, and be limited to single use-of-proceeds-type instruments (not funds). The Platform would favour those with an official EU certification or label.

While there is agreement on the need to grandfather EU GBS, the duration of the grandfathering status should be defined in the EU GBS regulation.

<ESA\_QUESTION\_ESG\_5>

1. : 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>

The Platform agrees with the approach to use the financial product’s AUM as the denominator. This is fundamental in order to be able to provide full clarity to end investors. Every investor should be able to know for every euro invested in an Article 8 or 9 financial product, how many cents go to green investments.

However, the Platform recognises that this means certain products will never be able to attain 100% Taxonomy alignment due to the choice of sector allocation or the choice of financial instrument used. This is why the Platform feels strongly that representing the portion of an investment product that is eligible and then aligned to the Taxonomy will be an important metric in helping the end asset owner understand the investment’s sustainable strategy.

The Platform believes that calculations with variable denominators between products would be confusing and, in some cases, misleading to the end investor.

In addition, an asset manager should be able to add a voluntary statement in their ‘how and to what extent’ disclosure that accounts for the Taxonomy eligible portion of their investment, providing details on what percentage is Taxonomy-aligned. However, the Platform agrees with the ESAs that AUM, regardless of the proportion of eligible and non-eligible investment, should be the consistently applied denominator.

With that, the Platform recommends that graphical reporting should breakout:

1. Eligible to non-eligible investment share, using AUM as the denominator
2. For eligible investments, what proportion are:
   1. aligned (based on corporate disclosure of the investee company under Article 8); the Platform believes this metric can include non-CSRD companies who provide their own voluntary Taxonomy disclosure;
   2. estimated aligned (based on non-CSRD eligible investments in corporates for whom the FMP can determine adherence to the TSC); and
   3. Not aligned, either due to insufficient information or due to the company not meeting the TSC.

We agree with the ESA’s recommendations that alignment follows a waterfall logic, such that:

1. Does the asset’s use of proceeds align with the Taxonomy, if yes apply that percentage value;
2. If not, does the investee company have turnover or CapEx or OpEx aligned with the Taxonomy, and apply that percentage value.

<ESA\_QUESTION\_ESG\_6>

1. : 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>

The Platform believes that information in the non-financial statements of corporates with regards to the EU Taxonomy requires Management Committee or Board approval, and verification from an independent and duly accredited assurance services provider on the segmentation figures and EU Taxonomy requirements otherwise not enforced by a local regulation. The Platform also recommends corporate disclosures should include not only the breakdown by activities that is currently proposed, but also the value of the environmental metrics that have been used to assess Taxonomy alignment.

Given the underlying information on which the Taxonomy report is based (i.e. submission from the investee corporate in their Article 8 disclosure), this should sit alongside the annual accounts and be subject to approval by the Board or top management. The use of such information should be sufficient, and subject to internal verification or reconciliation to source.

The Platform understands external third party verification may be too cumbersome and add unnecessary costs given that reporting at fund-level is based on the investee companies’ disclosures. To that extent, the Platform would emphasise that Financial Market Participants must be very clear in their disclosures in explaining the methodologies used for any estimations (following the set of criteria developed by the EC as recommended and the coefficient-based methodology in the absence of data).

In addition to clear disclosures on the methodologies used for estimating or treating data from non-CSRD companies, the Platform would recommend that a distinctive internal function verifies the reporting (and encourage as best practice an external party). The Platform has also recommended that the EC to develop a set of criteria or a framework for the development and use of the methodologies.

The use of ‘Estimated Aligned’ information in reporting should be accompanied by an explanation from the investor on whether any TSC could not be verified and why, the nature of the due diligence that they have conducted, engagement with the investee company (if undertaken) and results, and the use of any estimates or proxies in their model. The use of third party models should be permitted only when accompanied by a detailed methodology document that outlines the approach employed relative to the Taxonomy TSC and details how the precautionary principle is utilised.

<ESA\_QUESTION\_ESG\_7>

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

<ESA\_QUESTION\_ESG\_8>

The Platform is supportive of harmonising the requirements between periodic and pre-contractual reports. The Platform agrees with the ESA’s recommendations that periodic reports should give details on the progress relative to Taxonomy alignment goals of the underlying investment.

The Platform agrees that Articles 5 and 6 products under the Taxonomy Regulation that invest in Taxonomy-aligned investments are exempted from the website disclosures on contribution and DNSH for sustainable investments.

The Platform also recommends encouraging companies to include the Taxonomy when reporting at corporate-level on their transition strategies and/or in the context of the CSRD as follows:

* Description of their transition and/or sustainability Strategies within the TCFD-aligned framework in line with EU regulation (taking into account the CSRD proposal) and EU sustainability targets.
* How they relate to the Taxonomy
* What targets relating to the Taxonomy-relevant KPIs are set (as recommended within the TCFD framework on climate target setting) How Taxonomy relevant KPIs are managed and overseen within the company’s governance structures as part of the overall corporate climate strategy. Complement their CapEx/OpEx performance disclosures for the reporting year with a description on:
  + The activity or asset-specific investment plan(s) those expenditures support;
  + Progress made in the realisation of the plan; and
  + Where the plan fits within the broader corporate transition strategy.
* Description of the company’s adaptation strategy; whether it has conducted a physical risk assessment and the results; and the extent to which it has an investment plan to address the risks identified in line with the adaptation Taxonomy.
* Companies might also want to report if they have conducted a social-risk assessment and developed a plan or programme to address social impacts such as re-training and reskilling of staff.
* DNSH and minimum safeguards-related disclosures in line with the CSRD and Taxonomy Regulation.

<ESA\_QUESTION\_ESG\_8>

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

<ESA\_QUESTION\_ESG\_9>

The Platform does not have a preference with regards the amended pre-contractual and periodic templates. The Platform believes that any calculation of Taxonomy alignment needs to be clearly calculated, consistently applied between financial products, and comparable between similar offerings from different providers. Achieving a clear, consistent and comparable reporting framework will allow the underlying asset owners to make informed investment decisions and allow a clear playing field for those offering sustainable investment types.

To incentivise the flow of capital towards Taxonomy-aligned activities, including those that enable the transition and those that are transitional, is a key requirement. The Platform believes that a complicated reporting framework will undermine that objective.

Requirements should be focused on the supply of the most relevant information for the purpose of measuring Taxonomy alignment and for the benefit of investors in green and sustainable activities. Similarly, reporting should be anchored as much as possible in existing practices – accounting and sustainability – rather than requiring new and complex frameworks. The focus should be on the end goal, thus requiring only information that is necessary and material rather than overloading preparers without a clear benefit.

The Platform recommends that companies, subject to Article 8 disclosures, voluntarily set and disclose Taxonomy targets for the short, medium and long term. The same way that many companies report the emission reduction targets they have set as part of their transition strategies, companies should be invited to establish and publicly share targets to align their activities to the Taxonomy to the extent possible. Where activities fall out of the scope of the Taxonomy, disclosure is welcomed nonetheless, and alternative legitimate benchmarks for environmental and/or transition pathways may be used by the issuer at its discretion.

This will enable investors and lenders to establish and publicise targets for their capital investments (CapEx alignment), R&D where relevant, and even an approximation of their future revenue alignment (even if the latter also depends on exogenous variables and are to be taken as “aspirational”) for the short, medium and long term. More importantly, companies are also invited to explain how their targets fit within their overall objectives and transition strategies, whether they have been approved by the Board, and to report annually on progress achievement.

Financial actors, like credit institutions as proposed by EBA, could also disclose forward-looking information and targets to increase the alignment of their credit and investment portfolios. They can also use the Taxonomy to inform their capital allocation strategy and report on it. The Platform recommends to evaluate how to create a safe harbour for forward-looking statements in relation to the Taxonomy, in order to minimise the risk of liability and litigation (e.g., lawsuits contesting estimates of trajectories that are not attained), which could prove a strong deterrent to report meaningful information.

<ESA\_QUESTION\_ESG\_9>

1. : 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>

The Platform believes that the proposed pre-contractual and periodic templates should be applicable to all Article 8 and 9 SFDR products; there is no percentage value of Taxonomy alignment that such a disclosure needs to reach and so the Taxonomy-aligned portion of the report will act to inform the asset owner or end investor on the proportion of their investment that aligns with the EU rules on environmental sustainability.

Any product that promotes or directly pursues an environmental objective or claims to have environmental characteristics, should be required to provide a Taxonomy-aligned disclosure. This will help demonstrate suitability under the newly proposed MiFID II rules but also allow for an informed conversation on Taxonomy-aligned trajectory with the investor.

The Platform agrees that an exemption for social objectives should exist until such time as a detailed Social Taxonomy is in place.

<ESA\_QUESTION\_ESG\_10>

1. : 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>

Article 8 and 9 products that pursue a social objective should not be required to provide a Taxonomy-aligned disclosure until a detailed social Taxonomy applies. Such a product should:

* meet the Minimum Social Safeguards;
* report against SFDR Principle Adverse Indicators; and
* explain the social objectives – methodologies and quantitative indicators where necessary (e.g., access to social housing must be >20% revenues)

The Platform recommends revisiting this recommendation in a three-year time period as the Taxonomy evolves.

<ESA\_QUESTION\_ESG\_11>

1. : 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>

N/A<ESA\_QUESTION\_ESG\_12>

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. [↑](#footnote-ref-2)