WWF response to ESAs consultation on Taxonomy-related sustainability disclosures in SFDR

May 2021

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?

WWF supports the principle of "single rulebook" for sustainability disclosures at Level 2 for both TR (Taxonomy Regulation) and SFDR, as we agree that it will simplify the complex set of disclosures between these two regulations. This will also help smaller investors (falling under scope as financial market participants - FMPs) with the reporting exercise. In addition, it also makes sense to compile these two disclosures together as Taxonomy-aligned products are a subset of broader SFDR ones. This level of granularity is always appreciated also by the user in order to provide an easier and more useful research of relevant information.

However, we are very concerned that if the amendments done in the Taxonomy Regulation (TR) on the SFDR affect the already published SFDR RTS, this should NOT jeopardise or delay the original implementation timeline of the RTS. This should be made clear in order to avoid situations like finalisation of the Shareholder Rights Directive II delay due to Country-by-country Reporting or the EU climate taxonomy delegated acts delay because of specific sectoral concerns.

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?

One of the main aims we see as WWF of these disclosure rules is to ensure comparable results across companies and financial market participants (FMPs) in scope, and to avoid any form of cherry-picking. According to Article 8 TR (Transparency of undertakings in non-financial statements), ALL three indicators of Turnover, Capex and Opex have to be disclosed, hence it is not up to the undertaking's own assessment to choose one specific indicator out of the three. This is a critical point in our view. These should be consistent with both Articles 5 and 6 of TR applied to FMPs under SFDR.

In addition, in compliance with Article 8 TR, it should be noted that undertakings will go to this level of granularity in all cases to measure their total taxonomy exposure, so disclosing it does not create any additional burden to undertakings. It will significantly clarify reporting obligations if the Commission defines properly the three different KPIs and requires a mandatory standard, including a table that is machine-readable. It will then make the undertakings' compliance much easier (and therefore the one for FMPs too) and the information provided will be more comparable, meaningful and relevant.

In the ESAs consultation on Article 8, Question 31, which was reflected in the consultation paper, stakeholders were asked the following question: "*Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?*" Which means there is definitely merit in disclosing all three KPIs. This should be consistent in this consultation paper. We therefore recommend to revise and amend the draft RTS, to better align with the wording and original intention of the Art. 8 TR.

ESAs should be the ones responsible for setting the methodology to define revenues, Capex and Opex – not the FMPs. Otherwise comparison will be irrelevant hence impossible.

Regarding if the same approach should apply to all investments made by a given financial product, the answer is yes ideally. WWF has been asking for including the disclosure of all financial products and investments regarding SFDR from the beginning, and not the confusing division between Article 8 and 9 that was finally agreed in the political compromise.

We support the idea that only the taxonomy alignment (and not any other indicators) should be displayed in a graphical, pie chart, format in addition to numerical data.

WWF strongly supports the following statement: *"The disclosure should be accompanied by narrative explanations including a breakdown of investments by enabling and transitional activities in accordance with Article 5 TR."* This is a very important point that we recommended already in the consultation on Article 8 disclosure: it is necessary to ensure that all undertakings under the NFRD/CSRD scope: disclose their contribution to each of the six taxonomy objectives individually, and specify the type of activity it relates to (own performance, transition or enabling). This is critical as well for ensuring that FMPs will access the corporate taxonomy information they need to comply with their own taxonomy-related reporting obligations.

It could be an option to allow FMPs to calculate a weighted average ratio composed of the taxonomy-aligned turnover, Capex and Opex.

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?

In order to avoid cherry-picking by the FMP, as mentioned in the previous question, all three KPIs must be disclosed to provide the full picture and full exposure of a given company in a given financial product. As Opex shows the company's costs in its operating activities, we believe this gives the user a complementary and useful piece of information that will be relevant when making an investment decision.

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?

N/A

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?

In order to avoid confusion for the user of the information disclosed and to avoid greenwashing, it is very important that the guidance clearly defines which instruments are included and which are not, and provides a clear explanation of why this is the case, to ensure consistency with other disclosed parts.

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?

As explained in our answer to question 2, we believe all investments should be included in the denominator (including sovereign bonds), to ensure a clearer picture of the full exposure is captured in the reporting exercise. This is in line with ESMA and EIOPA advice. In addition, all assets will be assessed for taxonomy-alignment, including perhaps those that are missed because of high cost for example. As mentioned in our answer to question 5, as long as the guidance clearly defines which instruments are included and which are not, and an understandable data breakdown is provided in order for the user to go through it easily, this should work.

It is more appropriate to keep equity and fixed income separate (so a clear breakdown): as these funding tools are used for different purposes by investee companies. In addition, keeping this breakdown would bring the benefit to assess whether the 'taxonomy exposure' is similar or not for equity on the one hand and fixed income on the other hand: there may be differences which are important to be aware of.

There is not yet a robust methodology to assess the taxonomy alignment of sovereign bonds. It is important to rapidly set up the EU Green Bond Standard to ensure it: the EU Green Bond Standard should work for sovereign green bonds as well, not only for corporate bonds.

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?

WWF believes that a statement would make sense as it can facilitate users of the information's life when searching for taxonomy compliance. We think that the taxonomy alignment shall be assessed and certified by external/third parties. Assurance of the information is positive, especially linked to sustainability issues where a lot of greenwashing can take place. As taxonomy compliance is very specific and technical, assurance would definitely help users trust the information they are reading. It should be ensured that this assurance is external and independent, so would rather go for a third party rather than an audit company.

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

WWF agrees that it makes sense to mirror the proposals for pre-contractual disclosures in order to ensure consistency, and to raise awareness already at pre-contractual level to facilitate the reading of that information to users and for them to be able to search for concrete statement and evidence that the taxonomy-alignment claim is real.

WWF agrees with the ESAs' rationale to provide mandatory template for both pre-contractual and period reporting in order to offer a standardised framework and a level playing field for FMPs and support this approach. It will allow also better comparability of products for investors, which is crucial when trying to make an informed investment decision.

It will be important to update the templates regularly (maximum every 3 years) as data collection and gathering is currently evolving very quickly (development of geolocalised spatial finance, use of sector-specific asset-level databases, etc).

An additional issue is that we recommend a reference period or at least 5 years: this is a minimum to assess the evolution of a given company and increase of its taxonomy alignment

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

In all three Annexes we see the use of the sentence "*minimum share of – investments aligned with the EU Taxonomy/transitional and enabling activities/sustainable investments that are not aligned with EU Taxonomy*" and we believe this should be removed to include just "*share of*". The concept of 'minimum' can be confusing as it seems to impose a threshold that is not required in the legislative text itself.

Even if we believe that including a pie chart with the share of taxonomy-aligned can visually help the end user to better understand the information, a more general pie chart with other sustainable investments (even if not taxonomy-aligned) compared to all investments could be included to ensure a general perspective is given and to avoid greenwashing; but in such a case a very clear distinction should be required for taxonomy-aligned investments and for others, to avoid confusion. The breakdown of those taxonomy-aligned investments by type of activity it relates to (own performance, transition or enabling) is extremely important for the user.

The proportion of taxonomy-aligned investments in both Article 8 and Article 9 products should be disclosed.

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?

As mentioned in our answer to question 8, we believe it makes sense to have joint templates with all the information in it to ensure consistency; we support the assessment that Article 5 and 6 TR are a sub-set of Article 8 and 9 SFDR. This is consistent with the approach of a "single rulebook" for sustainability disclosures.

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?

Yes, we believe that the same way FMPs need to demonstrate their taxonomy-alignment claims, the same procedure should be ensured for other sustainability issues, such as social objectives. They should be specified in the pre-contractual, including a statement, and then providing a clear explanation as to how and why this social objective is claimed. Other sustainability issues must be treated in equal footing as environmental ones.

Importantly, we do not agree with the exemption of EU taxonomy-compliant investments from screening against the "Do No Significant Harm" (DNSH) criteria in SFDR, because the DNSH definition in SFDR (Article 2.17) is broader and more comprehensive than the one in TR.

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?

Regarding Policy issue 1: we agree that the mandatory template is the best possible option to ensure consistency (see other replies above for more information).

Regarding Policy issue 2: ideally we would have included option 2.3 with a granular calculation of each activity (see our answer to question 2 above for more information).

Regarding policy issue 3: we agree that the option selected "*fully binding statement with third party verification*" is a balanced way forward.

Regarding policy issue 4: we agree that "*Option 4.2: Mid-range approach for periodic disclosures*" is a balanced way forward.

For more detailed explanations see our replies to previous questions.