**Reply form**

**on the Joint Consultation Paper on the review of SFDR Delegated Regulation regarding PAI and financial product disclosures**

12 April 2023ESMA34-45-1218

**Responding to this paper**

The ESAs invite comments on all matters in the Joint Consultation Paper and in particular on the specific questions in this reply form. Comments are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives the ESAs should consider.

ESMA will consider all comments received by **4 July 2023.**

**Instructions**

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

* Insert your responses to the questions in the Joint Consultation Paper in this reply form.
* Please do not remove tags of the type <ESMA\_QUESTION\_SFDR\_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 responses, save the reply form according to the following convention: ESMA\_CP SFDR Review\_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_CP SFDR Review\_ABCD.

* Upload the Word reply form containing your responses to ESMA’s website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. 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 access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725[[1]](#footnote-0). 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**

| Name of the company / organisation | B Lab Europe |
| --- | --- |
| Activity | Sustainability certification organisation |
| Are you representing an association? | Yes |
| Country/Region | Netherlands |

**Questions**

1. **: Do you agree with the newly proposed mandatory social indicators in Annex I, Table I (amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million, exposure to companies involved in the cultivation and production of tobacco, interference with the formation of trade unions or election worker representatives, share of employees earning less than the adequate wage)?**

<ESMA\_QUESTION\_SFDR\_1>

There are concerns about the lack of mandatory SFDR-related disclosures in the initial set of ESRS and in this context, before adding new indicators in Table I, we suggest a focus shift to introducing considerations of materiality i.e. remove mandatory-always indicators (currently in Table I). In this sense, we urge ESAs to align with the materiality approach of the ESRS delegated act.

Regarding the proposed indicator concerning earnings in non-cooperative tax jurisdictions for companies with a turnover exceeding €750 million, while it is an interesting metric for corporate disclosure, it is unclear how FMPs would apply it in the context of investments. If this metric is retained, we suggest phrasing it similarly but applying it to investments in companies exceeding €750 million turnover in jurisdictions on the EU's non-cooperative tax list.

As for the proposed indicators on interference with trade unions and the share of employees earning inadequate wages, while they would be valuable corporate disclosures, we question their suitability as PAI indicators for investment purposes. We also understand that these sensitive disclosures may not be included in the ESRS. Since these disclosures are not mandated, it would be extremely challenging for FMPs to obtain such information. Additionally, there is no existing EU-level definition of an "adequate wage."

We support the inclusion of a PAI indicator related to exposure to companies involved in tobacco production, but we seek further clarification from the ESAs on how to reconcile SFDR provisions with the exclusion of such exposures from Climate-transition/Paris-aligned climate benchmarks, as stated in the relevant Benchmarks Regulation Delegated Act (e.g., Article 9 of SFDR).

<ESMA\_QUESTION\_SFDR\_1>

1. **: Would you recommend any other mandatory social indicator or adjust any of the ones proposed?**

<ESMA\_QUESTION\_SFDR\_2>

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<ESMA\_QUESTION\_SFDR\_2>

1. **: Do you agree with the newly proposed opt-in social indicators in Annex I, Table III (excessive use of non-guaranteed-hour employees in investee companies, excessive use of temporary contract employees in investee companies, excessive use of non-employee workers in investee companies, insufficient employment of persons with disabilities in the workforce, lack of grievance/complaints handling mechanism for stakeholders materially affected by the operations of investee companies, lack of grievance/complaints handling mechanism for consumers/ end-users of the investee companies)?**

<ESMA\_QUESTION\_SFDR\_3>

We support the inclusion of non-guaranteed-hour employees in investee companies and excessive use of temporary contract employees in investee companies. However, we do not support the other indicators.

Excessive use of non-employee workers in investee companies: while it is a useful indicator in corporate disclosure, it must be accompanied by context i.e. qualitative data point. It is not fit for investors. In some Member states and industries (e.g. consultancy in Belgium) workers typically chose to be non-employee for their own benefit.

Regarding lack of grievance/complaints handling mechanisms, it is not clear how this complements the existing indicator on due diligence.

<ESMA\_QUESTION\_SFDR\_3>

1. **: Would you recommend any other social indicator or adjust any of the ones proposed?**

<ESMA\_QUESTION\_SFDR\_4>

We firmly believe sustainable corporate governance voluntary indicators are useful to signal the level of commitment of an investee to sustainable practices. SFDR heavily relies on the concept of ‘good governance practices’ but does not define what they are.

We submit that a lack of any meaningful embedment of sustainability at the highest level of governance constitutes a principal adverse impact (PAI). Therefore, we suggest the inclusion of three new PAI indicators in Table 3 of the SFDR delegated regulation :

* Lack of sustainability-related performance in incentive schemes to members of the administrative, management and supervisory bodies (European Sustainability Reporting Standards 2, disclosure requirement GOV-3)
* Lack of oversight over sustainability matters in the undertaking’s administrative, management and supervisory bodies (ESRS 2, GOV-1)
* Lack of consideration of sustainability matters in the undertaking’s strategy and its decisions on major transactions, and its risk management policies (ESRS 2, GOV-2)

A study[[2]](#footnote-1) which explores the importance of implementing proper governance practices in undertaking and its impact on the financial capital of the company - particularly in relation to credit ratings and access to funding sources - reveals a strong correlation between governance practices and credit ratings. Companies with higher governance scores achieved better credit ratings, leading to improved access to financial capital. The study highlights the significance of embedding adequate governance practices in undertakings to enhance their financial performance and attract suitable funding.

By having the highest level of governance within a company involved in managing sustainability, there is a better chance of aligning sustainability goals with overall business strategies. This alignment ensures that sustainability initiatives are integrated into the company's core operations and decision-making processes, rather than being treated as separate or peripheral activities.

We submit that the three adverse impact indicators reflect weaknesses in governance, risk management, and strategic decision-making related to sustainability. They are a strong signal to investors that the company is not entirely committed to responsible and sustainable practices and therefore, should be included in Table 3 of the regulation as voluntary principal adverse impacts indicators.

1. Lack of sustainability-related performance in incentive schemes

One crucial aspect of promoting sustainability within organisations is aligning incentives with ESG performance. Companies that prioritise sustainability practices often experience better financial performance. Conversely, a lack of sustainability-related performance indicators in incentive schemes can create a misalignment of priorities. When sustainability is not integrated into incentive schemes, companies may fail to motivate their leadership to prioritise sustainability initiatives. This can result in a focus on short-term financial gains at the expense of long-term value creation and resilience. The consequences of such an approach can manifest in increased risk exposure, decreased commitment towards sustainability objectives, potential financial losses, and reputational damage, all of which pose significant risks to the investor.

2. Lack of oversight over sustainability matters

Governance plays a critical role in ensuring companies consider sustainability risks and opportunities. A lack of oversight over sustainability matters from the highest level of governance of a company indicates a governance gap. Without direct oversight of the company’s supervisory bodies, companies may fail to identify and address sustainability risks and issues effectively. This creates vulnerabilities that can result in compliance failures, reputational damage, legal disputes, and operational disruptions. Investors seek companies with robust governance structures capable of identifying and managing sustainability-related risks. By investing in companies with weak oversight mechanisms by the supervisory bodies, investors expose themselves to negative impacts. The financial implications of such events can be severe, negatively impacting the value and stability of the portfolio.

3. Lack of consideration of sustainability matters in strategy, decisions, and risk management

Incorporating sustainability considerations into the core operations of a company is essential for long-term success. When sustainability matters are not adequately considered, companies may overlook significant risks and opportunities. Failure to incorporate sustainability considerations in strategic decision-making hinders a company's ability to adapt to changing market dynamics and evolving stakeholder expectations. As sustainability factors continue to gain importance in the business landscape, companies that fail to integrate them may face increased challenges and decreased competitiveness. Such risks and missed opportunities can ultimately have adverse impacts from a double-materiality perspective, for both the company and the investor, as well as for the people and the planet.

By neglecting sustainable corporate governance indicators, companies expose themselves to financial risks, reputational damage, and missed opportunities. Investors who overlook these indicators when making investment decisions put their portfolios at risk of investing in companies ill-prepared to address sustainability challenges and harness sustainability-related opportunities.

When sustainability is managed at the highest level of governance, it sends a clear message to investors that the company takes its sustainability responsibilities seriously. The involvement of top-level executives fosters a culture of accountability, where all levels of the organisation are responsible for driving sustainability outcomes.

<ESMA\_QUESTION\_SFDR\_4>

1. **: Do you agree with the changes proposed to the existing mandatory and opt-in social indicators in Annex I, Table I and III (i.e. replacing the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work)? Do you have any additional suggestions for changes to other indicators not considered by the ESAs?**

<ESMA\_QUESTION\_SFDR\_5>

Yes, we welcome the proposal to refer to the UN Guiding Principles instead of the UN Global Compact in PAI indicators 10 and 11. This would enhance regulatory coherence since the SFDR Delegated Regulation already makes mention of the UN Guiding Principles in articles 51 and 59, and it would facilitate better alignment with other EU laws like the EU Taxonomy Regulation, which also incorporates the UN Guiding Principles.

<ESMA\_QUESTION\_SFDR\_5>

1. **: For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?**

<ESMA\_QUESTION\_SFDR\_6>

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<ESMA\_QUESTION\_SFDR\_6>

1. **: For real estate assets, do you see any merit in adjusting the definition of PAI indicator 22 of Table 1 in order to align it with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective under the climate change adaptation objective?**

<ESMA\_QUESTION\_SFDR\_7>

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<ESMA\_QUESTION\_SFDR\_7>

1. **: Do you see any challenges in the interaction between the definition ‘enterprise value’ and ‘current value of investment’ for the calculation of the PAI indicators?**

<ESMA\_QUESTION\_SFDR\_8>

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<ESMA\_QUESTION\_SFDR\_8>

1. **: Do you have any comments or proposed adjustments to the new formulae suggested in Annex I?**

<ESMA\_QUESTION\_SFDR\_9>

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<ESMA\_QUESTION\_SFDR\_9>

1. **: Do you have any comments on the further clarifications or technical changes to the current list of indicators? Did you encounter any issues in the calculation of the adverse impact for any of the other existing indicators in Annex I?**

<ESMA\_QUESTION\_SFDR\_10>

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<ESMA\_QUESTION\_SFDR\_10>

1. **: Do you agree with the proposal to require the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies?**

<ESMA\_QUESTION\_SFDR\_11>

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<ESMA\_QUESTION\_SFDR\_11>

1. **: What is your view on the approach taken in this consultation paper to define ‘all investments’? What are the advantages and drawbacks you identify? Would a change in the approach adopted for the treatment of ‘all investments’ be necessary in your view?**

<ESMA\_QUESTION\_SFDR\_12>

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<ESMA\_QUESTION\_SFDR\_12>

1. **: Do you agree with the ESAs’ proposal to only require the inclusion of information on investee companies’ value chains in the PAI calculations where the investee company reports them? If not, what would you propose as an alternative?**

<ESMA\_QUESTION\_SFDR\_13>

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<ESMA\_QUESTION\_SFDR\_13>

1. **: Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?**

<ESMA\_QUESTION\_SFDR\_14>

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<ESMA\_QUESTION\_SFDR\_14>

1. **: What are your views with regard to the treatment of derivatives in general (Taxonomy-alignment, share of sustainable investments and PAI calculations)? Should the netting provision of Article 17(1)(g) be applied to sustainable investment calculations?**

<ESMA\_QUESTION\_SFDR\_15>

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<ESMA\_QUESTION\_SFDR\_15>

1. **: Do you see the need to extend the scope of the provisions of point g of paragraph 1 of Article 17 of the SFDR Delegated Regulation to asset classes other than equity and sovereign exposures?**

<ESMA\_QUESTION\_SFDR\_16>

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<ESMA\_QUESTION\_SFDR\_16>

1. **: Do you agree with the ESAs’ assessment of the DNSH framework under SFDR?**

<ESMA\_QUESTION\_SFDR\_17>

We support the need for transparent and comparable disclosures under DNSH across financial markets participants. It is important to establish a clear connection between sustainable investment and DNSH in the Taxonomy Regulation and SFDR for environmental PAI indicators. However, we caution against significantly increasing DNSH requirements without first integrating transition investments into the SFDR and wider EU sustainable finance framework. This integration should include incorporating climate transition plans into CSRD-related disclosure requirements. To achieve this, a broader framework is needed, such as reviewing SFDR to better incorporate the transition dimension of investments. This can be achieved through a stronger link between DNSH assessment and forward-looking metrics like investee companies' transition plans and decarbonization targets. Additionally, an extended Taxonomy should cover significantly harmful and transitioning activities.

<ESMA\_QUESTION\_SFDR\_17>

1. **: With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.**

<ESMA\_QUESTION\_SFDR\_18>

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<ESMA\_QUESTION\_SFDR\_18>

1. **: Do you support the introduction of an optional “safe harbour” for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.**

<ESMA\_QUESTION\_SFDR\_19>

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<ESMA\_QUESTION\_SFDR\_19>

1. **: Do you agree with the longer term view of the ESAs that if two parallel concepts of sustainability are retained that the Taxonomy TSCs should form the basis of DNSH assessments? Please explain your reasoning.**

<ESMA\_QUESTION\_SFDR\_20>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_20>

1. **: Are there other options for the SFDR Delegated Regulation DNSH disclosures to reduce the risk of greenwashing and increase comparability?**

<ESMA\_QUESTION\_SFDR\_21>

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<ESMA\_QUESTION\_SFDR\_21>

1. **: Do you agree that the proposed disclosures strike the right balance between the need for clear, reliable, decision-useful information for investors and the need to keep requirements feasible and proportional for FMPs? Please explain your answers.**

<ESMA\_QUESTION\_SFDR\_22>

We endorse the idea of enhancing transparency regarding GHG emissions reduction targets through explanatory narratives in the relevant SFDR templates. By providing clearer information on how these targets will be achieved, whether through divestment at the portfolio level or investments and engagement with investee companies, investors will have more reliable and actionable data for decision-making. It is crucial to better incorporate investments in transitioning assets within the SFDR framework. This entails recognising and allowing investments in companies that have credible climate transition plans to decarbonize their activities under the SFDR framework, while also recognising the importance of portfolio-level divestment. This approach ensures a comprehensive and effective framework for sustainable investments.

<ESMA\_QUESTION\_SFDR\_22>

1. **: Do you agree with the proposed approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR or would you prefer specific disclosures for such financial products? Do you believe the introduction of GHG emissions reduction target disclosures could lead to confusion between Article 9(3) and other Article 9 and 8 financial products? Please explain your answer.**

<ESMA\_QUESTION\_SFDR\_23>

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<ESMA\_QUESTION\_SFDR\_23>

1. **: The ESAs have introduced a distinction between a product-level commitment to achieve a reduction in financed emissions (through a strategy that possibly relies only on divestments and reallocations) and a commitment to achieve a reduction in investees’ emissions (through investment in companies that has adopted and duly executes a convincing transition plan or through active ownership). Do you find this distinction useful for investors and actionable for FMPs? Please explain your answer.**

<ESMA\_QUESTION\_SFDR\_24>

As previously mentioned, we firmly advocate for including a differentiation between entity-level and product-level objectives for reducing GHG emissions within the SFDR framework. This differentiation is beneficial to FMPs as it enables them to provide greater transparency to end investors regarding the specific aims of each product. However, it is important to emphasise that the disclosure of credible transition plans, as defined in ESRS delegated act and potentially in the CSDDD, is crucial for investors to establish appropriate targets at the entity-level for these products.

<ESMA\_QUESTION\_SFDR\_24>

1. **: Do you find it useful to have a disclosure on the degree of Paris-Alignment of the Article 9 product’s target(s)? Do you think that existing methodologies can provide sufficiently robust assessments of that aspect? If yes, please specify which methodology (or methodologies) would be relevant for that purpose and what are their most critical features? Please explain your answer.**

<ESMA\_QUESTION\_SFDR\_25>

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<ESMA\_QUESTION\_SFDR\_25>

1. **: Do you agree with the proposed approach to require that the target is calculated for all investments of the financial product? Please explain your answer.**

<ESMA\_QUESTION\_SFDR\_26>

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<ESMA\_QUESTION\_SFDR\_26>

1. **: Do you agree with the proposed approach to require that, at product level, Financed GHG emissions reduction targets be set and disclosed based on the GHG accounting and reporting standard to be referenced in the forthcoming Delegated Act (DA) of the CSRD? Should the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF be required as the only standard to be used for the disclosures, or should any other standard be considered? Please justify your answer and provide the name of alternative standards you would suggest, if any.**

<ESMA\_QUESTION\_SFDR\_27>

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<ESMA\_QUESTION\_SFDR\_27>

1. **: Do you agree with the approach taken to removals and the use of carbon credits and the alignment the ESAs have sought to achieve with the EFRAG Draft ESRS E1? Please explain your answer.**

<ESMA\_QUESTION\_SFDR\_28>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_28>

1. **: Do you find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation? What could be the benefits of and challenges to making such disclosures available? Please explain you answer.**

<ESMA\_QUESTION\_SFDR\_29>

As mentioned in Question 22, there is currently a lack of integration of the transition perspective in the EU sustainable finance and SFDR frameworks. Therefore, it is important to establish a stronger connection between the product-level disclosures in the SFDR framework and the entity-level targets and transition plans. This alignment would ensure that product-level strategies for decarbonisation are in line with entity-level strategies, providing greater transparency regarding the objectives of products, particularly for end investors.

<ESMA\_QUESTION\_SFDR\_29>

1. **: What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?**

<ESMA\_QUESTION\_SFDR\_30>

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<ESMA\_QUESTION\_SFDR\_30>

1. **: Do you agree that the current version of the templates capture all the information needed for retail investors to understand the characteristics of the products? Do you have views on how to further simplify the language in the dashboard, or other sections of the templates, to make it more understandable to retail investors?**

<ESMA\_QUESTION\_SFDR\_31>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_31>

1. **: Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?**

<ESMA\_QUESTION\_SFDR\_32>

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<ESMA\_QUESTION\_SFDR\_32>

1. **: Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?**

<ESMA\_QUESTION\_SFDR\_33>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_33>

1. **: Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?**

<ESMA\_QUESTION\_SFDR\_34>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_34>

1. **: Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?**

<ESMA\_QUESTION\_SFDR\_35>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_35>

1. **: Do you have any feedback with regard to the potential criteria for estimates?**

<ESMA\_QUESTION\_SFDR\_36>

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<ESMA\_QUESTION\_SFDR\_36>

1. **: Do you perceive the need for a more specific definition of the concept of “key environmental metrics” to prevent greenwashing? If so, how could those metrics be defined?**

<ESMA\_QUESTION\_SFDR\_37>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_37>

1. **: Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.**

<ESMA\_QUESTION\_SFDR\_38>

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<ESMA\_QUESTION\_SFDR\_38>

1. **: Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?**

<ESMA\_QUESTION\_SFDR\_39>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_39>

1. **: Do you agree with the proposed website disclosures for financial products with investment options?**

<ESMA\_QUESTION\_SFDR\_40>

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<ESMA\_QUESTION\_SFDR\_40>

1. **: What are your views on the proposal to require that any investment option with sustainability-related features that qualifies the financial product with investment options as a financial product that promotes environmental and/or social characteristics or as a financial product that has sustainable investment as its objective, should disclose the financial product templates, with the exception of those investment options that are financial instruments according to Annex I of Directive 2014/65/EU and are not units in collective investment undertakings? Should those investment options be covered in some other way?**

<ESMA\_QUESTION\_SFDR\_41>

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<ESMA\_QUESTION\_SFDR\_41>

1. **: What are the criteria the ESAs should consider when defining which information should be disclosed in a machine-readable format? Do you have any views at this stage as to which machine-readable format should be used? What challenges do you anticipate preparing and/or consuming such information in a machine-readable format?**

<ESMA\_QUESTION\_SFDR\_42>

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<ESMA\_QUESTION\_SFDR\_42>

1. **: Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?**

<ESMA\_QUESTION\_SFDR\_43>

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<ESMA\_QUESTION\_SFDR\_43>

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-0)
2. The analysis is based on a database of over 500 European undertakings rated by Inbonis ratings, using advanced AI models. The research utilises NLP models, including FinBert, FinBert-ESG, and FinBert-ESG-9, which are built upon Google's BERT model. These models analyse the sentiment and classify text into different ESG sections, allowing for a comprehensive assessment of ESG practices in the SMEs. [↑](#footnote-ref-1)