**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-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**

|  |  |
| --- | --- |
| Name of the company / organisation | CDP (Worldwide) Europe gemeinnützige GmbH |
| Activity | Choose an item. |
| Are you representing an association? |[ ]
| Country/Region | Germany |

**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>

TYPE YOUR TEXT HERE

<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>

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<ESMA\_QUESTION\_SFDR\_3>

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

<ESMA\_QUESTION\_SFDR\_4>

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<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>

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<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>

 CDP weclomes these clarifications to the calculation of the adverse impact indicators formulae as they bring more transparency across financial market participants, and more comparability across calculations provided by third-party data providers.

In general, CDP recommends that investee’s companies adverse impacts are calculated first in absolute terms (i.e., tonnes of emissions to water) and second intensities or footprint (i.e., tonnes of emissions to water/revenues or tonnes of emissions to water/EVIC) if deemded useful or necessary to capture FMPs/funds adverse impacts.

In the proposed formulae, CDP notes that indicators for: Emissions to water (9), Hazardous and radioactive waste (10), Emissions of air pollutants (25), emissions of ozone depleting substances (26), non recycled waste (36), are calculated as footprints on the model of PAI2.

In addition to the general recommendation noted above, there are two main implications of calculating adverse impact only using intensities or footprints: i) while adjusting for company size can prove useful for investment considerations, as suggested by the ESAs proposal on the disclosure of GHG emissions targets (Consultation paper paragraph 68) and the ESRS drafts in ESRS E1 section 4 (paragraph 35. a)) related to targets, monitoring progress in addressing adverse impacts from one period to the other should reflect the reduction of impacts in absolute terms. This suggestion is in line with SFDR’s objective to bring transparency in FMPs and funds’ exposure to and consideration of principal adverse impacts, ii) when considering principal adverse impacts to assess Do No Significant Harm purposes under the Sustainable Investments framework of SFDR, referring to a company’s adverse impact in intensity/footprint suggests that the outcome of a DNSH assessment is relative to a company’s revenues or entreprise value.

**CDP recommends that the formulae for those indicators are adjusted to capture absolute adverse impacts, with the possibility for FMPs/funds to disclose intensities or footprints as a complement when appropriate**.

Proposed formula Option 1 (PAI 1 Financed GHG emissions model)

$$\sum\_{i=1}^{n}\left(\frac{current value of investment i }{investee company^{'}s entreprise value i}×investee company^{'}s tonnes of emissions to water i \right)$$

Proposed formula Option 2 (Weighted average climate benchmarks model)

$$\sum\_{i=1}^{n}\left(\frac{current value of investment i }{current value of all investments}×investee company^{'}s tonnes of emissions to water i \right)$$

CDP would also like to bring the ESAs attention on two points regarding the representativness of other environmental objectives in the list of mandatory principal adverse impacts: i) when considering the environmental and climate related principal adverse impact indicators for investee companies (Annex I Table 1), there are currently 12 principal adverse impacts indicators, of which 9 are capturing effects on climate change, 1 on biodiversity, 1 on pollution, and 1 on circular economy – as per ESRS topical standards. While the climate and environmental objectives are all connected to one another, **CDP would welcome adjustments to ensure that the EU’s 6 climate and environmental objectives are equally represented in the assessment of adverse impacts**. CDP would recommend adding one sustainable water use related indicator, for example indicator 8 from Table 2 related to water stress and water policies on the model of Table 1 PAI 7, ii) given the importance of forests to reach both environmental and climate objectives, **CDP would recommend including the adverse impact indicator related to deforestation policies (Table 2 indicator 15) into the assessment of a company’s DNSH**.

In 2022, there were over 1200 companies reporting to CDP on water sourced from areas of stress and over 1400 companies reporting on their water policies.

<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>

 CDP notes that there are currently different types of adverse impact indicators: i) binary (i.e., active in fossil fuel or not), ii) quantities (i.e., tonnes of emissions or megaliters of waters), iii) shares (i.e., percentage of renewable energy consumption in total consumption), iv) conditionals (i.e., sites located near biodiversity areas with potential to negatively affect those areas).

* CDP recommends to consider certain adjustments to the following indicators to ensure that the indicator is capturing the essence of the adverse impact: companies without sustainable agricultural/land practices, sustainable oceans/seas practices (Table 2 indicators 11 and 12) 🡺 adjusting formulae to be conditional on companies being active in the relevant economic activities. The current formulae proposed in the CP don’t capture this conditionality while the name of the indicators do: ‘*Share of investments in investee companies, the activities of which involve land/agricultural activities without sustainable land/agriculture practices or policies’*. Current formulae implies that a portfolio can show 100% of companies without sustainable agricultural/land practices if not exposed to the agriculture sector. For the production of energy (Table 1 indicator 4.b) 🡺 adjusting the formulae to include only companies producing energy in the scope and denominator (on the model of formula (23) for inefficient real estate). As CDP data highlights the number of companies reporting to produce energy is much lower (~ 50% lower) than the number of companies consuming energy. If most companies in portfolios are producing 0 energy, the aggregated indicator will be a factor of many zeros weighted per share of total investments.
* Specific comment on indicator PAI 7 ‘𝑠𝑖𝑡𝑒𝑠 𝑜𝑟 𝑜𝑝𝑒𝑟𝑎𝑡𝑖𝑜𝑛𝑠 𝑙𝑜𝑐𝑎𝑡𝑒𝑑 𝑖𝑛 𝑜𝑟 𝑛𝑒𝑎𝑟 𝑡𝑜 𝑏𝑖𝑜𝑑𝑖𝑣𝑒𝑟𝑠𝑖𝑡𝑦 𝑠𝑒𝑛𝑠𝑖𝑡𝑖𝑣𝑒 𝑎𝑟𝑒𝑎𝑠 𝑤ℎ𝑒𝑟𝑒 𝑎𝑐𝑡𝑖𝑣𝑖𝑡𝑖𝑒𝑠 𝑜𝑓 𝑡ℎ𝑜𝑠𝑒 𝑖𝑛𝑣𝑒𝑠𝑡𝑒𝑒 𝑐𝑜𝑚𝑝𝑎𝑛𝑖𝑒𝑠 𝑛𝑒𝑔𝑎𝑡𝑖𝑣𝑒𝑙𝑦 𝑎𝑓𝑓𝑒𝑐𝑡 𝑡ℎ𝑜𝑠𝑒 𝑎𝑟𝑒𝑎s’: this year CDP is piloting a question to collect data on this indicator directly from companies. Initial feedback from companies shows that proximity can be hard to define (5,10,20 km). Additionally, the concentration of activities near those areas can differ widely (i.e., 1 sites or 5). CDP’s suggestion is to specify that this should include any sites that are material to biodiversity sensitive areas (even in far distance[[2]](#footnote-3)). Additionally, CDP recommends to increase transparency related to Environmental Impact Assessments (such as their publication) for this criteria to be a convincing evidence of mitigation measures implimented.

In terms of definition, CDP would welcome more guidance provided to market participants on how to interpret ‘sustainable practices’ for oceans/seas and agriculture/land, as well as which activities lead to land degradation, desertification, soil sealing (Table 2 indicator 10). CDP recommends to specify further this definition on the model of the activities that negatively impact biodiversity (8) or to provide a list of high impact sectors on the model of climate high impact sectors.

Finally, we noted some inconsistencies between the adverse impact indicators and the data points contained in the June publication of the ESRS drafts. For example, the ESRS differentiate between location-based or market-based scope 2 GHG emissions. The total is then calculated twice with both methodologies. The energy consumption intensity for high-impact sectors (Table 1 indicator 6) is calculated per high-impact sector i and the specific revenues derived from sector i (formula 7). In the ESRS, the company’s energy consumption intensity for high-impact sectors is calculated using the total of energy consumption and revenues derived from high-impact sectors (ESRS E1 - AR 37). CDP recommends a full alignment of the adverse impact indicators with the metrics defined in ESRS. This includes units (i.e., Euros or Million Euros, MWh or GWh).

<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>

 Yes. CDP welcomes the transparency on the share of data obtained directly from investee companies in aggregated indicators.

It could be useful to specify that this can mean investee companies’ self-reported data in annual reports, obtained directly from companies by third-parties or obtained directly from companies by the investor. Given CDP’s role as a global disclosure platform we see the value in centralizing reporting and disseminating information rather then each individual investors asking companies to share the information. We also note that it would be more transparent to have the following breakdown:

1. company reported data, ii) estimated, iii) missing.

While companies are encouraged and increasingly disclose their adverse impact information driven by investors’ needs or their own reporting requirements, there is still missing data for certain type of companies or regions. In this case investors can either rescale the indicator to adjust for coverage, or treat missing data as zeros. CDP would welcome additional guidance provided on the treatment of missing data.

This recommendation is proportional to the one currently proposed in the draft ESRS for company’s value chain estimations and disclosures (ESRS 2 DR BP-2). Companies should identify data estimated using indirect sources and identify estimation uncertainty. Missing data should result in an explanation of best-efforts made to obtain necessary information, reasons why the information could not be obtained and plans to obtain it in the future (ESRS 1 - 10.2).

Investors reporting on the suggested breakdown would not only increase transparency regarding the use of estimates and missing data (missing data is also often referred to as coverage ratio) but would help provide valuable information on the topic of data availability for adverse impact indicators. It could also encourage investors' engagement with their investee companies regarding the transparency of their adverse impacts.

<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>

 CDP agrees with the ESAs identified advantages and drawbacks on the definition of ‘all investments’, but would recommend to increase transparency regarding the percentage of all investments covered by the PAI indicators (i.e., % of corporates in all investments, example below provided).



The analysis provided by the ESAs in the CP is valuable but it focuses on hypothetical FMPs that have 100% of their investments in asset classes captured by PAIs (corporates and government bonds). It does not account for exposures to asset classes that are not covered by any adverse impact indicator (i.e., commodities, infrastructure, cash). This is where we see a risk that the current definition of ‘all investments’ could cause biases in the denominator for PAI calculations while being captured nowhere else.

 Changing the definition of ‘All investments’ will not have the same impact depending on the type of aggregation methodologies. As per the example table below, financed emissions do not rely on the definition of all investments.

|  |  |  |
| --- | --- | --- |
| **Type of indicator** | **Formulae** | **PAI Indicator**  |
| Financed metric  | Current value of investment / EVIC | GHG emissions |
| footprint or intensity  | Current value of investment / (EVIC or revenue) / all investments  | GHG intensity, footprint, emissions to water, hazardous waste, energy consumption intensity  |
| weighted average  | Current value of investment / all investments  | All binary indicators, ratios like renewable energy consumption/production share in total |

The definition of all investments by asset class covered by the PAI (i.e., all investments in corporates) is well suited to compare allocation decisions within an asset class (stock selection and weight) and across FMPs, although it doesn’t reflect the total amount of money invested by the FMP (size agnostic). With the current definition of all investments the adverse impact indicators are very sensitive to the share of the asset class in the total (i.e., share of corporates / all investments) 🡺 an FMP can invest more money into high emitting companies but if its share of corporates in total assets is lower than a smaller FMP, then its GHG intensity will appear lower (for an exactly similar portfolio of companies).

CDP recommends that if the current definition of all investments is retained, to add the percentage of all investments covered by PAI indicator (not in terms of data coverage but in terms of asset class exposure), as suggested above.

As per question 9, we also point out that if more indicators are calculated on the model of financed emissions there would be less sensitivity to the definition of all investments.

<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>

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<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>

 Yes, CDP fully supports the ESAs suggestion to make DNSH thresholds disclosures mandatory. This on the basis of i) transparency, ii) increased comparability, iii) reduced greenwashing risks.

In absence of guidance, threshold based methodologies require transparency to enable comparability and avoid greenwashing risks (i.e., 25% threshold or 20%; or 15% will make the percentage of sustainable investments in a portfolio look very different). For coherence of the framework and proportionality purposes, the ESRS guidance on materiality assessment of actual and potential impacts on sustainability matters mentions the use of thresholds (i.e., ESRS 1 AR 9).

CDP notes existing difficulties to set quantitative thresholds, and so encourages the ESAs to provide guidance/minimum requirements for estimation of DNSH using PAIs. We provide a similar comment below for the definition of sustainable investments.

We also warn that DNSH thresholds may look very different depending on the type of indicator (as per question 10 – binary, quantities, shares) and it is important to encourage companies’ transition by incorporating forward looking indicators (i.e., high emitting companies with transition plan and targets).

<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>

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<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>

 While CDP recognizes the importance of providing context and qualitative information, for the purpose of reducing greenwashing it is important that the information provided as part of SFDR reporting is comparable easily across FMPs and funds.

Very importantly for adverse impacts, the current template is not sufficiently harmonized to identify easily which adverse impacts are not considered by the fund. CDP would welcome a more standardized table at the fund level on the model of the FMPs’ PAI statement, for example with tick boxes next to each mandatory indicator to highlight which one is considered/not considered.

More generally, websites are a more accessible source of information for retail investors and should also be considered for the inclusion of summary information such as the ESAs proposed dashboard or the PAI table summary suggested above.

<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>

While CDP welcomes the inclusion of further specifications, we encourage use of standardized tables and machine readable templates rather than increasing further the amount of qualitative info captured in text boxes. It can lead to lack of comparability, increased barrier for retail investors to capture essential info right away and so increase risks of greenwashing. Additionally, more standardization can also mean simplification and reduce reporting burden for investors.

<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>

 Yes, CDP welcomes the inclusion of GHG emissions reduction disclosures.

1. When a product is linked to a benchmark, it can be useful to provide the hyperlink, ii) when it isn't (i.e., active fund) specific disclosures are required

Article 9 sustainable investments can be interpreted at the asset level (i.e., this company is a sustainable investment) or interpreted as a strategy pursuing an objective (like carbon reduction strategies). It is possible that carbon reduction strategies have targets and projected pathway in line with 1.5, without the assets being 'sustainable' in themselves. There is a clear difference between having 100% of sustainable investments in a portfolio (in terms of investment universe and assets) and pursuing a strategy for carbon reduction using the full universe of green/brown assets.

CDP encourages standardized disclosures of **absolute** emissions targets, including baseline, baseline year and target years. We recommend to add the possibility to express targets seperately for different asset classes (government bonds and corporate bonds won’t have the same indicators nor the same magnitude of emissions reductions), and to add intensity targets only in addition to absolute targets where relevant.

<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>

 While CDP welcomes the differenciation between real world decarbonisation and disinvestment/’paper decarbonisation’, this distinction may increase the incentive for product providers to select the easier target (i.e. reducing financed emissions through reallocation).

This distinction positions divestment as a tool in its own right, but not as the ultimate consequence of failed engagement/active ownership. In our view, divestment only makes sense as part of an engagement strategy. Ultimately, the publicly reported goal of emission reductions in the real economy should be the only valid objective, one which is attempted to be achieved through various strategies that will ultimately lead to a reduction in financed emissions (engagement, exlusions, inclusions, divestment).

This also means that it might be difficult for fund managers to isolate ex-ante how the decarbonisation target will be attained. It will most likely be the result of this mix of approaches. We would instead recommend an ex-post attribution of YoY carbon reductions between capital reallocation, movements in market prices, or portfolio holdings’ decarbonisation (real economy), in periodic reporting.

In general CDP supports full transparency at fund and FMP level regarding engagement with investee companies, specifically regarding the identification and reduction of adverse impacts.

<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>

 CDP believes it is too early to require quantitative disclosure by law. Implied Temperature Ratings exist but methodologies are still evolving. However, it is important for investors to understand the ambition of the products' targets. Therefore, a qualitative disclosure about how the 1.5 degree alignment check was performed could increase credibility.

Additionally, for some asset classes there are currently no methodology to asses alignment to 1.5 degrees. Therefor we recommend that investors should be able to report this information in the template separately by asset classes. For example, the current proposed table for absolute GHG emissions targets could have one row per asset class and an additional column to indicate the target’s alignment with 1.5 degree (with the possibility to state ‘not assessed’).

<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>

 CDP agrees with the general direction of travel but recognizes that setting targets can be difficult for certain asset classes. Transparency on the percentage of assets covered by the target, and which GHG emissions scope are included could be implemented without much additional reporting burden. Additionally, different asset classes have different magnitude of emissions (ie corporates vs governments or real assets), which can make an aggregated portfolio target difficult to read and lead to reallocation across asset classes. Instead, investors could set targets at asset class level.

For corporate GHG emissions targets, the initial target scope could be on the 300-400 companies in material sectors as recommended by the NZIF or NZAOA portfolio target setting frameworks. Data in this area is more readily available and data costs for small asset managers could be managable.

The focus could also be on asset classes where product providers have a potential influence, i.e., corporate equity and bonds, plus certain real assets.

<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>

 CDP welcomes the harmonization of calculation methodologies and the use of one standard common to the industry. CDP notes the slight incoherence between the financed emissions calculation of PCAF and the climate benchmark regulation weighted average approach for absolute emissions.

<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>

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<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>

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<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>

 As stated in question 21, CDP welcomes the inclusion of a summary dashboard but recommends leveraging products’ website to increase retail investors’ access to information.

<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>

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<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>

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<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>

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<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>

CDP highlights the importance of principal adverse impact indicators as key elements to assess investee companies’ materiality. CDP notes that the difference between principal adverse impact indicators and additional adverse impact indicators is that principal adverse impacts indicators capture impacts that are always negative for sustainability matters (such as the emissions of pollutants in water), while additional indicators are more context dependent. In this respect, PAI indicators should all be considered as key environmental metrics to assess DNSH. The full list of indicator could be leveraged to assess substantial contribution (i.e., recycling ratios, water use…).

<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>

 Yes, CDP would welcome more guidance on the calculation of the proportion of sustainable investments. Certain industry definitions of sustainable investments use companies’ revenues in economic activities (not defined by the EU taxonomy), and apply a minimum threshold to consider that this company is 100% sustainable investment. For example, 25% of minimum revenue threshold in railway manufacturing and the company is counted as 100% SI. As per our comment on DNSH thresholds, those threshold-based methodologies will generate very different results depending on the threshold. (50%, 20% or 15% will make portfolio look very different in terms of SI proportion).

In the absence of guidance, more transparency is required.

<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>

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<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-2)
2. Activities are considered to be located near to biodiversity- sensitive areas if the biodiversity- sensitive area is within the site/operation’s area of influence i.e., the area within which the activities may directly and/or indirectly cause impacts. For some sectors, such as Metals & mining, it is possible for impacts to be felt as far as 70km away (Sonter, L.J., Herrera, D., Barrett, D.J. et al., 2017). [↑](#footnote-ref-3)