



JOINT COMMITTEE OF THE EUROPEAN
SUPERVISORY AUTHORITIES

Reply form

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

12 April 2023
ESMA34-45-1218

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 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) 2018/1725¹. Further information on data protection can be found under the [Legal notice](#) section of the EBA website and under the [Legal notice](#) section of the EIOPA website and under the [Legal notice](#) section of the ESMA website.

¹ Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	BNP PARIBAS GROUP EU Transparency Register Identification Number: 78787381113-69
Activity	Banking sector
Are you representing an association?	<input type="checkbox"/>
Country/Region	France

Questions

Q1 : 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>

The four new mandatory Principal Adverse Impact indicators (PAIs) proposed reflect social issues of material concern. However their precise measurement is perturbed by a lack of clarity of the definitions used for some of them and by the introduction of PAIs not defined in the ESRS of the CSRD. We agree with the ESAs that there should be full alignment between indicators under the SFDR and the ESRS of the CSRD, so it is quite important that this principle is applied strictly across all new social PAIs.

Specific issues related to each new mandatory social PAI are detailed below:

- PAI 14. Amount of accumulated earnings in non-cooperative tax jurisdictions: “Amount of accumulated earnings at the end of the relevant financial year from investee companies where the total consolidated revenue on their balance sheet date for each of the last two consecutive financial years exceeds total of EUR 750M in jurisdictions that appear on the revised EU list of [non-cooperative jurisdictions](#) for tax purposes.” This indicator is not part of the ESRS. In addition, while the EU provides a clear list of non-cooperative jurisdictions, companies do not always disclose their revenue earned by national jurisdiction. This will make tracking this information difficult “en masse” until country level revenue reporting becomes mandatory. If the EU wishes to add this indicator to the mandatory list in the ESRS, then it should also mandate disclosure by corporations accordingly. In the interim, the EU should accept “non available” mention in the absence of reported data.

- PAI 16. Exposure to companies involved in the cultivation and production of tobacco. This indicator is part of the ESRS ("Share of investments in investee companies involved in the cultivation and production of tobacco."). It should be relatively easy to measure as there are established ESG databases which track company revenue exposure to tobacco production. However specific guidance should be given as to how involvement should be measured (e.g. revenue) and the tolerance threshold for this indicator.

— PAI 17. Interference in the formation of trade unions or election of worker representatives. This indicator is mentioned under ESRS S1, as an example of a policy ("Share of investments in investee companies without commitments on their non-interference in the formation of trade unions or election of worker representatives."). As currently worded, this indicator would be very tricky to measure. We believe it should be removed. Defining what constitutes "interference" is challenging as this could include systematic and idiosyncratic factors and could have a time dimension as well. The term "commitment" is also not operationally meaningful.

— PAI 18. Share of employees earning less than the adequate wage. This information is required under ESRS S1-10("Average percentage of employees in investee companies earning less than the adequate wage."). Notwithstanding the difficulty in defining adequate wage at national level, there is typically no data available at corporate level to support compliance with this PAI as far as we are aware.

In summary, while we believe all of the issues which these new PAI are seeking to address (tax, pay equity, worker rights, tobacco) are material, we have strong reservations about making their tracking/reporting mandatory without further clarification of each indicator definition and further clarification of the acceptable use of estimates.

In addition, following the introduction of the "materiality assessment" and voluntary disclosure in the draft delegated act for the ESRS under the CSRD (currently under consultation until 7th July 2023), it is quite critical that clear guidance is adopted on how to address in the SFDR the different cases of no reporting by undertakings. Guidance should distinguish the cases where no reporting results from the materiality assessment from those where it results from no requirement to report (e.g. for non-EU undertakings not submitted to the CSDR and EU undertakings deciding not to report during the phase-in periods).

The ESAs explicit opposition for Financial Market Participants (FMPs) to use '0' or 'N/A' for SFDR related disclosures (as reminded during the public hearing), when their clients consider the information is not material, is not workable following the proposed modifications to the ESRS as initially published by EFRAG. **We therefore urge the ESAs to adapt the SFDR RTS to the materiality rules, extended phase-in and voluntary disclosure in the ESRS with relevant guidance as mentioned above.** |

<ESMA_QUESTION_SFDR_1>

Q2 : Would you recommend any other mandatory social indicator or adjust any of the ones proposed?

<ESMA_QUESTION_SFDR_2>

[We do not consider that any other mandatory social PAIs should be introduced]

<ESMA_QUESTION_SFDR_2>

Q3 : 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 consider that there is already a long list of voluntary / optional social indicators which is sufficient to cover the main social stakes. We do not see the need to add new ones.]

<ESMA_QUESTION_SFDR_3>

Q4 : Would you recommend any other social indicator or adjust any of the ones proposed?

<ESMA_QUESTION_SFDR_4>

[Please see our response to Q.3.]

<ESMA_QUESTION_SFDR_4>

Q5 : 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>

[“UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises” is replaced by “OECD Guidelines for Multinational Enterprises or the UN Guiding Principles (UNGP) including the principles and rights set out in the eight

fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights”. This is a significant change as the number of principles to meet has increased from 10 to 31.

Therefore it is quite challenging to capture all data covered by the UNGP and disclosing PAIs 10 & 11 accordingly could lead to low results and thus non relevant information for end-investors. |

<ESMA_QUESTION_SFDR_5>

Q6 : 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>

| We do not recommend that social mandatory indicators are applied for the entity in charge of the management of the real estate assets the FMP invested in. |

<ESMA_QUESTION_SFDR_6>

Q7 : 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>

| We consider that both definitions should be aligned. As a general rule, we strongly support greater consistency and alignment, where possible and relevant, between the SFDR PAI indicators and the EU Taxonomy criteria.

We also recommend that the definition of PAI 22 of “inefficient asset” is adjusted in order to align with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective (Section 7.7 ‘Acquisition and ownership of building’) under the climate change adaptation objective.

Under such a change, a building built before 31 December 2020 would qualify as ‘inefficient real estate asset’ if it meets the two cumulative conditions: (a) the building has an Energy performance certificate (EPC) below C; and (b) the building is not within the top 30% of the national or regional building stock expressed as operational primary energy demand (PED) and demonstrated by adequate evidence. |

<ESMA_QUESTION_SFDR_7>

Q8 : 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>

[We welcome the clarification provided by November 2022 ESAs Q&A on how the current value of investment should be determined at the end of each quarter.]

<ESMA_QUESTION_SFDR_8>

Q9 : Do you have any comments or proposed adjustments to the new formulae suggested in Annex I?

<ESMA_QUESTION_SFDR_9>

[We welcome the efforts made by the ESAs to extend and clarify the formulae suggested in Annex I to calculate PAI indicators.

Globally, we agree on the proposal to have total assets at the denominator for the calculation of the PAI, except for a limited number of PAIs (5. Share of non-renewable energy consumption and production; 6. Energy consumption intensity per high impact climate sector; 12. Gender pay gap between female and male employees; 13. Management and supervisory board gender diversity), in order to avoid any risk of dilution of PAI or possible greenwashing.

For such PAIs, **SFDR RTS should clearly allow FMPs to rebase the denominator by assets or exposure of 'eligible' and covered instruments. In that case, FMPs should be transparent on the use of eligible assets** (categories of exposures defined by the ESAs such as corporates, sovereigns and supranationals and real estate assets) **in the denominator instead of all total assets and complement the disclosure with the percentage of eligible assets to total assets.**

For detailed comments on each PAI, please refer to our response to Question 10.]

<ESMA_QUESTION_SFDR_9>

Q10 : 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>

[First, for PAIs referring to **Scope 3 GHG emissions (PAIs 1,2,3)** - Where data is disclosed, typically it is done so inconsistently (e.g. with all 17 Scope 3 types not filled by individual entities). All of these factors could distort reporting figures and make them difficult to interpret by market participants independently and in reference to other asset managers. Data is very rarely disclosed and estimates vary dramatically across data vendors.

Second, we believe that some guidance or modifications would be helpful for the following PAIs:

- The value chain to be considered with regards PAI 4 (Exposure to companies active in the fossil fuel sector) and PAI 15 (Exposure to controversial weapons) should be clarified. Indeed, it is unclear if companies not directly active but present in the value chain of fossil fuel companies (i.e. suppliers) should also be taken into account. The same applies to controversial weapons.
- Clarity on which pollutants should be considered for PAI 8 and 9.
- Regarding PAI 11, clarity on which processes and compliance mechanisms would be sufficient in order for a company to be considered not in violation of this PAI. Also, it is unclear whether environmental norms should be considered as part of the assessment.
- Regarding PAI 16 (Investee countries subject to social violations), it would be useful that Financial Market Participants be provided with the list of countries which the EU considers are violating the social standards. Or failing a country list, a list of clear (and ideally objectively measurable) criteria which a sovereign needs to meet in order to be considered not in violation. Moreover, the PAI should require to disclose the share of investments rather than the number of countries subject to social violations, in order to provide more consistency to the indicator and ultimately improve comparability.
- Regarding PAI 47 (rate of recordable work-related injuries), we believe that the use of the company's revenue amount in the denominator is not relevant; indeed the work-related injuries are not directly driven by revenues. It may be more relevant to choose the total employees number as denominator.

Overall we think it will be important for mandatory reporting under SFDR to align with mandatory reporting under CSDR. Without proper disclosure of required data from companies, FMPs will be required to report data with very low disclosure rates in some cases and/or rely on estimated data. **And in the latter case (estimates), more clarity from regulators would be appreciated on their permissible use relating to PAIs.**

<ESMA_QUESTION_SFDR_10>

Q11 : 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>

No, we do not 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. It appears that this approach is not even possible for some PAI (PAI 7 – Energy consumption intensity per high impact climate sector / PAI 10 – Hazardous rate ratio or PAI 11- Violations of OECD Guidelines or the UN Guiding Principles for instance), or controversies.

As a counterproposal, we believe that **the key information that should be disclosed is the coverage rate, possibly also including a limited option field to indicate whether the information relies on**

disclosed data, estimates or both. Indeed, even though this coverage rate should progressively increase to reach ultimately 100%, the operational reality today is very different and disclosing the coverage rate is key to foster transparency and ensure a better understanding of the PAI by consumers and users of the declaration. |

<ESMA_QUESTION_SFDR_11>

Q12 : 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>

|As already mentioned in response to Question 9, we agree that the approach favored by the ESAS (§27) to use the ‘current value of all investments’ for the purpose of the denominators in the various PAI calculations, is relevant for most PAIs. However, we consider that this proposal is not relevant for all the PAIs. **For a limited number of PAIs (5-6-12-13), in order to avoid any risk of dilution of the information conveyed by the PAI or possible greenwashing, the SFDR RTS should clearly allow FMPs to rebase the denominator with only ‘eligible’ assets (i.e. investments in the particular type of entity or real estate asset). In that case, FMPs should be transparent and complement the disclosure with the percentage of eligible assets to all investments.**

In addition, it is necessary to indicate clearly in the reviewed SFDR RTS that “all investments” should be defined as ‘**Net Assets**’, i.e. **assets minus liabilities**, in particular for the derivatives that are considered to be included in the denominator as well. |

<ESMA_QUESTION_SFDR_12>

Q13 : 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>

|We globally agree with the ESAs approach in §32, meaning that a non available information from a non ESRS investee company does not have to be taken into account in the PAI calculation :

*“ In order to bring some clarity to this situation and in order to align with the CSRD’s draft ESRS, the ESAs propose to clarify in the normative text that the contribution of investee companies’ value chains to the PAIs should be considered where the investee company is reporting impacts in its value chain according to the ESRS under its own materiality assessment performed in accordance with the ESRS. **Financial market participants should include information on the value chains of investee companies***

*that are not reporting under the ESRS where that information is readily available, e.g. in the public reporting of those investee companies. The consequence of that proposal is that **if the investee company is not reporting its value chain's adverse impacts under the ESRS or this is disclosed in other reporting, then those do not need to be taken into account for the PAI calculations.** However, an exception to this principle would be indicators 1-3, 15 and 18 in Table 1 since they require Scope 3 GHG emissions (i.e. the emissions from the value chain) in all cases”.*

This principle should be enriched with the possibility to use estimates when the FMP thinks it is necessary. |

<ESMA_QUESTION_SFDR_13>

Q14 : Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?

<ESMA_QUESTION_SFDR_14>

|

1. Role of derivatives in the economy

BNPP is committed to supporting the transition towards a more sustainable economy and recognises that derivatives have a critical role to play in achieving such transition. We welcome this Consultation Paper which reiterates the role of derivatives in the sustainable economy and aims to clarify the methodologies to take them into account in investors' ESG disclosures.

While derivatives can generally be considered to be a more indirect form of investment that does not provide direct financing to companies (such as in primary markets only), it is still necessary to consider how they contribute to the formation of the companies' cost of capital (i.e. cost that a company will have to pay when it will need financing through debt or equity issuances) through the secondary market activity, thereby influencing corporates' future decisions making. As reiterated in the FCA [CP 22/20 October 2022](#) on SDR, there are 3 main channels by which an investor may contribute to positive outcomes for the environment and/or society or influence corporate behaviour: (i) engaging (with or without having to own shares), (ii) sharing corporates' business risk & modifying the cost of capital (via changing the amount of capital available at a given cost) and (iii) funding (issuance in the primary market).

Derivatives have more of the second type of impact. This type of impact, which is often dismissed in sustainable discussions, is a very relevant and strong method of influence and higher in intensity than holding of physical shares.

2. Regarding the PAI proposals

We have the following comments on the approach that we recommend for the treatment of derivatives in the PAIs:

- Scope of derivatives: as per above, what needs to be measured is the exposure of the investor to a given company's equity and debt. As such, derivatives that must be included in PAI numerator are only those with equity and debt underlyings.
- Delta: we welcome the consideration of derivatives in the numerator of the PAIs as an investment decision measured according to their equivalent position in the underlying asset, also called Delta. This is consistent with the recommendation of the PSF and with our response to Question 7 to the ESMA Consultation on "Guidelines on funds' names using ESG or sustainability-related terms" dated 18 November 2022 relating to the treatment of derivatives for calculating the Sustainable Investment ("SI") thresholds. In that respect, we advocate for a consistent metric across the three ratios (PAI, Taxonomy and SI).
- Long/short netting: we welcome the inclusion in the numerator of the PAIs of long and short derivatives positions. In order to embrace the full economic exposure on a given issuer, both the amount of risk carried out by long and short positions must be reflected for their full value. We welcome the ESAs reiterating this economic reality that long and short should be netted at the level of an individual counterpart. We are in the view that unfloored metrics are consistent with the mathematical logic and provide full information on both amounts of risk carried by derivatives, long and short positions. However further consideration is needed to assess the impacts of a floor/no floor.
- Physical investment: Regarding the option for FMPs to disregard derivatives if they cannot show that they result in a physical investment in the underlying asset, we would disagree with this criterion. The direct ownership of an asset is not a necessary criterion to determine impacts. Therefore such criterion is also irrelevant to capture investor's impacts when using derivatives. Such principle applicable to the information on PAIs should equally be applied consistently to the other indicators (proportion of the Sustainable Investments of a financial product, proportion of Taxonomy-aligned investments of a financial product).

<ESMA_QUESTION_SFDR_14>

Q15 : 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>

In our view, the priority is to ensure consistency in the treatment of the derivatives across all ratios (i.e. PAIs, proportion of SI and alignment with the Taxonomy). Indeed, inconsistent treatment of derivatives within SFDR would be highly confusing and would have detrimental consequences on the EU derivatives market. As per above, it ignores the role of derivatives to foster investments by providing companies with a reduction in their cost of capital and market risk tailored to their risk

appetite and profile, and/or by opening them access to wider markets and investment opportunities. It also ignores the major role that derivatives play for retail investors in helping them to participate to the equity market via capital protected products.

We therefore urge the ESAs to revise their proposals regarding Taxonomy and SI KPIs consistently with our recommendations for PAIs: numerator to include both long and short derivative positions linked to companies' debt and equity underlyings measured by their delta; impacts of floor; with regards to the denominator, use of net assets.

Timeline for effective implementation should also be properly calibrated to reflect the adaptations it will require for FMPs. Additional consultations on technical aspects should allow to define more precisely operationalization of this treatment and associated timeline. |

<ESMA_QUESTION_SFDR_15>

Q16 : 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>

|As per Question 14 and 15, companies are the actors of the real economy and capable of ESG assessments; only derivatives which underlyings are companies' equity and debt should be included. |

<ESMA_QUESTION_SFDR_16>

Q17 : Do you agree with the ESAs' assessment of the DNSH framework under SFDR?

<ESMA_QUESTION_SFDR_17>

|ESAs' assessment highlights that, under SFDR :” the definition of “sustainable investment” leaves significant discretion to Financial Market Participants (FMPs) in how they assess the requirements an investment has to meet to qualify as sustainable and how to disclose it. Compliance with the DNSH principle also leaves room for discretion: (i) financial products have to describe how they “take PAI indicators into account” to demonstrate that their investments respect the DNSH principle; (ii) due to SFDR being a disclosure framework, FMPs cannot rely on predefined, common criteria in order to assess compliance of their sustainable investments with the DNSH principle, as they only have to take into account PAI indicators in their assessment. Considering the fact that ‘taking into account’ remains undefined, FMPs have discretion about the criteria they will apply when conducting the assessment.”

We do agree on the fact that DNSH frameworks for the definition of Sustainable Investments are not easily comparable.

However, we think that the DNSH topic should not be considered separately from the Sustainable Investments topic (as defined in Article 2.17 under the SFDR). As such, we think that the issues

highlighted in the ESA's assessment, that is, (i) comparability between asset managers and (ii) articulation with the framework of the EU Taxonomy, should be considered at the level of the Sustainable Investment concept and not at the sub-level of the DNSH framework

To solve the issue of comparability we believe that a simple but effective solution would be to require FMPs to disclose in **one unique page on their website a description of their Sustainable Investments methodology to be applied to all their products.**

This page should have the following features (see also our response to Q21):

1. A summary flowchart illustrating the decision tree that issuers must go through for the identification of Sustainable Investments. This flowchart should detail the various inclusion gates (i.e. criteria to validate the "positive contribution to an Environmental or Social objective" step), the exclusion gates (i.e. the DNSH step and the Governance step).
2. A summary of the key points of the methodology: (i) asset classes covered, (ii) whether it is binary (pass/fail) at company-level or revenue transparency, (iii) data sources
3. A subsequent explanation of each gate and test being applied and how they relate to each other (i.e. whether they are cumulative or not).
4. On a common set of market indices, a quantitative disclosure of the proportion of Sustainable Investments calculated by applying the methodology of the manager on each indice (i.e. MSCI ACWI, MSCI Europe, S&P 500, CAC 40, etc. etc.), thus providing references for benchmark purposes.

Such a disclosure should not be requested in the precontractual template of each fund but in a single website document to rationalize and simplify the updating process when relevant. If the disclosure is made in the precontractual templates, any change in the methodology would require a reproduction of all templates which, as they are part of the prospectus, must follow the prospectus governance: this would create unnecessary workload for regulators and significantly slow down the ability of market participants to adapt their methodologies.

Accordingly, we fully support the option of "Status Quo". |

<ESMA_QUESTION_SFDR_17>

Q18 : 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>

The mandatory use of PAIs as quantitative DNSH thresholds, proposed in the second ESAs option related to "More specific disclosures", should be avoided. If these were to be applied as exclusionary thresholds, it would have the effect of bringing the investible universe of Sustainable Investments for

most companies to zero (or close to it), making the construction of Article 9 products (which need to maintain 100% SI exposure) practically unworkable.

For instance, very few companies pass all the PAIs. Also, based on our research so far, we have noted that the failure rate of companies when measured against a given PAI can exceed 90% depending on the interpretation of the PAI language (e.g. PAI 11).

Additionally, some PAIs (e.g. those requiring the existence of a policy) bias against small cap companies which typically lack the resources to develop and enforce various policy types. Moreover, we also do not believe that any PAI should be considered material enough to justify exclusion of a company from portfolios.

More relevant to assert consideration and mitigation of PAIs would be the “Status Quo” option which allows PAIs to be considered in other ways than strictly quantitative . This is more in keeping with the spirit of the PAIs which we consider to be indicating material (principal) adverse impacts but avoids strict adherence to metrics which in some cases are rarely reported by companies (e.g. scope 3 GHG emissions; gender pay gap) or are difficult to measure precisely (e.g. PAI 11). |

<ESMA_QUESTION_SFDR_18>

Q19 : 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>

Allowing companies aligned to the EU Taxonomy to benefit from an “automatic pass” of the SI environmental DNSH, the third alternative proposed by the ESAS called “safe harbour”, would be helpful. However, practical implementation seems to bring lots of complexity as the methodologies used for each DNSH may not be the same (at activity level for Taxonomy and at entity level for SFDR). The complexity created by the proposed optional safe harbour for environmental DNSH and the absence of social taxonomy would outweigh its benefits, ultimately leading to further confusion for consumers. In these conditions, it is essential that this approach remains optional without any ambiguity. |

<ESMA_QUESTION_SFDR_19>

Q20 : 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>

We believe it is premature to anticipate what would be the best long term approach or to agree with the longer term view of the ESAs that, if two parallel concepts of sustainability are retained, the Taxonomy TSCs should form the basis of DNSH assessments. FMPs and regulators need time to experiment the two existing DNSH frameworks, the incoming Taxonomy (Technical screening criteria, DNSH and Minimum Social Safeguard) for the four additional environmental objectives, and the role of the minimum social safeguards in the EU Taxonomy Regulation and SFDR. |

<ESMA_QUESTION_SFDR_20>

Q21 : Are there other options for the SFDR Delegated Regulation DNSH disclosures to reduce the risk of greenwashing and increase comparability?

<ESMA_QUESTION_SFDR_21>

Please refer to our response to Q.17. |

<ESMA_QUESTION_SFDR_21>

Q22 : 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>

Globally we consider that this section on decarbonisation is going into the right direction, provided the requirement is clearly limited to products that have GHG emission reduction targets. However sufficient flexibility should be left to FMPs at this stage for the methodology used. In addition the disclosure requirement regarding the way the target will be achieved (as proposed in the consultation paper) should be simplified.

The regulatory requirement needs to explicitly allow to use a combination of factors (a, b, c) to achieve the reduction in GHG emissions, knowing that it is not possible to attribute ex post the GHG reduction target to a single factor. The regulatory requirement should allow as well the possibility to disclose another approach under a new (d) factor "other". For instance, we cannot quantitatively measure the impact of engagement/stewardship on the emission reduction targets. |

<ESMA_QUESTION_SFDR_22>

Q23 : 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>

| We agree on the proposal to provide a hyperlink, provided that such requirement is limited to passive products tracking PAB/CTB indices. |

<ESMA_QUESTION_SFDR_23>

Q24 : 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>

| We agree that this proposal of 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 have adopted and duly execute a convincing transition plan or through active ownership) may be relevant. However, this may be hard to assess as it is not easy to isolate if the reduction is achieved through one lever or the other; most of the time, this is the result of a combination of actions. |

<ESMA_QUESTION_SFDR_24>

Q25 : 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>

| Today there is no clear agreement on methodologies to measure the degree of Paris Alignment. Therefore this disclosure should not be made mandatory until one single methodology has been identified for application by all FMPs.

The Net Zero Asset Managers initiative NZAMI approach that BNP PAM is using, which consists in qualifying companies under different categories of alignment based on their level of carbon emission reduction ambition (companies having achieved Net Zero emissions, the one that are aligned with a pathway consistent with the goal, the one that are aligning and those that are not aligned) might be a better option than disclosing the Implied Temperature Rise (“ITR”) of a fund. While such approach still relies on ITR measurement for categorization of companies, the different categories should be less volatile when compared across vendors. |

<ESMA_QUESTION_SFDR_25>

Q26 : 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>

|As already mentioned in our responses to Q.9 and Q.12, we agree that the proposed approach to require that the target is calculated for all investments of the financial product may be relevant for some targets, for sake of comparison between products. However, we consider that this proposal is not appropriate for all the targets and may generate some risk of dilution or possible greenwashing. Accordingly it would make more sense for some products to calculate this ratio by using ‘eligible assets’ with disclosure of the percentage of eligible assets to all investments. |

<ESMA_QUESTION_SFDR_26>

Q27 : 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>

|We believe that the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF should not be required as the only standard to be used on a mandatory basis for the disclosures.

We think that the mandatory use of PCAF is premature. **ESAs should allow FMPs, for a transitional period, the flexibility to use either PCAF on a voluntary basis for financed GHG emissions reduction targets or any other standard of their choice.**

On the longer term, we strongly believe that, in order to avoid any litigation related to greenwashing, **FMPs should use only ‘official’ methodologies** that should be set by official authorities (standard setters, regulators or authorities with mandates from regulators at European level and/or international level...). EFRAG for instance could help in that matter. **Only an official and documented methodology can be imposed as mandatory.** |

<ESMA_QUESTION_SFDR_27>

Q28 : 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>

| From a general perspective, we agree with this approach. We consider that the split between financed emissions, financed removals and use of carbon credits is a real need to avoid green washing. Companies under CSRD are required to report separately on their gross GHG emissions, GHG removals and use of carbon credits according to ESRS reporting requirements. We welcome that ISSB recommends the same approach for IFRS disclosure standards (S1 and S2).

However this approach can be retained under the SFDR only if this information is available from corporates both submitted to and out of the scope of the CSRD. As long as this availability is not guaranteed, this requirement should not be introduced in the templates. |

<ESMA_QUESTION_SFDR_28>

Q29 : 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>

| Today targets are only determined at entity level with no allocation at fund level. Having consistency between the product targets and the entity-level targets would require significant developments. Indeed, targets need to be defined at sector level, and it can be very complex when a company runs its activity in many different sectors. Intermediary targets can also be very heterogeneous, depending on the entities and the sectors.

In addition, credible and verified transition plans of EU corporates will not be available before 2025; they will be published between 2025 and 2029, depending on the size and nature of the corporate. Given the absence of a clear articulation between the different European ESG regulations (both in terms of content, materiality assessment rules, scope and calendar), we believe it is premature to add

complex disclosure on the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation.

Lastly, it is key that information delivered to end-investors remains simple and does not generate any form of confusion for them. Approximative or incomplete disclosures relating to consistency would not bring any added-value to the end investors.

Providing disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation should thus remain at the discretion of FMPs and should not be requested on a mandatory basis.]

<ESMA_QUESTION_SFDR_29>

Q30 : 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>

[We believe that the dashboard is useful to provide a view of the key elements given the size of the template and the quantity of information it holds that make it unworkable.

However, simplification of the templates and of the concepts is of utmost importance for retail investors. In that perspective, **there are a few elements that need to be simplified in the dashboard:**

- **Remove the split between Environmental (E) and Social (S) characteristics:** in the vast majority of the instances, the promotion of extra-financial characteristics is achieved through different layers of extra-financial constraints: baseline exclusions, on top of which come a constraint based on ESG scores (either universe reduction or portfolio score improvement with regards to the benchmark), on top of which is implemented an engagement policy. We believe that the split between E or S will not be relevant for the overwhelming majority of the cases as the approaches implemented by asset managers or insurer are agnostic from an extra-financial perspective. Thus, the E vs S split is artificial and we do not think that the benefit of the additional information outweighs the downsides of the additional conceptual complexity of the template.
- **Remove the minimum of E/S characteristics which is misleading for retail clients** (we propose possible scenarios in our answer to Q.33)
- **Remove the curly bracket defining a relationship between Q (Minimum % of sustainable investments) and R (Minimum % of taxonomy aligned investments)** as it presupposes that R is included in Q which is not the case as highlighted in paragraph 44 of the consultation paper. Cf. Question 33.

- For the Article 9 template, a tickbox should be added to clarify the reason why the fund is Article 9, with two possibilities: either because the product tracks a PAB/CTB index or because it only invests in sustainable investments. |

<ESMA_QUESTION_SFDR_30>

Q31 : 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>

[We believe that the templates are highly useful to standardize the publication of extra-financial information for each financial product and this greatly simplifies the comparison exercise. **However, we think that, in their current state, the templates are still beyond the analytical capabilities of most retail investors. Most importantly, the current format and wording lead to diverging interpretations by National Competent Authorities, which creates discrepancies within the European market.**

We are attaching a markup version of the templates with our suggestions and explanatory comments. Our proposals can be summarized as follows :

1. **Less ratios:** together with the deletion of the “asset allocation tree”, which we strongly support (see our answer to question 33 for more details), we think that some ratios introduced in the level 2 texts should be discarded as what they bring an additional complexity that far outweighs the potential benefits in terms of clarity. In a nutshell, we think that the whole regulatory framework should align the concepts it uses across regulations. SFDR should stick to the concepts that are defined in the Sustainability Preferences of the MIFID II/IDD amendments, namely the consideration of PAIs, the proportion of Sustainable Investments and the proportion of Taxonomy-aligned investments. More details in our answer to question 33.
2. **Better articulation between the minimum proportion and the spot values:** in their current form, the templates are not implemented in an harmonized manner across European jurisdictions, which further complexifies an already complex topic, bringing it further away from retail investors. We believe that the **following points should be confirmed:**
 - **The regulation does not impose to take minimum commitments on any SFDR indicator in a mandatory manner:** SFDR being a disclosure regulation, FMPs should be free to take minimum commitments or not. In addition, the fact that there is no “minimum commitment” on a KPI does not mean that the fund will not invest in securities contributing to the said KPI but simply that the fund will not seek to invest predominantly in those securities (e.g. we should be able to take no commitment on EU Taxonomy while still being allowed to invest in stocks with a non-null Taxonomy

proportion). We should be able to disclose “0% commitment” on any or all the indicators while not preventing the product to hold assets complying with the criteria of the indicator.

- **The regulation does not require FMPs to take sub-commitments: we can commit on a minimum of Sustainable Investments only, without committing on the sub elements (Taxo, non-Taxo, S)**
- **Sub-commitments can be disclosed at 0% to signal that there is no intentionality to make such investments, without banning them from the portfolio:** e.g. we can in practise have EU-Taxonomy aligned investments in a fund, without committing to a minimum percentage. There are two main reasons for this, a technical one and a matter of principle.
 - **The technical reason** is that managing ratios which are encapsulated within one another is complex. Such a requirement will lead to a reduction in commitments across the board, as we would need to fill two or more conditions for each stock when the portfolio need to change (in our example, a sufficient overall taxonomy alignment and also sufficient alignment on the sub-elements of the Taxonomy on which a commitment has been made). Still, the absence of commitment on the sub-components of the Taxonomy does not imply that the portfolio will not have any, but simply that the portfolio will be agnostic on the breakdown of its Taxonomy pocket. Ex-post reporting should of course be published regardless of the commitments for the sake of transparency. Lastly, and to cover the extreme case, it is of course not possible to breakdown an overall commitment into a sum of the sub-components (e.g. that min Taxo-nuclear + min Taxo-gas + min Taxo-others = overall min Taxo), as in this case, even the slightest change in the markets would immediately trigger a breach on the sub-components.
 - **The matter of principle** is that, currently, when we take a commitment to invest a minimum share of a fund’s assets in a geographical zone, say Europe, we are not required to commit to minimum holding in the sub-geographies of the zone (in our example, we do not take any minimum commitment to invest in the individual countries of the zone). This does not prevent us to clarify the breakdown in ex-post reporting, but in the ex-ante positioning, the only commitment is on one ratio. There is no reason that, for extra-financial ratios, this would be different.
- **We believe however that ex-post reporting should be kept granular and precise, independently from the ex-ante commitments** on which the product is positioned (e.g. we should still report on the percentage of Sustainable Investments even if we have a 0% commitment on this indicator).

3. **Less repetitions:** the templates, when filled, are already very long. We propose a revamping of their structure to ensure that information is only written once, making their reading simpler and shorter. See our markup version of the template for more details.

4. **Removal of the second graph on the the share of EU Taxonomy investments excluding sovereign bonds** from the template of precontractual disclosures.

Finally and most importantly, we would like to highlight that, in order **to increase comparability, we support the reintroduction of the reference universe used for the extra financial analysis**. SFDR being a disclosure regulation, it strongly relies on proprietary methodologies. While we support the use of proprietary methodologies as they bring convictions and innovation on the market, they are difficult to compare. For retail investors, it can be confusing as, when comparing two funds with the same given percentage of Sustainable Investments, there is no way of telling which one is the most demanding. **Therefore, for the actively managed funds, we strongly encourage the disclosures to reintegrate the notion of comparison benchmark to compare the fund (as for financial performance)**. As such, we propose that, for actively managed funds, the periodic report template requires the disclosure of the percentages of Sustainable Investments and Taxonomy (of course, not E/S characteristics as it is not an intrinsic characteristic of the issuer so it can't be computed on a benchmark) both in the fund and in the comparison benchmark or reference universe. There might be circumstances in which this is not possible, in which case, an explanation should be required. |

<ESMA_QUESTION_SFDR_31>

Q32 : Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?

<ESMA_QUESTION_SFDR_32>

| **We have several suggestions to simplify and clarify the templates to make them more accessible to retail clients**. We have provided a markup version of the templates, with wording suggestions and comments.

Our general suggestions can be summarized as follows:

- A proposal to reorganize the structure of the templates so as to bring together pieces of information that cover the same concepts but are scattered throughout the proposed version .
- A simplification of the ratios in the Precontractual Templates – in particular, the ratios with commitments should be aligned with the ESG preferences (i.e. Sustainable Investments and EU Taxonomy). The other ratios are confusing (see Q33) and should be removed.
- Changes in the wording to:
 - Either clarify the questions to make them easier to grasp for retail investors,
 - Or clarify the guidelines to answering the questions to foster the harmonization of interpretations by national regulators, based on our experience of different requirements provided in different jurisdictions.

We also suggest for **Article 8 pre-contractual template** to adopt the following structure:

- **What are the environmental and/or social characteristics of this product?**

- How do you measure how each of the environmental or social characteristics are met?
- How does the use of derivatives contribute to the promotion of environmental or social characteristics?
- Which investments are not promoting the product's environmental or social characteristics, what is their purpose and are there any minimum environmental or social safeguards?
Does this product consider the most significant negative impacts of its investments on the environment and society (principal adverse impacts)?
- **Does this product have a greenhouse gas (GHG) emission reduction target?**
- **What investment strategy does this product follow?**
 - What are the binding elements of the investment strategy regarding the environmental or social characteristics of the product?
 - What is the committed minimum rate of reduction of investments according to the investments strategy?
 - How is it assessed whether the companies which are invested in follow good governance practices, such as tax compliance or employee matters?

What is the asset allocation planned for this product?

- This product includes a minimum of [x]% sustainable investments. What is the methodology used to qualify investments as Sustainable?
- With regards to sustainable investments, how do they not cause significant harm to any environmental or social objective?

What is the minimum proportion of EU Taxonomy investments?

- Does the product commit to investing in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?
- What is the minimum share of investments in transitional and enabling activities?
- **Is a specific index used as a reference benchmark and how is this index monitored to ensure consistency with the environmental and/or social characteristics of the product?**
 - How the index is continuously aligned with each of the environmental or social characteristics promoted by the financial product? And if this can't be guaranteed, explain how the financial product intends to be consistent with the extra-financial characteristics.
 - How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis and indicate where the methodology used for the calculation of the index can be found?
 - How does the index used differ from a relevant broad market index?
- **Where can I find more product specific information online?**

We also suggest for **Article 9 pre-contractual template** to adopt the following structure:

- **What is the sustainable investment objective of this product?**
 - How do you measure how the sustainable investment objective of this product will be met?
- **Does this product consider the most significant negative impacts of its investments on the environment and the society (principal adverse impacts)?**
- **Does this product have a greenhouse gas emission reduction target?**
- **What investment strategy does this product follow?**

- Which commitments are the binding elements of the investment strategy of the product?
- How is it assessed whether the companies which are invested in follow good governance practices, such as tax compliance or employee matters?
- Which investments are not sustainable, what is their purpose and are there any minimum environmental or social safeguards?

What is the asset allocation and the minimum share of sustainable investments?

- What is the minimum proportion of the sustainable investment of the financial product?
- What is the methodology used to qualify investments as Sustainable?
- How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective ?
 - o *How are the indicators to assess the most significant negative impacts of the investments on the environment and the society taken into account for this assessment?*
 - o *How are the sustainable investments consistent with relevant international standards?*
- How does the use of derivatives contribute to the sustainable investment objective?

What is the minimum proportion of EU Taxonomy investments?

- Does the product commits to investing in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?
- What is the minimum share of investments in transitional and enabling activities?

Is a specific index used as a reference benchmark and how is the benchmark monitored to ensure consistency with the sustainable investment objective of the product?

- How the index is continuously aligned with the sustainable investment objective of the financial product? And if this can't be guaranteed, explain how the financial product intends to be consistent with the sustainable investment objective.
- How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis and indicate where the methodology used for the calculation of the index can be found?
- How does the index used differ from a relevant broad market index?

• **Where can I find more product specific information online?**

As a conclusion, we believe it could **be useful to conduct extensive consumer-testing in all markets**, to ensure that the proposals improve consumers' understanding and match their information needs. The consumer-testing should replicate a real-life situation where consumers are confronted with the entire document, and not just with parts of the documents. |

<ESMA_QUESTION_SFDR_32>

Q33 : 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>

The asset allocation tree, as currently proposed in the consultation paper, is misleading, especially for retail clients, as it presents an articulation of the different concepts (E/S, SI, etc.) that is not true in practice and that contradicts the regulatory corpus in several instances. In this section, we propose to (i) demonstrate indicator by indicator why we believe that the asset allocation tree is misleading, (ii) underline the importance of differentiating ex-ante commitments from ex-post reporting especially to clarify the difference between intentionality and fortuitous presence and (iii) add important remarks on some ratios and on the “objectives” of sustainable investments.

I – The asset allocation tree is misleading and contradictory with the regulation

- From a general perspective, the asset allocation tree gives the impression that we represent a breakdown of the portfolio whereas,
 - in the precontractual, we take **minimum** commitments, which naturally don't add up to the percentage of the parent KPI ($\text{min SI-E} + \text{min SI-S} < \text{min SI}$)
 - in the periodic report, we report actual values of which the sum is often greater than the parent KPI
 - Thus, retail investors looking at the tree get confused by the relationship between the indicators drawn by the tree which does not correspond to the figures written in the tree.
- **The relationship between E/S and SI in the tree contradicts the RTS:** if we follow the tree, the proportion of SI is expressed as a percentage of E/S (E/S is split between SI and non-SI but still E/S). On the contrary, it seems quite clear in the regulation that the proportion of sustainable investments should be expressed as a percentage of the total assets of the product.
- **The relationship between SI-E and SI-S is artificial:** when using systematic methodologies to define SI (and thus fight the greenwashing risk resulting from qualitative arbitrations), companies can and will be qualified through both E and S criteria.
- **The relationship between SI-E-Taxo and SI is contradicting recent clarifications from the EC:** as it was clarified by the EC in its FAQ on Taxonomy, an issuer can have a Taxonomy alignment percentage while not being considered a sustainable investment under SFDR. This renders the relationship between SI and Taxonomy as presented in the template fundamentally false, as we could totally have more Taxonomy alignment than SI in a portfolio (e.g. a portfolio with 30% Taxonomy alignment because of reported values by energy companies but 0% SI because all these companies use coal power generation in a way that would breach the DNSH of the SI methodology of the manager)
- **The asset allocation tree tries to present concepts of SFDR as included in one another whereas they are independent from each other. Consequently, the asset allocation tree results in a display of information which is misleading at best.**

II – The tree blurs the line between ex-ante and ex-post, intentionality and fortuitous presence, which need to be reclarified

Minimum commitments are about **intentionality**: the asset allocation tree has pushed some regulators to request managers to take minimum commitments on each concepts which could be

found in the portfolio even though there was no intention to have them (i.e. we can invest in stocks that have Taxonomy-alignment for reasons other than their Taxonomy alignment).

III – Key additional elements

- **We recommend to abandon the ratio of “E/S characteristic” as it is misleading for end clients.** This ratio is supposed to inform on the alignment of the product with the characteristics it promotes. However, it has many unintended adverse effects that risk misrepresenting the extra-financial intensity of ESG features to clients:
 - It is ill suited for demanding strategies with several criteria: is the ratio of E/S the union of criteria? The intersection of criteria? If it is the former it loses all substance, and if it is the latter it will reward the less demanding strategies as having less criteria will automatically result in higher ratios, giving to clients the false impression that a product is more demanding than the other whereas it has less criteria.
We believe that the issue that the E/S ratio tries to address (i.e. misrepresentation of the portfolio through communicating on only part of the assets) has already been addressed by the minimum coverage requirement. Today, in some labels, when one of the criteria is a classic better portfolio score than benchmark approach on a KPI, it is always accompanied from a minimum coverage requirement (usually between 75% and 90%) to ensure that the score of the portfolio has been measured on a material share of the portfolio. In addition, the minimum coverage allows to take cumulative commitments on several indicators while the E/S ratio can’t manage it in a convincing way.
- **We recommend to abandon the ratio of “Sustainable Investments with an Environmental objective that are not aligned with the EU Taxonomy” as it supposes a mathematical link between SI and Taxonomy which has been clarified the European Commission as possible but not necessary.** Indeed, when the SI notion has been implemented through a “pass/fail” methodology there are many companies that have some degree of Taxonomy alignment but that are not qualified as sustainable investments (either because they don’t pass the DNSH due to their non-aligned activities or practices, or because their positive contribution is not material enough), this ratio does not make sense as it tries to link two independent concepts. One way of calculating it consists in subtracting a revenue percentage from a sum of “pass/fail” (i.e. Taxo “-“ SI-E) and can result in negative figures. The other way of calculating it consists in recomputing the “pass/fail” tests of SI but without the EU Taxonomy indicator; however, in this case, the sum of SI-E-Taxo-Aligned with SI-E-Non-Taxo-Aligned will not be equal to SI-E which will be even more confusing for clients. Lastly, the fact that the precontractual template foresees a minimum commitment on this KPI seems very strange as it can be breached either because there are not enough SI-E in the portfolio or because there is too much EU Taxonomy alignment: to respect the minimum commitment we could be forced to sell companies in portfolio because there are too much aligned with the EU Taxonomy which seems quite at odds with the objective of capital reallocation of the whole regulatory package. Therefore we strongly advise to discard this indicator.
- **The regulation needs to differentiate between the objectives of the sustainable investments at company level and at product-level because this can get very confusing for clients.** At company

level, we can easily identify the positive contribution criteria that led to the positive alignment of the company with the EU Taxonomy or to their qualification as SI (be it partial or full) – in other words, we could call this the sustainable investments objectives of this company. However, at the level of the fund, the EU Taxonomy pocket or the Sustainable Investments pocket are in the vast majority of the cases agnostic: what is important is to have e.g. at least 15% of Taxonomy alignment in the product, but these 15% will be randomly composed of CCM, CCA etc. In addition, as companies would report some degree of alignment with CCM, CCA etc. it would be near to impossible for a fund to ex ante commit to a breakdown of its Taxonomy commitment on the subobjectives. It is the same for the split between SI-E and SI-S, what is important is the existence and size of the sustainable investment pocket as a whole, not the split between E and S which is fortuitous in the majority of cases. What's more, the more commitments there are, the more challenging it is to take them at meaningful levels (e.g. because you can only replace an SI-S with an SI-E), reducing in turn the demandingness of financial products. While ex-post reporting can be extremely granular, ex-ante commitments should be focused on few indicators to ensure that they can be demanding and thus meaningful. Thus, while the notion of "objective" makes sense at the level of the methodologies applies to the analysis of companies, it is less relevant at fund level and even more so for generalist Article 8 products for which the objective is often only to have a generalist SI or Taxonomy pocket, as opposed to a pocket pursuing a particular objective.

We believe that ex-ante commitments should signal intentionality from the investment manager. As such, we do not see the added value of reporting on SI-E or SI-S for products for which we commit to an agnostic sustainable investment pocket (the important element here being the share of sustainable investments, not the fortuitous split between E and S).

As a consequence, we propose to:

- **Discard the asset allocation tree in all templates**
- **Assume the independence of the different ratios (especially SI and Taxonomy)**
- **Discard the E/S ratio**
- **Discard the split between SI-E and SI-S (of particular importance in the precontractual templates, they could be kept in the reporting templates even though it is not clear what informational value they bring in the absence of intentionality)**
- **Discard the SI-E-Non-Taxo (of utmost importance in the precontractual template as we do not wish to be forced to sell stocks because their Taxonomy alignment increases) – should it be kept in the periodic report templates, more guidelines should be provided on the calculation methodology**

<ESMA_QUESTION_SFDR_33>

Q34 : 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>

| While the use of colours might seem to be a good idea to visually distinguish the sustainable features of the products, it becomes obsolete when the documents are printed in black and white. To address this issue, we would rather recommend the permanent use of icons with a strikethrough as it is already proposed for the commitment to making sustainable / EU Taxonomy investments. |

<ESMA_QUESTION_SFDR_34>

Q35 : 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>

| We agree with the ESAs approach to allow the possibility to use a layered approach where the consumer can click on the main questions (ie. those accompanied by an icon) to open the associated section. Improved readability and simplicity are necessary for consumers given the current complexity and length of the templates.

However this will require huge IT developments that should be anticipated and planned. Versions should also be dated. |

<ESMA_QUESTION_SFDR_35>

Q36 : Do you have any feedback with regard to the potential criteria for estimates?

<ESMA_QUESTION_SFDR_36>

| As a general comment, and given the difficult access and availability of relevant data, it is crucial to allow financial market participants to rely on estimates, when necessary and whether it is at entity or product level. Transparency on the methodology used by FMPs should accompany such disclosure. |

<ESMA_QUESTION_SFDR_36>

Q37 : 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>

| From our perspective, there is no need for a more specific definition of the concept of “key environmental metrics” to prevent greenwashing. |

<ESMA_QUESTION_SFDR_37>

Q38 : 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>

Specific rules on the calculation of the proportion of sustainable investments of financial products do not seem appropriate, as illustrated by the approach recommended by the EC which recognizes the need to assess several elements in order to form an informed view.

Indeed, we use the 13 June 2023 European Commission Q&A on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation: “...if a financial market participant (FMP) invests in an undertaking with some degree of taxonomy-alignment through a funding instrument that does not specify the use of proceeds, such as a general equity or debt, the FMP would still need to check additional elements under the SFDR in order to consider the whole investment in that undertaking as sustainable investment. This means that the FMP would still need to: (i) check whether the rest of the economic activities of the undertaking comply with the environmental elements of the SFDR DNSH principle; and (ii) assess whether she/he considers the contribution to the environmental objective sufficient”

<ESMA_QUESTION_SFDR_38>

Q39 : 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>

We strongly agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload. The current approach is operationally difficult to implement and will lead to customer receiving unnecessary volumes of information, often in print due to the national approach for the implementation of Solvency II in many member states.. However it should be possible to include a single link to the website page that includes all the relevant annexes. Indeed providing a link for each annex does not seem operationally feasible and will also be clearer for the customer who is likely to receive the periodic information on a paper format. Annexes would be clearly identified on the website to make sure that customers can easily access the information.

It should also be possible to point to the prospectus. Indeed asset managers usually do not separate the annexes from the whole prospectus document.

<ESMA_QUESTION_SFDR_39>

Q40 : Do you agree with the proposed website disclosures for financial products with investment options?

<ESMA_QUESTION_SFDR_40>

We agree with the fact that website disclosures should include a list of the investment options that qualify the financial product as a financial product referred to in Article 8(1) or 9(1), (2) and (3) SFDR. The list should be accompanied by the hyperlink to the precontractual annexes.

However we disagree with the proposal to include a general summary of the financial product with underlying investment options (article 49d). This information would not be relevant at product-level, as a client can chose the options he wishes to invest in. We are also against further summaries of the underlying investment options and additional details. Indeed precontractual annexes already provide synthetic and clear information. Adding summaries will only increase burden for financial market participants without adding real value for consumers.

More importantly, it is the role of financial intermediaries to assess the sustainability preferences of their clients and then propose the relevant product with the appropriate mix of investments options corresponding to those preferences. This requirement will be complemented by the introduction of compulsory training on sustainable finance and sustainable products for financial intermediaries. |

<ESMA_QUESTION_SFDR_40>

Q41 : 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>

We generally support the proposal which should apply to investment options for which issuers are subject to SFDR regulation but should not apply to other financial instruments mentioned in the Annex III of MIFID |

<ESMA_QUESTION_SFDR_41>

Q42 : 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>

| There is no need to modify the format or the level of standardisation of pre-contractual disclosures to make them machine readable. The impact of these changes on the template and therefore on consumers' understanding of the documents is not clear, while duplicating manufacturers' requirements by asking them to provide equivalent figures in a different format would not simplify the already burdensome pre-contractual requirements.

This would lead to increased costs for FMPs (and ultimately for consumers) without any improved benefit for consumers. Providing, collecting and keeping updated machine-readable information at product level is even more demanding than providing data at entity level, as thousands of pre-contractual documents are produced and subject to review and revisions, while reporting is developed once a year by each entity. The SFDR templates are already published on FMPs' websites as PDF files. In some countries, National Competent Authorities are accepting receiving the templates in PDF format to comply with certain pre-notification requirements (eg. for the PRIIPs KID). |

<ESMA_QUESTION_SFDR_42>

Q43 : 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>

| N/A |

<ESMA_QUESTION_SFDR_43>