Insurance Pension Denmark response to the review of the SFDR disclosures

Insurance and Pension Denmark (IPD) would like to thank the ESAs for the work that have been done in line with the mandate for this review. IPD would like to thank for the opportunity to provide our comments on the ESA's proposed amendments to the SFDR RTS.

IPD support the efforts to clarify and align with other relevant regulation. We welcome the intention to address the technical issues that have emerged. However, we see a need to highlight a number of serious issues:

Firstly, we'd like to point out that we believe it's yet too early to give a proper assessment of impact and costs as the full reporting requirements have only started in January 2023. Many Financial markets participants (FMPs) are about to issue their first PAI-statement.

We are increasingly alarmed that there appears to be very little awareness by policymakers of the need for new regulation to be implemented by the undertakings concerned. This tendency has become particularly evident in the development of the SFDR, e.g., the changes made to the SFDR templates in February 2023 with an implementation period of only three days.

In our view, it is part of the tasks of the ESAs, being nearest to the realities of the industry, to raise the awareness of policymakers, especially the EU Commission, to the fact that the implementation of new rules requires time and effort on the part of FMPs.

The ESAs should reconsider whether the changes currently proposed are necessary at this point in time. In line with SFDR Article 19, the EU Commission is currently evaluating possible changes to the SFDR at Level 1. A legislative proposal for such changes is expected in 2023 and therefore any changes to the RTS would risk being outdated soon after they are imple-

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mented by FMPs. To avoid such redundant implementation efforts, we suggest using the insights gained in the course of this consultation and the consumer testing to continue the work on the evaluation and improvement of the SFDR at Level 1 and preparing any subsequent changes to the RTS.

Secondly, the data infrastructure is still not in place. IPD would therefore stress the need for raising awareness of the disclosure regulation and the need to ensure the "regulatory infrastructure" linking FMPs data needs in order to report in accordance with SFDR and the reporting from investees after the CSRD ESRS requirements. The PAI reporting in the SFDR should be based on the investee companies' ESRS reporting – and in particular, the timeline for any new requirements must be in line with the timeline of the CSRD.

In addition, we would like to highlight the fact that the European Sustainability reporting Standards (ESRS) are not final at this time.

With the new extended materiality approach in the European Commission's draft delegated act to the European Sustainability Standards, we fear that all the necessary information might not be available. The FMPs needs to be able to base its reporting on the data reported according to ESRS. It would undermine the whole concept of the ESRS if the FMPs ends up demanding separate reporting and additional information from undertakings reporting after the ESRS. Hence the FMPs need to be able to base their reporting on the following crucial precondition:

"*If an undertaking provides no reporting in the ESRS on a specific disclosure requirement this equals a qualified zero/ neutral non-detrimental value. The financial institutions may therefore base their reporting according to SFDR on the information being a qualified zero / neutral non-detrimental value."* The FMPs shall not be required to seek data in another manner.

We call on the EU Commission to issue a clear and unambiguous statement to the ESAs and to the national supervisory authorities stating that they must accept that FMPs apply a materiality principle when reporting according to SFDR. Thus, when an investee does not report on an ESG impact under ESRS because it is considered immaterial by the undertaking and its auditor, the FMPs shall not be required to include these immaterial impacts when reporting on their investing activities according to SFDR. If needed, the European Commission should as well initiate any necessary legislative actions to clarify this treatment immediately.

It is our understanding that we can soon expect the EU Commission to review the level 1 regulation of the SFDR. This upcoming review should be held in mind when assessing whether changes and new elements and disclosures should be introduced at this time. The SFDR is an important piece of regulation, a part of the larger set of regulatory initiatives (including CSRD, Taxonomy regulation and the upcoming CSDDD and ESAP) which are combined. The infrastructure between these different sets of regulation is still not in place. Therefore, now is not the time for adding further requirements – but the time for focusing on ensuring the data infrastructure between the different sets of regulation and for ensuring that the regulation already in force can be brought to work and fulfill its purpose.

Thirdly, we find that the fact that some FMPs are required to publish their periodic SFDR-reports on investment products in the annual report results in an unlevel playing field in relation to the accessibility and distribution of the periodic reporting. This problem pertains in particular to the FMP-category "providers of pension products" which covers a great deal of Danish pension providers. It should be ensured that the anticipated increase in accessibility and usability from the proposed changes – e.g., with disclosures being extendable on click - benefits all FMP's. Further, for some FMP's the periodical reporting is very long, due to the extensive disclosure requirements, it should therefore be evaluated whether the annual report is the right place for this information.

This public hearing is conducted while FMP's are still finishing their first PAI reporting which makes it difficult to evaluate already the PAI indicator reporting. The regulation and the RTS have resulted in a need for a rather large number of Q&As which is not a preferable approach to regulation. If the proposed amendments are adopted, it must be made clear which Q&As are affected and the updated and consolidated Q&As should be published together with the new RTS. This would be an important tool to support the FMP's. We suggest that the ESAs and the EU Commission follow up with further guidance both aimed at FMPs and for the consumers and the investee companies. This could be done with inspiration from the educational videos to the draft ESRS which EFRAG have made publicly available on their website. We have participated with great interest in the ESA's online webinar regarding this hearing in early June which gave great insights. An additional online webinar should be considered as an implementation tool when changes to the RTS have been adopted.

Keeping the new EU initiative on proposals to simplify reporting requirements and reducing them by 25 pct in mind, changes to requirements aiming at improving simplicity, readability, and usability of the SFDR templates are welcomed – where existing requirements do not add needed value. The Investment tree is an example of a requirement which in fact does add value and should not be removed.

Last by not least any changes to existing regulation must be thoroughly tested both by FMP's and by users. In a due process the consumer testing should have been done before the public hearing, in order to ensure transparency and ensure that the results have been taken into consideration in the process of making the proposed amendments. It is crucial that reporting in accordance with SFDR are usable for retail customers for whom it is intended. – IPD therefore stress the need for a focus on ensuring usability rather than on adding more information. The main focus should be on ensuring the quality and usability of the reporting in accordance with the existing requirements and not on expanding the disclosure requirements.

If our provided answers give rise to questions or a need for explanations, please do not hesitate to reach out to us.