**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-1). 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 | Deepki |
| Activity | Deepki is the European leader in ESG SaaS platform for Real Estate. Leveraging its SaaS platform along with its in-depth real estate expertise, Deepki accompanies Real Estate players all the way from data collection & reporting to ESG strategy & implementation to accelerate net zero transition in the Real Estate Industry.Deepki operates in five European countries (France, UK, Italy, Spain, Germany) for key clients (such as insurance companies, fund managers and investment firms). Deepki also supports its clients as consultants on ESG regulations such as SFDR and Taxonomy. Our expertise and our frequent exchanges with financial market participants bring us to answer this survey. |
| Are you representing an association? | No |
| Country/Region | France |

**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>

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<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>

Deepki considers it relevant to apply social indicators on the real estate sector since the real estate sector has a non-negligible impact on societies. Other regulations already highlight the social impact of Real Estate, and financial actors will have to report on it. For instance:

* the draft sector classification standards (ESRS SEC1) of the CSRD mentions the “indoor environmental quality concerns that can impact the health of occupants.”
* The draft social taxonomy defines as one of its sub-objectives “access to housing” promoting “adequate, safe and affordable housing”.

For now, there is no social indicator as widely accepted as the GHG emissions for the environmental pillar, but several social indicators can be relevant for the Real Estate sector. For instance, we are convinced that the respect of health and safety measures within buildings and accessibility are fundamental. At Deepki, we have also noticed that real estate actors are increasingly asking for social indicators related to the comfort and well-being within buildings.

More concretely, we support the development of social PAIs such as:

* health and safety measures within buildings (during both construction and operational phases), including air quality and salubrity,
* accessibility and mobility: building fully adapted to receive disabled and elderly people, proximity and frequency of public transports, typology, and quantity of surroundings services (shops, health care services, etc.)
* comfort and well-being within buildings (including good temperature, acoustic comfort, etc.)

However, defining social PAIs with specific measures might be difficult if we take into consideration the different asset types (residential, offices, warehouses, etc.) and actors (asset managers, property managers, facility managers, tenants). For this reason, we prefer not to suggest detailed indicators.

Moreover, applying social indicators for the real estate, and thus on assets, might be difficult since most social indicators cannot be disconnected from the company that operates the asset, tenants living or working in the building, and stakeholders involved in the neighborhood. We then suggest defining social PAIs that could apply on intrinsic properties of the assets but also on how it’s operated by the owner.

<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>

Deepki agrees on harmonizing the definition of inefficient assets with the Taxonomy requirements. Most of our clients are already working to assess their Taxonomy-alignment so they are familiar with the criteria and required evidence.

Most of the buildings now have an EPC (as required by the EPBD) but we sometimes notice difficulties for our clients to collect and monitor all EPC related to their portfolio (follow up of expiry dates and renewals of EPC, presence of several EPC in some buildings - one per unit when landlords restructure only their units). Moreover, EPC are calculated based on an assessment of the building’s future consumption which sometimes does not reflect the real energy performance of the building. Furthermore, EPC are not harmonized in the EU (a C-grade EPC doesn’t necessarily represent the same consumption in France and in Italy) so the same asset could be graded differently (and considered performant or not) in two distinct countries which creates incomprehension from our clients who manage European real estate portfolios.

On the other hand, the criteria related to a reference benchmark in terms of primary energy demand (top 30%) can also create other asymmetries due to the presence of several benchmarks on the market built on different methodologies (that thus can conduct to distinct valuations of the asset performance). That is why, with our partners, we have developed our own benchmark on final and primary energy and carbon performance with the aim of creating a European ESG index (accessible freely online at https://index-esg.com/).

Taking into consideration pros and cons of both criteria, Deepki agrees on disclosing PAIs based on the two cumulative conditions (EPC C or top 30%).

In the longer term, our conviction is that a comparison to a benchmark in both final energy and CO2eq would be more relevant given that a growing number of regulations and reporting frameworks are already requiring this information. The energy performance of a real estate asset could be assessed through an EPC based on both CO2eq and final energy and with a unique scale for all State members. Final energy and CO2eq can be easily computed and audited based on energy invoices and do not advantage buildings powered with fossil fuels.

Finally, it would be relevant to require FMP to declare their data coverage when they claim to be among the top 30% or 15%. For instance, a building could be energy efficient on landlord-controlled areas with a lack of data on tenant-controlled areas and seems totally energy efficient even if not all data have been collected. Thus, we consider it important to declare the coverage for energy data and the percentage of estimated energy if applicable on top of benchmarks regarding top 15% or 30%. Disclosing the coverage should not deter FMP from reporting on PAIs but increase transparency on a metric for which we know it’s difficult to collect 100% of real data.

Another important point on the “inefficient real estate assets” indicator is the lack of clarity of the definition of the PAI mentioning “C and below” EPC without indicating if C is accepted or not, and neither if “C and below” refers to more performant or less performant buildings in terms of energy efficiency. Deepki strongly recommends the ESA to clarify this definition as real estate actors are often confused by this indicator.

 <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>

Deepki welcomes the clarification of the PAI indicators specific to real estate.

Nevertheless, some formulae applied to the real estate sector are still unclear or not aligned with the market practices.

Indeed, the definition of “inefficient real estate assets'' is creating a lot of confusion in the market because the right part of the numerator is referring to efficient real estate assets (“PE demand below NZEB”). It is therefore unclear whether the EPC of C should be considered as an efficient asset or not. Deepki’s interpretation is that a real estate asset with EPC of C should be considered as efficient and thus excluded from the calculation. A clarification from the ESA on the topic would be much welcomed.

Moreover, Deepki thinks that the indicators related to GHG emissions are not well adapted to the real estate sector which monitors the GHG emissions intensity by square meter (kgCO2e/m2). Deepki recommends adapting the GHG emission indicators to the real estate specificities:

* The baseline for GHG reduction targets, as required by article 14a, should be measured in GHG emissions per square meter and not related to the current value of investments since it is not material for the real estate sector.
* The indicator 18 of table 2 “Real estate GHG emissions” could also be measured in GHG emissions per square meter for a better alignment with the decarbonation pathways used in the real estate sector.

<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>

RTS are not clear enough on if Annex I of RTS must be filled only at entity level or if they also should be disclosed on the website at product level for Art. 8 and 9 SFDR. To increase coherence regarding sustainability approach, all Art. 8 and 9 products should be obliged to consider PAIs at product level and to disclose them.

Moreover, we suggest adding a column to the Annex I regarding data coverage so that for each indicator (for instance, exposure to energy in efficient real estate assets, energy consumption intensity, GHG emissions, etc.) FMPs report their coverage. Indeed, we have noticed that for investments Real Estate assets primary energy consumption or EPC are not always provided by Property or Facility Managers, so the coverage is not always good. The coverage can affect the value of the indicators since Property and Facility managers will more easily collect data from best performing assets (due to their submission to GRESB, certification or other initiative that require specific reports on ESG performance).

On top of coverage, FMP should disclose for each indicator the percentage of data that has been estimated and how (e.g. like-to-like consumption, equivalent for EPC when not available or expired) to distinguish real and estimated consumption.​​ Disclosing the coverage should not deter FMP from reporting on PAIs but increase transparency on metrics for which we know it’s difficult to collect 100% of real data.

<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>

We suggest adding a column to the Annex I regarding data coverage (e.g., on energy consumption or regarding EPC) for each indicator.

Regarding real estate assets, we propose to require the share of information that has been provided by the property or facility manager regarding real data (e.g., emissions calculated through real energy consumptions, EPC, vegetated surfaces, etc.) and the share of information that has been estimated. Disclosing the coverage should not deter FMP from reporting on PAIs but increase transparency on metrics for which we know it’s difficult to collect 100% of real data.

<ESMA\_QUESTION\_SFDR\_11>

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

<ESMA\_QUESTION\_SFDR\_12>

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<ESMA\_QUESTION\_SFDR\_12>

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

<ESMA\_QUESTION\_SFDR\_13>

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<ESMA\_QUESTION\_SFDR\_13>

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

<ESMA\_QUESTION\_SFDR\_14>

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<ESMA\_QUESTION\_SFDR\_14>

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

<ESMA\_QUESTION\_SFDR\_15>

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<ESMA\_QUESTION\_SFDR\_15>

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

<ESMA\_QUESTION\_SFDR\_16>

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<ESMA\_QUESTION\_SFDR\_16>

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

<ESMA\_QUESTION\_SFDR\_17>

We agree with the ESA. FMPs are free to select the criteria they will apply to assess the DNSH which makes comparison among products more difficult, thus further guidance should be provided.

<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>

We rather disagree with the definition of thresholds in a short- or medium-term approach because it would be too difficult to meet all requirements to be classified as Art. 8 or 9 products. We prefer to encourage transparency and encourage all FMP to consider and disclose PAIs so that investors know when they invest in a product that it might have some negative impacts but that the company is working on reducing them. Indeed, PAIs already require reporting historical values and to provide information on actions already implemented or to be taken to reduce those negative externalities.

However, the SFDR should be clearer on the fact that Art. 8 and 9 products should consider PAIs because not all companies offering sustainable products are obliged to consider PAIs (due to the 500 employees’ threshold). Indeed, to offer sustainable products, we consider that FMP should be obliged to disclose their PAIs for those products to stay coherent (promoting sustainable products should necessarily include the assessment and mitigation of potential negative impacts).

More attention should be also given to the methodology used to aggregate PAIs at entity level (some clients due it based on the market value of the underlying assets, others on the floor area) which might lead to misleading disclosures.

We also consider that the DNSH should not only refer to PAIs and to environmental indicators (as it is currently for the real estate assets) but also to ensure social minimum requirements are met (e.g., living conditions in the buildings, working conditions during construction/renovation works, safety and security, etc.)

<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>

We agree with the creation of a standardized statement affirming that certain economic activities that comply with the EU Taxonomy do not require further environmental DNSH disclosures. It would reduce the time required to perform further assessment and produce additional documents.

Regarding the assessment of real estate assets, there is no real distinction between the investment level and the activity level (the EU Taxonomy defines as an activity the “acquisition and ownership of buildings”) so EU taxonomy criteria are applicable in both cases.

<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>

We agree on harmonizing as much as possible on the long-term basis the SFDR and Taxonomy requirements, especially regarding the DNSH. Regarding the assessment of real estate assets, there is no real distinction between the investment level and the activity level (for instance the EU Taxonomy defines as an activity the “acquisition and ownership of buildings”) so EU taxonomy criteria are applicable in both cases. Using the same criteria to perform the DNSH assessment would improve transparency and reduce workload.

<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>

The DNSH assessment should be disclosed by the company instead of only explaining how it ensures that the DNSH requirement has been met. For instance, in order to provide further details without increasing too much the disclosure requirements, FMP should be asked to have and disclose on their website their exclusion policy (with criteria to be applied before investing in an asset/company) and their ESG scoring (precising the categories assessed and the related KPI without requiring the value obtained for each category in order to understand the assessment process without disclosing data potentially sensible).

<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>

Even if CO2eq emissions are now the key indicator to assess the impact of an entity or product on climate change, many companies, especially small real estate companies still face difficulties to compute the Scope 1, 2 and 3 emissions of their assets since several actors are involved in the data collection process (including tenants that might not agree on sharing their energy invoices). Without a dedicated automated system GHG computation and monitoring is not doable for FMP but many tools are now available to assess actual emissions (e.g., GRESB), set targets (e.g., CRREM) and report on it. Therefore, the proposed disclosure seems to be a right balance between the requirement of the investor and the capacity of the FMP to produce reports.

In line with the SBTi, we nevertheless consider that the GHG emission reduction targets should include a base year and indicate the time horizon considered. The current proposition could be amended to include a baseline “This product targets a reduction of \_\_\_% of greenhouse gas emissions in the atmosphere on Scope 1, 2 and 3 by 20XX from 20XX base year”.

Moreover, since GHG emissions are already a complex topic, we recommend not to make disclosure too complex since small asset management companies already have difficulties to cope with all disclosure requirements and the associated data collection. GHG emissions applied to real estate assets should then be disclosed in line with SBTi, PCAF (*Accounting and Reporting of GHG Emissions from Real Estate Operations*, March 2023) or CREEM guidelines. More concretely, emissions should be reported in a whole-building approach and include emissions from fossil fuels, refrigerant losses, electricity, and district heating/cooling and other indirect emissions in order to ensure that all emissions are accounted for (Scope 1, 2 and 3).

Finally, we fully understand the need for a single metric related to GHG emissions to foster comparability, but the indicator suggested in the Article 14a seems not applicable to investments in real estate. Deepki recommends using the GHG emission intensity instead (in kgCO2eq/m2) which is the ratio between the GHG emissions of real estate assets and the surface area of the asset in square meters. This indicator is already widely accepted in the real sector and is used in every GHG reduction pathway in the real estate sector.

<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>

We agree on providing a hyperlink to the benchmark so that all stakeholders can check the data and find further information regarding the methodology.

We also agree on the new version of the RTS templates for Art. 8 and 9 products proposed by the ESAs which include the reference at the top of the Annex II - IV to GHG emission reduction targets. Indeed, the introduction of GHG emissions reduction targets on disclosure can be useful to increase transparency on the market on such important KPI: most companies already report on their GHG emissions for several purposes and setting reduction targets is of the utmost importance to actively fight climate change.

However, some Art. 8 or 9 products might focus on other aspects (either environmental or social) and it might be difficult to differentiate Art. 8, 9 and 9(3) products, especially when GHG emissions are monitored without being the main characteristic or objective of the fund. From the Annexes II-IV it seems that the difference between Art. 9 (3) and Art. 8 or other Art. 9 products are the fact that all could set GHG emissions targets but only Art. 9 (3) must target Net-Zero emissions by 2050 (*id est* to be aligned with Paris agreement under +1.5°C scenario).

Deepki thinks that a clarification of the ESA is necessary on this interpretation as well as on the perimeter covered by the GHG emission reduction targets: Should GHG emission targets be applied to 100% of the underlying assets of the fund? Should it cover all GHGs for full Scope 1, 2 and 3 of GHG protocol (*id est* for the Real Estate funds, GHG emission should include tenants-controlled areas or emissions from refrigerants ads described by the PCAF guidance - *Accounting and Reporting of GHG Emissions from Real Estate Operations*, March 2023)?

<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>

Yes, we find this distinction very useful and in line with other guidance: for instance, the new SBTi guidance on Real Estate suggests distinguishing GHG emissions reduction reached through divestments (change of perimeter) from implementation of decarbonization actions (on a like-for-like basis). Regarding Real Estate assets, the EU has set high decarbonization targets (see the EPBD directive) so to involve FMPs in the decarbonization of the building stock, we should foster energy efficiency measures and other decarbonization actions, instead of merely divesting in inefficient assets.

<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>

For Real Estate assets, the CRREM (Carbon Risk Real Estate Monitoring) provides enough guidance to monitor GHG emissions in line with Paris agreements (for both +1,5°C and +2°C scenarios) so we suggest all real estate assets align with CRREM trajectories in terms of GHG emission reduction. It is already a reference for the sector, and it would avoid further additional disclosure on GHG emissions.

<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>

Yes, we agree with the proposed approach since the SFDR mainly requires disclosure at product level on an aggregated basis. Setting targets for all investments will help to focus efforts on all underlying investments and will reduce the overall impact at product level.

<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>

We agree on the need to report separately on gross GHG emissions, on GHG removals and on the use of carbon credits (as required by CSRD) since a product might seem carbon neutral thanks to the compensation mechanism without truly promoting low carbon solutions. By disclosing separately all entries, investors would directly see if the company really commits to reduce its emissions by reducing energy consumptions or other impacting actions.

We also agree on basing disclosures only on the PCAF guidance (*Accounting and Reporting of GHG Emissions from Real Estate Operations*, March 2023) to harmonize guidelines. Indeed, as recommended by PCAF, emissions applied to Real Estate Assets should encompass all GHGs in a whole building approach (with both landlord and tenant-controlled areas). We particularly refer to the following quotes of the PCAF guidance:

* “To decarbonize an entire property or benchmark a building’s operational emissions profile against that of its peers, it is crucial to have a complete understanding of all emissions of an asset”.
* “Financial institutions (FIs) shall include all operational emissions from the entire building in GHG accounting as the necessary default.”
* “Net-Zero frameworks [...] recommend the inclusion of tenant-related emissions in the setting of and compliance with targets, regardless of their categorization as scope 3 emissions.”

Clearer guidance should also be provided regarding the accounting of embodied carbon so that companies report them.

<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>

We agree on the need to report separately on gross GHG emissions, on GHG removals and on the use of carbon credits (as required by CSRD) to harmonize disclosures (under both CSRD and SFDR) and to improve transparency regarding the achievement of net zero emissions. Indeed, such a split should better reward companies investing in renovation or low-emission buildings who have a real positive impact on the European building stock (compared to companies simply improving their portfolio by divesting in low-performing assets without having a real impact on the environment).

<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>

We do not suggest asking for such additional disclosure since it might require a high additional workload. Moreover, most FMPs manage several typologies of financial products so aggregating indicators at entity level (which might have different weights or indicators in terms of GHG emissions) could create confusions. For instance, an insurance company that sets GHG emission targets will have to report its own corporate emissions and its portfolio emissions (composed of both emissions from investment products and on underwritings). Emissions for each category will be computed in a different way and might follow different GHG emission reduction targets.

<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>

The new version of the RTS templates for Art. 8 and 9 products proposed by the ESAs provide clearer information on the main aspects of the product.

However, as mentioned in question 22, we consider that information regarding GHG emission reduction at the top of Annexes II-V should include a base year and indicate the time horizon considered (e.g., 2030, 2050). We suggest reviewing the sentence in line with SBTi guidance: “the fund commits to reduce its Scope 1, 2 and 3 GHG emissions of *X%* by *20XX* from *20XX* base year”.

As already mentioned in Q22, the indicators on GHG emission should be adapted to the specificities of investment in real estate where the only metric used is in kgCO2eq/m2.

<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>

Yes, we agree with the new dashboard on the templates and the part regarding GHG emissions reduction targets. However, we suggest to keep the question regarding the benchmark (especially regarding the methodology) and to propose to provide further information through a hyperlink when needed. We also suggest keeping the graph with the asset allocation (to easily see the share of each category of investments).

<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>

We don’t have specific suggestions but we notice the difficulty of some small asset management companies to produce the disclosure and collect all relevant information, so we suggest not to add too many additional disclosure requirements.

<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>

The investment tree remains useful to have a view on the asset allocation in both pre-contractual and periodic disclosure of the product since it enables better understanding of the percentage of investment for each category. Moreover, a product might have a small percentage of alignment to Taxonomy activities but still a high percentage of sustainable investment (either in the “social” or “other environmental” categories”)

<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>

Yes, we agree, it is easy to compare products among each other.

<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>

No, we rather disagree because some actors will try to automatize the reading of these documents and extendable parts could be difficult to read.t might be easier to look for information if the document is available online with the possibility to download it in PDF and to search for keywords.

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_36>

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

<ESMA\_QUESTION\_SFDR\_37>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_37>

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

<ESMA\_QUESTION\_SFDR\_38>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_38>

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

<ESMA\_QUESTION\_SFDR\_39>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_39>

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

<ESMA\_QUESTION\_SFDR\_40>

TYPE YOUR TEXT HERE

<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>

TYPE YOUR TEXT HERE

<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>

Using a machine-readable format can ease controls from supervisory authorities and might support FMPs that manage funds of funds when it comes to collect and aggregate a lot of data. However, preparing such information should not create additional work for FMPs. The ESAs should only provide templates/formats that are easy to use and to fill.

<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>

TYPE YOUR TEXT HERE

<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-1)