**Reply form**

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

 12 April 2023ESMA34-45-1218

**Responding to this paper**

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

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

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

**Instructions**

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

* Insert your responses to the questions in the Joint Consultation Paper in this reply form.
* Please do not remove tags of the type <ESMA\_QUESTION\_SFDR\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
* If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
* When you have drafted your responses, save the reply form according to the following convention: ESMA\_CP SFDR Review\_nameofrespondent.

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

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

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs’ rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725[[1]](#footnote-2). Further information on data protection can be found under the [Legal notice](http://www.eba.europa.eu/legal-notice) section of the EBA website and under the [Legal notice](https://eiopa.europa.eu/Pages/Links/Legal-notice.aspx) section of the EIOPA website and under the [Legal notice](https://www.esma.europa.eu/legal-notice) section of the ESMA website.

**General information about respondent**

|  |  |
| --- | --- |
| Name of the company / organisation | Climate & Company |
| Activity | Non-financial counterparty |
| Are you representing an association? |[ ]
| Country/Region | Germany |

**Questions**

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

<ESMA\_QUESTION\_SFDR\_1>

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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>

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<ESMA\_QUESTION\_SFDR\_6>

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

<ESMA\_QUESTION\_SFDR\_7>

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<ESMA\_QUESTION\_SFDR\_7>

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

<ESMA\_QUESTION\_SFDR\_8>

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<ESMA\_QUESTION\_SFDR\_8>

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

<ESMA\_QUESTION\_SFDR\_9>

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<ESMA\_QUESTION\_SFDR\_9>

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

<ESMA\_QUESTION\_SFDR\_10>

The amendments proposed by the ESAs do not yet sufficiently address the **vagueness** of the current set of PAIs indicators, and the lack of **informativeness** of most of the indicators about the real impact caused by FMPs’ investments.

Assessing biodiversity-related metrics is key to understanding the environmental (including climate) impact of investments. The concept of “twin crises” represents this intertwining of climate change and biodiversity: one cannot be solved without the other. The shift of incentives that the financial sector can provide is thus needed on both fronts. While climate change is usually more prominently covered in EU legislation, because more straightforward to measures, this policy brief focuses on biodiversity impacts and the role of financial institutions in addressing these.

Particularly, a specific key biodiversity area where the financial sector has significant impact is deforestation. The financial sector contributes indirectly to deforestation by financing, for example, investments in agricultural expansion at the expense of forests or by promoting consumption patterns that cause deforestation.

Between 1990 and 2020, an estimated 420 million hectares of forest (representing more than 10% of total forest area) were lost due to conversion to other land-uses[[2]](#footnote-3). With at least two thirds of the earth’s terrestrial biological diversity concentrated in tropical forests, loss of primary forests results in the extinction of numerous species. Home to many indigenous and forest communities, deforestation also threatens their traditional use of forests, integral part of their culture and livelihoods. The depletion of forests, which are crucial CO2 sinks, reduces carbon absorption capacity and contributes to overall GHG emissions. Deforestation also affects climate conditions such as rainfall and therefore impacts rain-fed agriculture. Climate change additionally increases vulnerabilities to fire, pests, and drought.

Deforestation can not only massively harm the environment, but also lead to major financial risks: as a significant share of terrestrial biodiversity is harboured by forests, and as these are disappearing, so is the availability of ecosystem services on which many economic activities depend. In terms of the reputational risks, the Dutch Central Bank reports that Dutch FIs alone are exposed to businesses with heightened reputational risks due to products or activities related to deforestation for a total of EUR 97 billion.[[3]](#footnote-4) The new EU Deforestation-free Products Regulation (EUDR), which is will enter into force on 29th June 2023, introduces mandatory due diligence rules for companies that want to place high deforestation-risk commodities on the EU market and thus makes deforestation financially material. Furthermore, the EUDR will increase reputational and transition risks for FIs financing companies trading those commodities.

Deforestation activities may not be identified as risks under the narrow financial materiality approach because deforestation is frequently not happening within direct operations of FIs and may in some cases not be traceable back to the FIs. The traceability problems thus allow deforestation impacts to remain externalities, which cause substantial welfare losses. A double materiality approach to supply chain disclosures and due diligence can increase transparency about firms’ direct and indirect links to deforestation and enable the internalisation of deforestation-related externalities. This rightly increases the range of issues considered as material for FIs and allows them to avoid future important financial risks that they are exposed to.

The criticality of deforestation impacts and risks substantiate the need for disclosure standards’ coverage of deforestation. Empirical evidence shows that mandatory sustainability disclosure can turn into positive effects for sustainable development, such as higher mine safety[[4]](#footnote-5), significant improvements in carbon performance[[5]](#footnote-6) and lower industrial wastewater and Sulphur Dioxide (SO2) emission levels in cities.[[6]](#footnote-7) Investors are increasingly mindful of the massive economic importance of nature and ecosystem services, but they need transparency about the impact economic activities, companies and assets have on deforestation. As the Glasgow declaration of 33 investors as well as the very recent declaration in Sharm El-Sheikh by major food companies shows, there is a strong corporate (financial and non-financial) commitment to halting deforestation.[[7]](#footnote-8) Financial institutions now critically need access to comparable, reliable and quantifiable information for their decision-making.[[8]](#footnote-9)

In this regard, transparency on impacts throughout the value chain is crucial. For high-biodiversity-risk sectors, such as the manufacturing of food and beverage, and construction and materials, the bulk of impact on the environment is located in the supply chain (98% and 70-72% respectively).[[9]](#footnote-10) The lack of disclosures on supply chain impacts means that these impacts will most likely not be considered by FMPs (because not made transparent) and therefore will be left unaddressed. This leads to serious consequences for the financial risks that FMPs face which, even if assessed from a double materiality perspective (i.e., from an “outside-in” or financial materiality perspective and an ‘inside-out” or stakeholder/impact materiality perspective), will be highly undermined if only looking at their direct investee companies’ operations.[[10]](#footnote-11)

The SFDR, as part of the broader EU sustainable finance framework, plays a key role in painting a comprehensive picture of the deforestation and broader biodiversity impacts of investments. However, the PAI indicators insufficiently address these information needs. The following sub-sections highlight the shortcomings of the Disclosure Delegated Regulation both in terms of definitions and indicators used. The EU disclosure and due diligence legislative frameworks currently being developed aim to form an enabling framework for FIs. So, concrete cross-references to ambitious EU regulatory measures to key to increase the feasibility of the SFDR for FMPs.

**Consideration of the value chain in description of indicators and formulas (Annex 1)**

Our first general concern is related to consideration of the value chain within PAI indicators. While we welcome the ESAs’ proposed addition in Article 6 (5) of information on the value chains when made available through the reporting requirements of the CSRD and when readily available, this is not sufficient.

Most of the PAI indicators do not, as it currently stands, provide for a clear indication of the need to consider the value chain of investee companies. The necessity to report on scope 1-3 GHG emissions shows that, at least with respect to climate impacts, the supply chain of investee companies must be taken into account. However, the inclusion of the value chain is incomplete and depends on the specific sustainability factor listed in Annex I of the Disclosure Delegated Regulation.

* We recommend each indicator and the associated formula to be reformulated to concretely include the value chain of investee companies.
* The **PAI indicator on “Biodiversity”** (Annex 1, Table 1, indicator 7) currently considers “*Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas*”.
	+ The limitation to investee companies’ direct operations means that the bulk of adverse impacts on biodiversity, usually happening **upstream in the supply chain**, will not be covered by the indicator.
	+ We thus recommend reformulating it into “*Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas* ***and sourcing from third-party producers with sites/operations located in or near to biodiversity sensitive areas*** *where the activities of those investee companies* ***and their value chain suppliers*** *negatively affect those areas*”.
* The **PAI indicator on “Natural species and protected areas**” (Annex 1, Table 2, indicator 14) encompasses two aspects: “*a) Share of investments in investee companies whose operations affect threatened species b) Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas*”.
	+ However, the indicator does not explicitly specify whether indirect operational effects through the investee companies' value chain are considered. Consequently, it fails to address the negative impacts resulting from sourcing, production, transportation, and distribution activities in the reporting.
	+ To address this limitation, we strongly recommend expanding the indicator to include operations that have a broader impact on species, based on the nine risk categories outlined by the IUCN Red List.[[11]](#footnote-12) This will enable proactive measures to be taken in order to protect vulnerable and near-threatened species. Furthermore, to ensure consistency with the biodiversity and ecosystem change impact metrics outlined in the [ESRS E4](https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F11%2520Draft%2520ESRS%2520E4%2520Biodiversity%2520and%2520ecosystems%2520November%25202022.pdf), the assessment of material impacts on species should also consider the population size and range of the ecosystems affected by investee companies.

**Alignment of definitions and indicators on deforestation and biodiversity with other files**

The ***definition of an “activity negatively affecting biodiversity-sensitive areas”*** (Annex 1 (8)) refers to three Directives and their equivalent at national or international level, for which none of the conclusions, mitigation measures, or impact assessments adopted have been implemented. Our concerns and recommendations regarding this definition include:

* The first issue with this definition is the threshold to “no action”, which indicates that the implementation of insignificant or small-scale mitigation or other types of actions is sufficient to consider an activity as not negatively affecting biodiversity-sensitive areas. Impact on biodiversity should be reported, regardless of whether actions have been taken to try to mitigate the harm caused. Mitigation actions would be reported on a yearly basis in column 6 ("Actions taken, and actions planned and targets set for the next reference period”) and should hopefully lead to results to be reported in column 3 (”Impact [year n]”)
* An improvement to this definition would be to include a reference to the [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](http://mneguidelines.oecd.org/mneguidelines/), which were very recently updated. The SFDR already refers to the OECD Guidelines in its due diligence requirements (*Recital (18) of the SFDR and Article 22 (a)(ii), Article 26 (2)(b) of the Disclosure Delegated Regulation*), so the updated version should now be referenced instead. Furthermore, the updated Guidelines include clearer expectations for companies to carry out risk-based due diligence to assess and address adverse environmental impacts, particularly pointing at biodiversity loss, degradation of land and deforestation, among others. The draft [ESRS 1](https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F06%2520Draft%2520ESRS%25201%2520General%2520requirements%2520November%25202022.pdf) from the European Financial Reporting Advisory Group (EFRAG) also refer to the OECD Guidelines for their due diligence process.
* Furthermore, the definition does not make reference to the upcoming Corporate Sustainability Due Diligence Directive (CSDDD), where financial and non-financial corporates would (not yet adopted) be required to take actions to mitigate impact on biological resources (as part of one of the violations of the [Annex I part II of the CSDDD](https://commission.europa.eu/system/files/2022-02/1_2_183888_annex_dir_susta_en.pdf)). A potential lack of action to mitigate negative impact on the use of biological resources will be made transparent under the CSDDD and should thus be used by investors. Adding the CSDDD as a Directive under this definition would increase policy coherence.
* The ESRS E4 on Biodiversity, although currently proposed by the EU Commission as a voluntary standard, subject to a materiality assessment, would be a relevant reference framework for metrics on activities that harm biodiversity.

Regarding other biodiversity-relevant definitions, we support the **reference to the ESRS E4** for the definitions of “**land degradation**” and “**desertification**”, which is a helpful approach to increasing coherence between the SFDR and CSRD/ESRS.

Both the ESRS and SFDR define ‘**deforestation’** as ‘temporary or permanent human-induced conversion of forested land to non-forested land’, reflecting the UN’s Food and Agriculture Organisation’s (FAO) definition. However, there is no reference to the definition of deforestation in the [**EU Deforestation-free Products Regulation (EUDR)**](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R1115)**,** which is the most stringent piece of EU legislation on deforestation where considerable thoughts have gone into deciding the definition of deforestation. This is a missed opportunity to increase policy coherence and to allow for more comparability of information. The EUDR covers the most important forest-risk commodities. Furthermore, the EUDR will be subject to various reviews to potentially extent the scope of lands, ecosystems and commodities covered by the requirements of the Regulation. So, an explicit reference to this evolving Regulation will hopefully enable a broader scope of ecosystems to be covered by the disclosure requirements of the SFDR. The disclosure requirements ESRS E4 already address ecosystem conversion in a broader sense (beyond deforestation). The concept of ecosystem conversion is not covered in the SFDR yet. In the interest of further alignment between EU disclosure policies, we recommend the ESAs to add this concept in the scope of PAI of the SFDR.

Lastly, the **indicator on deforestation is not informative** (“*Share of investments in companies without a policy to address deforestation*”, Annex 1, Table 2, indicator 15). Providing information solely on whether a company has a deforestation policy in place or not does not offer valuable and precise insights into the effectiveness and impact of those policies..

* Therefore, we recommend including the **EUDR as an explicit reference** in the indicator on deforestation as follows: “*Share of investments in investee companies* ***trading commodities subject to the EUDR fulfilling all compliance requirements AND share of investments in investee companies that voluntary disclose on all (material) disclosure requirements of ESRS E4*”**.
	+ All disclosure requirements of the ESRS E4 are not only about deforestation, but related to it. We recommend the SFDR to provide several incentives through different indicators to require biodiversity disclosures through the ESRS E4 for the purpose of **reinforcing the DNSH assessment** (see Question 21) and the **use of the voluntary ESRS E4**.
* This recommendation is aligned with other established international metrics, such as the indicator recommended by the [Accountability Framework Initiative (AFi) Coalition](https://accountability-framework.org/news-events/news/the-afi-coalition-calls-on-companies-to-disclose-progress-towards-deforestation-and-conversion-free-supply-chains/) for all companies: “proportion of deforestation- and conversion-free (DCF) commodity volumes in the supply chains”.

<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>

At the moment, most of the data is provided by external data providers. Therefore, it is particularly important to make missing data available. To obtain this data, consistency with CSRD/ESRS requirements is important.

At the same time, the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies could increase the incentives for FMPs to try to obtain data directly from companies.

<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>

We appreciate any endeavors made towards aligning with the draft ESRS of the CSRD with the SFDR, and we believe that the suggested amendments put forth by the ESA are a positive stride in achieving this objective. We are worried that focusing only on readily available information could cause two main blind spots:

First, the CSRD is supposed to provide the data basis for FMPs’ reporting under the SFDR. Reliance on readily available data increases the risk that (expected) delays and dilutions of the ESRS spill over into the SFDR. The European Commission’s latest draft Delegated Act has subjected the mandatory reporting requirements on the topical standards (including biodiversity) to a materiality assessment, with questions about the assurance that this assessment is well-executed. There is a danger that this change (from mandatory to voluntary assessment) leads to huge data gaps for the obligatory reporting of the PAI under the SFDR. Additionally, there are still concerns that the European Commission might pursue a climate-first approach with this Delegated Act, potentially resulting in the exclusion of non-climate topical standards (including biodiversity), and significant delays in their finalization until well after the elections. Both risks have been introduced after the ESAs provided their amendments to the SFDR, therefore increasing the importance of their consideration.

Second, the impact of sectors that are dominated by SMEs still fall outside the scope of the CSRD, and therefore their information is unlikely to be readily available. The ESAs suggest using information that is readily available, “for example by third party data providers” (Recital (3)). This is not enough to ensure the value chain is sufficiently covered. Agriculture is a good example of a sector dominated by SMEs outside of the scope of the CSRD, and it is unlikely their value chains’ information is readily available.

The European Commission’s draft Delegated Act for the cross-cutting and topical ESRS provides more guidance and direction to what can be done if the undertaking cannot collect value chain information, making an estimation “using all reasonable and supportable information that is available to the undertaking at the reporting date without undue cost or effort” (ESRS E1 AR 17 (p. 27)). This would not yet solve the issues above, but aligning with this would be a potential intermediate solution (in terms of policy coherence).

<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>

Yes, we agree that the assessment made by the ESAs regarding the significant risks of greenwashing resulting from the current version of the SFDR, where the definition of sustainable investment allows for interpretation. We recognize that achieving alignment between the sector-specific approach of the Taxonomy Regulation and the sector-agnostic perspective of the current SFDR is a complex matter.

The ESAs express their belief that Level 1 reform (of the SFDR itself), is needed to ensure consistency between the SFDR and the EU Taxonomy. While complete resolution of inconsistency issues will require Level 1 reform, the SFDR grants significant authority to the ESAs concerning DNSH disclosure, which should be utilized by the ESAs to address as many issues as possible. Article 2a of the SFDR, which was added by the Taxonomy Regulation, empowers the ESAs to develop Regulatory Technical Standards (RTS) that specify the details of the content and presentation of information related to the principle of DNSH mentioned in Article 2(17) of the SFDR. These RTS should align with the content, methodologies, and presentation of the PAI indicators. While complete alignment with the EU Taxonomy cannot be achieved solely within the SFDR Delegated Act due to the reference to the PAI indicators, the ESAs have explicit authority to define the *content* of the information.

This empowerment should be utilized to enhance comparability of DNSH/PAI indicators. For instance, the ESAs can establish quantitative thresholds or prescribe methodologies for the DNSH criteria instead of leaving this crucial step entirely to FMPs. It would also be possible, within this context, to consider sectoral differences, similar to the approach taken in the EU Taxonomy, thus promoting coherence.

<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 strongly endorse the ESA's proposal to enforce mandatory disclosure of the quantitative thresholds utilized by FMPs. Requiring FMPs to disclose these thresholds not only enhances comparability but could also promote higher levels of ambition in establishing these thresholds. Leaving the threshold of DNSH up to FMPs’ discretion raises significant concerns regarding the generation of comparable and precise data across investments and increases the risk of greenwashing. While the diversity of PAI approaches across sectors, company sizes, and other factors may limit comparability to some extent, we strongly encourage efforts to increase transparency in this regard.

<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 that with this alignment, investment instruments focused on environmentally sustainable activities can be boosted. To guide this, the European Commission has recently released a [working document on EU Taxonomy usability](https://commission.europa.eu/banking-and-finance-website-notice-users_en) as part of its [2023 Sustainable Finance Package](https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en), as well as a recent [Commission notice on frequently asked questions on the links between the SFDR and Taxonomy Regulation](https://ec.europa.eu/finance/docs/law/sustainable-finance-taxonomy-disclosures-faq_en.pdf), both providing guidance on the rules to provide a ‘safe harbour’ for taxonomy-aligned investment to be automatically qualified as ‘sustainable investment’ under the SFDR. However, we see a risk of misunderstanding the concept of a safe harbour and how to implement it, particularly in parallel to non-taxonomy-aligned activities. Further clarification and guidance in the SFDR on the aggregation of DNSH definitions to the financial product level would be highly beneficial for FMPs in implementing this safe harbour option, and for investors in understanding the exact meaning a “sustainable financial product”.

Since Taxonomy-aligned economic activities are separately treated from the SFDR requirements, we see this recourse as an option for FMPs to take an “in-between step” to transitioning fully into EU Taxonomy alignment. However, caution must be taken so that the DNSH criteria identified by the EU Sustainable Finance Platform as inadequate from a usability perspective[[12]](#footnote-13) are avoided, such as criteria that refers only to EU legislation (and hence not applicable outside the bloc) and ‘state ambitions’ that have no clear definition.

While it is challenging to compare the DNSH criteria of the two files considering the taxonomy DNSH is at the activity level and the PAIs of SFDR is at the firm level, we encourage the continuous improvements towards transparency in light of imperfect data.

<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 support the ESA's perspective on the long-term integration of two parallel sustainability concepts, namely the SFDR (Article 2(17)) and the Taxonomy Regulation, and we believe that the EU Taxonomy's Technical Screening Criteria (TSC) should serve as the foundation for the DNSH assessment within the SFDR. The Technical Screening Criteria established by the Taxonomy Regulation provide activity-level criteria that are based on scientific evidence and are specifically tailored to the economic activities carried out by investee companies. This approach facilitates the identification of more detailed sustainability risks associated with the investment impacts of companies falling under the SFDR. It also enables a more straightforward comparative analysis of specific activities between two different investee companies.

<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>

**Linkages to disclosures from the CSRD**:

The CSRD and its ESRS are crucial sources of information for the assessment of whether financial products “do no significant harm”. While some of the PAI indicators already refer to definitions used in the ESRS (see above), we recommend requiring FMPs to base their DNSH assessment under the SFDR on information reported in the topical standards of the ESRS. This requirement would reinforce the DNSH assessment and ensure that it is based on information reported under concrete guidelines, as well as boost the disclosures of non-financial companies under the different topical standards. Creating an incentivize for non-financial companies to disclose information according to the ESRS will address substantial challenges that a voluntary approach to disclosure standards will pose on FMPs. It is imperative that the Commission recognizes the importance of maintaining consistency within the reporting framework and upholds the CSRD provisions to ensure that sustainability standards encompass the information essential for compliance with SFDR.

* For example, for the DNSH criteria of the biodiversity-related PAI indicators (in both Table 1 and Table 2 of Annex II) to be fulfilled, the assessment of FMPs should be based on information disclosed in ESRS E4 on Biodiversity.

<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>

Note that the following response focuses on the amendments made in connection to "Amendments regarding GHG emissions reduction targets". Other comments on PAI indicators (such as investments in ‘activities negatively affecting biodiversity-sensitive areas’) are commented elsewhere.

We welcome the new emphasis to disclose GHG emissions targets and the required narrative explanation on how to achieve these targets: A) by divesting from carbon intensive companies; B) by investing in companies that are expected to deliver GHG reductions over the duration of the investment; and C) by engaging with investee companies. This distinction recognises the completely different mechanisms of investor impact. While the first (A) focuses on achieving a reduction in financed emissions, for example by reallocating investments to less CO2-intensive companies, the second (B and C) emphasises investing in firms with credible transition plans and employing an active engagement process, with a particular focus on carbon-intensive companies. Both strategies could imply different results in terms of actual GHG emissions reductions in the real economy. For example, by solely looking at financed emissions, the need for investments in GHG intensive companies with viable transition plans would be neglected.

While streamlined reporting on GHG emissions targets allows comparison between financial products, we suggest including further metrics that describe the divestment strategy (channel A), the “transition willingness” of GHG intensive firms (channel B) as well as the engagement efforts of the FMP (channel C). This provides retail investors with decision-relevant information about the likelihood that investee companies will deliver GHG reductions over time, as well as the efforts that FMPs undertake via engagement or capital reallocation.

Channel A (Divesting from carbon-intensive companies):

While engagement should be the first step to incentivise and require investee companies to change their behaviour and business practices (the carrot), divestment serves as a threat in case engagement is not successful and actions are not taken (the stick). This distinction aligns with the CSDDD. The EU Commission’s proposal for a Corporate Sustainability Due Diligence Directive (CSDDD) acknowledges that engagement and divestment make up a two-step approach. The European Commission also recognises the importance of trying to exercise influence on unsustainable practices before disengaging or divesting. We therefore suggest:

* Disclose on link between divestment and engagement. To explain / disclose on whether divestments from carbon-intensive companies are part of a two-step approach (i.e., whether the divestment has been a response to an engagement approach).

Channel B (description of transition willingness):

Channel B refers to the strategy of investing in companies “that are expected to deliver GHG emissions reductions over the duration of the investment”. But how can investors have more transparency regarding the “transition willingness” of carbon-intensive investee companies? To increase transparency on this topic, we suggest including additional metrics. To keep the disclosure targeted and feasible for FMPs, we suggest mandatory disclosure for carbon-intensive companies and optional disclosure for non-carbon intensive companies. This distinction is motivated by the specific relevance of currently carbon-intensive sectors, as they are responsible for most emissions and are specifically prone to greenwashing due to high reputational risks. Considering additional metrics for carbon-intensive companies is also aligned with best practices from financial ecolabels (such as the EU Ecolabel or the Nordic Swan). Nordic Swan Ecolabel: Companies from carbon-intensive sectors are only eligible if they meet additional criteria (e.g., >75% “green” Capex). The Nordic Swan label criteria define the following sectors: aluminium, aviation, automobiles, cement, mining, pulp and paper, shipping, and steel (see label criteria, [link](https://www.svanen.se/4ad780/contentassets/653430c81fae41418c2b544a2205abf6/criteria-document_101_investment-funds-and-investment-products-101_english.pdf)). EU Ecolabel: The EU Ecolabel defines an extensive exclusion list of environmentally harmful activities. However, the “supply and use of solid, liquid and gaseous fossil fuels for fuel, energy generation in the form of electricity and/or heat, heating and cooling using these fuels” are exempted if a range of “transition criteria” are met (see draft criteria v4, [link](https://susproc.jrc.ec.europa.eu/product-bureau/sites/default/files/2021-03/2021.03.05%20-%20EUEL%20financial%20products%20-%20Technical%20Report%204%20FINAL.pdf)).

This raises the question how carbon-intensive companies are defined. We suggest an approach at sector and activity-level (i.e., defining a list of economic activities for which additional metrics have to be disclised). Various initiatives have already attempted to define carbon-intensive companies (or “companies in transition”).

For companies defined as “carbon-intensive” or as “companies in transition”, we suggest to disclose on the following metrics:

* Metric I: Share of “companies in transition” with a science-based target or transition plan: Science-based targets could be defined as the number of firms with targets validated by the Science-Based Targets initiative. This would be in line with the (optional) criterion “Investments in companies without carbon emissions reduction initiatives aimed at aligning with the Paris Agreement” of Table 2 of Annex I of the Commission Delegated Regulation (EU) 2022/1288. Transition plans could be aligned with [ESRS E1-4](https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E1.pdf) or internationally used frameworks, such as the UK Transition Plan Taskforce (TPT) Disclosure Framework[[13]](#footnote-14) and the International Sustainability Standard Board’s (ISSB) Exposure Drafts paragraph 13[[14]](#footnote-15).
* Metric II: Percentage of “companies in transition” with effective carbon management practices: Transition plan frameworks often include certain governance practices, e.g., TPT encompasses incentives and remuneration as well as board oversight as criteria. Financial incentives linked to sustainability performance motivate managers to align their decisions with a company’s sustainability strategy.[[15]](#footnote-16) Sustainability board committees with sufficient influence in decision-making and expertise can also boost environmental performance.[[16]](#footnote-17) Hence, disclosing the share of companies with “management-level sustainability-linked financial incentives” or “sustainability board committee” would provide further evidence for an ambitious transition plan.
* Metric III: Percentage of capex that “companies in transition” invest in “green” activities: Capex can be a reliable indicator for credible transition efforts (e.g., a fossil fuel company that invests 100% of its capex into renewable energies). Incorporating capex is also aligned with the draft EU Ecolabel criteria where capex is an integral part of the portfolio selection.[[17]](#footnote-18) “Green” capex, i.e., made in environmentally sustainable economic activities, can be measured via the EU Taxonomy.

Channel C (engaging with investees):

An active engagement approach requires guidance and disclosure on the engagement strategy. For example, engagement tends to be more effective if financial market participants collaborate through investor initiatives to enhance their impact.[[18]](#footnote-19) Moreover, label providers, such as the Nordic Swan Label or the EU Ecolabel provide guidance for a successful engagement process. Given these findings, the Delegated Act 2022/1288 (Art. 29a (1) (iii) and Art. 42a (1) (iii)) could incorporate collaboration considerations and the use of external engagement guidelines.

* Metric IV: Percentage of “companies in transition” that were targeted by engagement efforts (IV.A) or where voting rights were exercised in alignment with environmental objectives (IV.B): Investing in carbon-intensive companies can drive change if the investment is accompanied by a structured engagement process. Disclosing these metrics will provide more transparency. The draft EU Ecolabel’s criterion 4 (engagement) contains further insights on ambitious engagement efforts.

<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 support the implementation of the hyperlink approach as it facilitates the alignment process of the EU green finance agenda. Specifically, it promotes consistency between the SFDR, its Delegated Regulation (EU) 2022/1288, and Regulation (EU) 2016/1011. Moreover, adopting this approach offers convenience to financial market participants and may contribute to the increased adoption of EU CTBs and EU PABs. A precise definition of products falling under Article 9(3) as those associated with designated EU Climate Transition or Paris-Aligned Benchmarks further aligns with paragraph (3), which underscores the significance of the Paris Agreement.

To ensure comparability and transparency, we propose that Article 9(3) products continue to include the following questions in Annex III concerning their target: "What is the greenhouse gas emission reduction target of the products?" and "Does the greenhouse gas emission reduction target aim to limit global warming to 1.5°C?" The option of utilizing hyperlinks to describe the methodology for the latter question can still be retained, though. **Specifically, we recommend removing the final sentence found under the "Yes" response option for the question: "Does this product have a greenhouse gas emission reduction target?" The sentence in question is: "Do not include any subsequent question related to the topic below and proceed to the next section 'What investment strategy does this product follow?'"**

We believe that the introduction of GHG emissions reduction targets should not create confusion between Article 9(3) products and other products covered under Article 9 and Article 8. According to Annex II and III, Article 8 products are not required to disclose a target unless they have one, while Article 9(1) and 9(2) products must disclose their GHG emissions reduction target as a percentage or state their aim to limit global warming to 1.5°C. For Art. 9 (3) products only the latter option remains since PABs and CTBs shall use the 1.5 °C scenario (see Commission Delegated Regulation (EU) 2020/1818 Art. 2).

However, we find it perplexing that Annex III of Art. 9 products provides the option to respond with "No" under the question "Does this product have a greenhouse gas emission reduction target?" without offering the ability to remove the corresponding statement and icon in the environmental and/or social characteristics section, as is available in Annex II for Art. 8 products. Consequently, it is unclear whether Art. 9 products are always required to indicate an emission reduction target.

Specifically, we refer to these two sentences in the pre-contractual information in Annex II for products with environmental and/or social characteristics (upper sentence) and in Annex III for products with a sustainable investment objective (lower sentence):

*“This product targets a reduction of \_\_\_% of greenhouse gas emissions in the atmosphere by \_\_\_.[mention the date of achievement of the target]. [****remove this statement and icon where the product does not have a decarbonisation target****]”*

*“This product targets a reduction of \_\_\_% of greenhouse gas emissions in the atmosphere by \_\_\_. [include this statement and icon where the product has a GHG emission reduction target that is not compatible with limiting global warming to 1.5 degrees Celsius.] This product targets a reduction of greenhouse gas emissions in the atmosphere to limit global warming to 1.5 °C. [include this statement and icon where the product has a GHG emission reduction target compatible with limiting global warming to 1.5 degrees Celsius.]”*

<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>

We're in full agreement about the need for this differentiation. Recognizing these distinct investor impact mechanisms is essential. On one hand, reducing financed emissions requires redirecting investments to companies with lower CO2 output. On the other hand, an alternative approach might involve investing in high-GHG-emitting firms that have trustworthy transition plans and using proactive engagement to achieve a net-zero economy. Both methods could lead to vastly differing outcomes in actual GHG emissions reduction.

* **This differentiation aligns with the CSDDD:** The EU Commission's Corporate Sustainability Due Diligence Directive (CSDDD) proposal acknowledges that a blend of engagement and divestment is necessary. Engagement is the initial step, coaxing and requiring companies to alter their behavior and business models. If engagement fails to result in action, divestment acts as a deterrent. The directive states, "divestment, or at least the potential for it, is a prerequisite for effective engagement as engagement would be impotent without the risk of divestment." The European Commission also underlines the importance of trying to effect change in unsustainable practices before resorting to disengagement or divestment.
* **The differentiation acknowledges the need for investment in high-GHG companies with credible transition plans to become carbon-neutral**. This would not be possible if we focused only on financed emissions. When viable transition plans exist, investors can opt to redistribute their capital within carbon-intensive sectors towards companies with more ambitious strategies.

In closing, we believe enhancing the transparency of this distinction is key to improving retail investor understanding. However, an active engagement approach also necessitates guidance and disclosure concerning the engagement strategy. For instance, engagement is usually more effective when financial market participants join forces through investor initiatives to amplify their influence on the invested companies (e.g., [Kölbel et al., 2020](https://journals.sagepub.com/doi/full/10.1177/1086026620919202), [Dimson et al., 2015](https://academic.oup.com/rfs/article/28/12/3225/1573572?login=false)). Additionally, label providers like the Nordic Swan Label or the EU Ecolabel offer guidance on establishing an effective engagement process. Given these observations, Art. 29a (1) (iii) and Art. 42a (1) (iii) of the Delegated Act 2022/1288 could potentially incorporate considerations of collaboration and the use of external engagement guidelines.

<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>

We recognize the benefit of disclosing the Paris-Alignment level for Article 9 product targets. This not only aligns with the globally recognized Paris Agreement but also offers a forward-looking view, crucial for facilitating the transition. However, the comparability of such disclosure depends on the solidity of the methodology used to evaluate the Paris alignment of each portfolio company individually.

Several methodological approaches exist for this task. A thorough compilation of these methodologies and tools is offered in the Annex of the Partnership for Carbon Accounting Financials' (PCAF) [Strategic Framework for Paris Alignment](https://www.carbonaccountingfinancials.com/files/2021-04/strategic-framework-for-paris-alignment.pdf?515d2dd9f1) report. It includes general frameworks like the EU Paris-Aligned Benchmark (PAB) and implied temperature ratings sourced from third parties.

In conclusion, we think such disclosure could be particularly beneficial for retail investors. However, the computation should be supported by an easy-to-use, widely recognized methodology that doesn't depend on future predictions (e.g., assuming that an ambitious 2050 target will be achieved).

<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>

We generally concur that if the GHG emissions reduction target is gauged in terms of financed GHG emissions at the product level, it should encompass all components or investments of the financial product, which increases comparability among various financial products.

Nonetheless, in line with Q24, it's crucial to explain the investor impact's transmission channel, as theoretically, the set target could be reached by redirecting capital to less GHG intensive firms. Consequently, the total GHG emissions across the economy might not necessarily reduce in this scenario.

Moreover, we would require further information to what extent the phrasing of “all investments of the financial product” in Q26 is aligned with the proposed Art. 14a (1) (b): “The (…) **target is calculated on the basis of investments of the financial product to which the GHG accounting and reporting standard** for the financial industry referred to in [Article / Section [XXX] of Commission Delegated Regulation (EU) …/… of … supplementing Directive (EU) 2022/2464 of the European Parliament and the Council] **applies**.” Does this imply that the to be defined GHG accounting and reporting standard will include all types of investments?

Further clarification necessary: Concerning Art. 14a (1) (b) we would require further clarification how the phrasing “The (…) **target is calculated on the basis of investments of the financial product to which the GHG accounting and reporting standard** for the financial industry referred to in [Article / Section [XXX] of Commission Delegated Regulation (EU) …/… of … supplementing Directive (EU) 2022/2464 of the European Parliament and the Council] **applies**” is aligned with the requirement that the target is calculated for all investments of the financial product. Doesn’t Art. 14a (1) (b) imply that some types of investment will not be covered by the novel GHG accounting and reporting standard?

<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>

Answering subquestion 1, we agree with the proposed method of requiring financed greenhouse gas (GHG) emissions reduction targets to be set and disclosed at the product level, based on the GHG accounting and reporting standard mentioned in the upcoming Delegated Act (DA) of the Corporate Sustainability Reporting Directive (CSRD). This method encourages uniformity across policy initiatives and may help decrease implementation expenses.

For subquestion 2, we favor the use of a single, proven standard to compute financed emissions. Given that EFRAG has already capitalized on existing standardization efforts, it makes sense to apply this approach to the Sustainable Finance Disclosure Regulation (SFDR).

<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 support the idea of separately reporting carbon credits and greenhouse gas (GHG) removals (henceforth CCs&Rs). The recent controversial reporting on carbon credits and GHG removals (CCs&Rs), which are said not to have led to the propagated emission reductions as assumed, has demonstrated that current reporting primarily serve to protect the reputation of investors as well as the disclosing companies.[[19]](#footnote-20) We recommend that separate disclosure becomes mandatory, as it not only protects investors but also allows for the recognition of high-quality CCs&Rs that contribute to emission reductions, sustainable development, and market incentives.

Given the ongoing realignment of the international carbon market, particularly through the current Article 6.2 Market and Article 6.4 Market of the Paris Agreement, as well as the established voluntary carbon market, we recommend that if CCs&Rs are disclosed, the following information is provided to ensure the necessary transparency for investors to assess them and maintain their environmental integrity:

1. The **name of the CCs&Rs**, the **serial number indicating the registry** where they are held, and the **standards used** (e.g., CDM Standard, Gold Standard, Verra, etc.) for verification. This information is crucial for transparency in the carbon market, considering the varying quality standards. The newly emerging Art. 6.2 cooperation mechanism allows for the use of standards with lower quality requirements, highlighting the need for this transparency-enabling information.

2. **The purpose for which the CCs&Rs were used**, making a clear distinction between mandatory and voluntary purposes. While there are currently no provisions for using international emission allowances for mandatory purposes within the European Union (such as the EU ETS or the EU NDC targets), some EU countries, like Sweden, are exploring the possibility of using international emission certificates for climate targets beyond the EU NDCs. Therefore, clarity on this matter is crucial due to the dynamic changes in the carbon market. Furthermore, specifying the use of CCs&Rs, whether for corporate carbon targets, CCs&Rs set-aside, contribution to national NDCs, or supporting developing countries' NDCs, encourages their use and allows for clear allocation while highlighting environmentally friendly investments. It is important to disclose this information alongside separate reporting and always specify the remaining emission reduction commitments.

3. Information to prevent double counting. With Annex II countries now required to formulate their own NDC targets under the Paris Agreement, there is an interest in counting emission reductions toward their own targets within the carbon market. This raises the risk of double counting CCs&Rs. Therefore, any disclosure of CCs&Rs should always indicate whether corresponding adjustments have been made. If no adjustments have been made, it is recommended to provide precise information on the use of CCs&Rs as explained in point 2. This level of transparency is necessary to eliminate the risk of double counting of CCs&Rs and provide investors with adequate information.

<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>

**Usefulness:** Disclosing the consistency between product targets and the entity-level targets and transition plans of financial market participants for climate change mitigation, according to Delegated Regulation Art.29a (1) (b) and 42a (1) (b), could be advantageous, but it also introduces complications.

**Advantages**: On the upside, mandating these disclosures can bolster transparency by revealing any discrepancies between product and entity-level targets and transition plans. This clarity enables investors and stakeholders to evaluate the overall sustainability strategy's efficacy and hold financial market participants responsible for their pledges.

Moreover, revealing the harmony between targets can offer investors more assurance in the alignment between financial products and the wider entity-level goals. It allows investors to make informed choices and back organizations that display a robust commitment to climate change mitigation.

Challenges: Yet, implementing these disclosures brings about challenges. Sharing both product- and entity-level information demands comprehensive data collection and reporting.

**Standardization presents an additional obstacle.** Financial market participants might face issues in procuring consistent and dependable data across their investment portfolio. Therefore, the absence of standardized methodologies and reporting structures in the industry can impede comparison between product and entity-level targets and complicate the aggregation and analysis of the disclosed data. Paragraph (iii) of both Articles (29a (1) (b) and 42a (1) (b)) is a useful initial measure to mitigate this concern as it requires the disclosure of any discrepancies between methodologies.

<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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_30>

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

<ESMA\_QUESTION\_SFDR\_31>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_31>

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

<ESMA\_QUESTION\_SFDR\_32>

A numbering system for the different questions would be helpful in order to reference to questions.

<ESMA\_QUESTION\_SFDR\_32>

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

<ESMA\_QUESTION\_SFDR\_33>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_33>

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

<ESMA\_QUESTION\_SFDR\_34>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_34>

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

<ESMA\_QUESTION\_SFDR\_35

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

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>

TYPE YOUR TEXT HERE

<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>

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10. Our teams at Climate & Company, RAe Günther and Germanwatch wrote a policy brief on why mandatory sustainability due diligence is key for financial institutions, see [here](https://climateandcompany.org/publications/sustainability-due-diligence-for-financial-institutions/). [↑](#footnote-ref-11)
11. IUCN Red List of Threatened Species, [link](https://www.iucnredlist.org/). [↑](#footnote-ref-12)
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