**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 | Deloitte |
| Activity | Audit/Legal/Individual |
| Are you representing an association? |  |
| Country/Region | Europe |

**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>

No, we do not agree with the newly proposed mandatory social indicators. Our aim is not to question the need for social indicators, but to stress that before the SFDR requires new social indicators to be disclosed, the new disclosures on social matters under ESRS need to be taken into account.

We suggest ESAs to ensure the implementation of an efficient and relevant sustainable reporting before completing the list of indicators. Our main reasons are:

- The lack of available data: Taking into account the current data availability issues and the cost of the reporting implementation by investee companies, the list of PAI indicators is already large enough. The SFDR should focus on principal adverse impacts in their reporting. That means that it only adds new indicators that have a material negative impact on sustainability factors. In an optimal case, the selection of new indicators has a scientific background.

- The lack of a social Taxonomy: As the social Taxonomy is not yet published, it seems to be useful and relevant not to complete the list and increase the reporting burden yet. In addition, a consistency between sustainability indicators that measure the achievement of social objectives and PAI indicators can be helpful.

- The methodology and definition of PAI indicators have to be fully aligned with the methodology and definition within the ESRS.

If regulators choose to add additional indicators, these have to be integrated into the published ESRS to ensure data availability, at least for large companies inside the EU. Current changes in the SFDR shall not imply a review of the ESRS until the first reporting period of all large undertakings has been completed (reporting in 2026 for FY 2025).

Moreover, according to the latest ESRS publications, the materiality assessment now applies to all mandatory ESRS indicators (except General Disclosure). If indicators are identified as not material under the ESRS, they should not necessarily require a mandatory reporting under the SFDR because the FMPs won't receive reliable data obtained by the investee companies.

It is important that FMPs can rely on the assessment of non-material matters by investee companies under CSRD/ESRS and are allowed to apply it in their SFDR reporting. In case that the final delegated act on the ESRS includes the materiality assessment on PAI indicators by investee companies, SFDR should follow a similar approach.

<ESMA\_QUESTION\_SFDR\_1>

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

<ESMA\_QUESTION\_SFDR\_2>

No, we do not agree to add any other mandatory social indicators for the same reasons as mentioned in question 1.

<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>

No, we do not agree with the newly proposed opt-in social indicators for the same reasons as mentioned in question 1.

<ESMA\_QUESTION\_SFDR\_3>

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

<ESMA\_QUESTION\_SFDR\_4>

No, we do not agree with the newly proposed opt-in social indicators for the same reasons as mentioned in question 1.

<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>

No, we do not agree with the changes proposed to the existing mandatory and opt-in social indicators in Annex I. We understand that the UN Guiding Principles are more comprehensive than the UN Global Compact Principles and that an alignment with other regulations is helpful.

However, we would like to draw the attention of the ESAs that this change has a significant impact on the investment process. According to our understanding, the UN Global Compact had historically been selected as it had a good coverage among data providers.

We have observed that many Financial Market Participants (FMPs) have developed an investment approach and/or exclusion criteria based on the UN Global Compact. As a result, such a change could imply that pre-contractual documents of a significant number of financial products have to be changed.

We recommend the ESAs to assess the current data coverage of the main data providers for any change or addition of PAI indicators. We see the risk that such a change could lead to significant data gaps that will not be in the best interest of retail and commercial clients.

At a later stage, when companies are disclosing under CSRD with the ESRS, the ESAs could re-evaluate a potential change of indicators. As an interim solution, the FMPs could choose between the UN Global Compact Principles and the UN Guiding Principle or both, as soon as they disclose their choice.

<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>

No, we do not recommend to apply any PAI indicators to the entity in charge of the management of real estate assets. So far, the PAI statement is based on the investment decisions of FMPs. Where the management of the real estate assets is performed by the FMP itself, the focus would be shifted away from the investment decision to the FMP. On the other extreme, more than one company could be involved in the management of the real estate assets.

Before such a change, the ESAs should evaluate the size of the entities that are in charge of the management to avoid introducing a significant data gap and/or a reporting burden on small and medium entities.

In terms of the providing assurance on a fund reporting, the change would imply an extension of the scope of the assurance to the asset manager or property manager for social performance.

<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>

Yes, we acknowledge an alignment between the SFDR and the Taxonomy. However, the change is not in line with recent market developments where requirements on CO2 reduction have increased and decarbonization pathways have become steeper.

<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>

Yes, we see challenges in the interaction between the definition ‘enterprise value’ and ‘current value of investment’ for the calculation of PAI indicators.

1) Market value vs. book value of debt

The ‘current value of investments’ reflects the value in EUR of the investment of the FMP in the investee companies, which is most likely based on market values. In contrast, the ‘enterprise value’ includes the ‘book value of total debt’ in the calculation. For significant holdings of debt instruments, this can lead to a difference between numerator and denominator.

2) Use of year-end values in the PAI calculations

The current methodology uses the positions at quarter-end and applies the ‘current value of investment’ and the ‘enterprise value’ at year-end for the PAI calculation. At the same time, Financial Market Participants shall define actions and/or targets to reduce negative impacts on sustainability.

While the on-going monitoring and the proposed actions will be developed based on the values during the financial year, these can substantially deviate from the values taken in the annual PAI calculation that utilizes year-end values.

We recommend the possibility for FMPs to allow them to improve their methodology to use intra-year market values and enterprise values for their calculation.

<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>

Yes, we have comments on the new formulae suggested in Annex I. The use of additional formulae could lead to a standardization of calculation methodologies and a reduction in the scope for interpretation. At the same time, an alignment between ESRS and SFDR is important to foster comparability and avoid double-calculations.

We would like to draw the attention of ESAs on one point: for PAI calculation, there are three sorts of formulas which do not provide the same information. Some of them describe the exposure of the portfolio (i.e. PAI 4, 7, 10, 11, 15, 16, 17 Table 1), whereas others describe the investment’s contribution to financing an indicator (i.e. PAI 1, 2, 8, 9 Table 1) or a weighted average (i.e. PAI 3, 5, 6, 13, 14, Table 1). Even if the investment’s contribution is the most relevant information, it is also the most volatile because it includes the enterprise value.

<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>

Yes, we would like to use the opportunity to provide some comments.

* List of PAI: to reduce the reporting burden for investee companies and FMPs, we suggest ESAs considering a review of table 1:
  + As the ESRS 2 SBM-1 aggregates coal, oil and gas as fossil fuel activity, we suggest to align the definition of the PAI 4 to propose only one aggregated indicator;
  + To keep only one indicator (instead of 10) on energy consumption (PAI 5 & 6);
  + To keep only one indicator on UN Guiding Principles (PAI 10 & 11);
  + As it is not based on an ESRS data point, we suggest to delete the PAI 14 (amount of accumulated earnings in non-cooperative tax jurisdiction).
* Current lack of data: We notice that some of the KPIs currently have a significant lack of data (e.g. gender pay gap). In principle, lack of data and the quality of data especially from third party data providers is an essential issue for FMPs. The sole reliance on third party data providers creates challenges because of the difficulty in tracking data quality, different methodologies used, and the lack of comparability between different data providers. The implementation of the CSRD would improve this situation. However, we suggest ESAs facilitating access to information at the lowest possible cost. Otherwise, FMPs will be highly dependent on data providers.
* Calculation frequency: We see potential issues in the calculation of PAIs. In some cases, it is not clear whether a reference date or quarterly calculation shall be used.
* Materiality assessment: We support the approach of the draft delegated regulation on ESRS published by the European Commission on 9 June 2023, which proposes that the sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) provides information that is identified as material after conducting a double materiality assessment. If the delegated regulation is finalised as proposed, information that is not considered material would not be reported by investee companies, even if it relates to an SFDR-relevant indicator. At the same time, the SFDR requires FMPs to show best efforts to obtain information on mandatory KPIs and additional KPIs selected. As a result, FMPs will exert pressure on the investee companies to obtain the KPIs for their reporting, even if the information is not material for them under the CSRD. In our view, introducing a materiality assessment in the SFDR reporting, could help reducing the reporting burden for companies, without materially impairing the quality of the information that would be disclosed under SFDR.

Moreover, we also suggest to change the definition of three PAI:

1/Regarding the indicator #1 Table 2 Emissions or inorganic pollutant: ‘inorganic pollutants’ means emissions within or lower than the emission levels associated with the best available techniques (BAT-AEL) as defined in Article 3, point (13) of Directive 2010/75/EU of the European Parliament and of the Council, for the Large Volume Inorganic Chemicals- Solids and Others industry. For the calculation of this indicator, we suggest deleting the thresholds to give priority to all emissions.

2/Regarding the indicator #8 Table 1 Emissions to water: ‘emissions to water’ means direct emissions of priority substances as defined in Article 2(30) of Directive 2000/60/EC of the European Parliament and of the Council and direct emissions of nitrates, phosphates and pesticides. For the calculation of this indicator, we suggest not limiting to direct emissions (or clearly clarify the notion of direct), except if there is a clear reference to own operations. Moreover, it could be relevant to adjust the definition in line with other European legislation such as the Urban Waste Water Treatment Directive.

3/Regarding the indicator #13 table 1; we suggest to align its definition with the ESRS 2 GOV-1. The PAI requires the average ratio of male board members, where ESRS requires a weighted average ratio of female to male board members.

<ESMA\_QUESTION\_SFDR\_10>

1. : Do you agree with the proposal to require the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies?

<ESMA\_QUESTION\_SFDR\_11>

Yes, we 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. However, it should also include the possibility to utilize data providers that collect and provide the raw data. We recommend to make a distinction depending on the original source of the raw data only (data collected and published by investee companies vs. estimated data), and not the way that data has been provided.

<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>

We suggest to delete cash and cash equivalents (as defined by accounting standards) in the definition of all investments. Cash in the calculation of all investments during the investment period is not relevant. It will artificially decrease ratios, as holding cash is not an investment decision and does not directly finance adverse impacts. The proposal of a new definition of the denominator (different denominators for investee companies, sovereigns and real estate) will slightly increase the complexity in providing assurance. However, as sovereign assets and real estate assets need specific PAIs, it would be relevant to calculate PAI based on such asset classes only. This can lead to a higher comparability among FMPs with different asset allocations.

We recommend introducing the reporting of the residual amount of investments where no PAI reporting has been performed. This includes asset classes outside of investee companies, real estate and sovereign investments.

<ESMA\_QUESTION\_SFDR\_12>

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

<ESMA\_QUESTION\_SFDR\_13>

Yes, we agree with the ESA’s proposal to only require the inclusion of information on investee companies’ value chains in the PAI calculations where the investee company reports them.

As long as investee companies do not report information on their value chain, FMPs will not be able to collect reliable data on the value chain even through data providers. We regard this as a risk of large data gaps, especially for small and medium companies. The ESAs may consider not requiring a mandatory disclosure on the value chain in the FMPs reporting at this stage, or introducing phase-in requirements only when the majority of large European undertakings reports under CSRD.

<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>

No, we do not agree with the treatment of derivatives in the PAI indicators.

We acknowledge the effort of the ESAs to address the possible understatement of principal adverse impacts and the possible overstatement of sustainable investments and Taxonomy alignment.

However, the proposal to require FMPs to show that the derivative does not ultimately result in a physical investment in the underlying security by the counterparty – or any other intermediary in the investment chain does not seem feasible. Especially for smaller FMPs, this creates an additional operational burden.

As an alternative, the ESAs might consider to differentiate between the cash settlement and the physical settlement of the derivatives. To understand the effectiveness of such a differentiation, we recommend the ESAs to analyse the market volume of traded derivatives.

In general, the treatment of derivatives between Taxonomy and SFDR should be aligned, to increase comparability. The reporting under Article 8 of the Taxonomy does not require to perform a netting of positions but rather eliminates derivatives from the Taxonomy calculations.

<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>

We acknowledge the effort of the ESAs to address the possible understatement of principal adverse impacts and the possible overstatement of sustainable investments and Taxonomy alignment.

In general, the treatment of derivatives between Taxonomy and SFDR should be aligned , to increase comparability. The reporting under Article 8 of the Taxonomy does not require to perform a netting of positions but rather eliminates derivatives from the Taxonomy calculations.

<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>

TYPE YOUR TEXT HERE

<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 with the ESA’s assessment of the DNSH framework under SFDR. Different definitions and/or thresholds for DNSH lead to greenwashing risks. They incentivise possible weaker/relaxed DNSH criteria in order to increase sustainable investments. We therefore welcome the proposal of the ESAs to require a disclosure of the DNSH approach.

<ESMA\_QUESTION\_SFDR\_17>

1. : With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.

<ESMA\_QUESTION\_SFDR\_18>

Yes, we consider it relevant to make disclosures about the quantitative thresholds used for DNSH assessment purposes. We recommend the ESAs to consider that the thresholds might be a combination of quantitative, binary or ordinary thresholds.

<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>

Yes, we support the introduction of an optional “safe harbour” for environmental DNSH for Taxonomy-aligned activities.

To ensure the alignment within the overall European sustainability framework, it is recommended that Taxonomy-aligned activities are considered as sustainable under SFDR without any complementary assessment. We note that for use-of-proceeds financings, this is consistent with the EC Commission Notice on the Interpretation and implementation of the EU Taxonomy regulation and links to the SFDR, FAQ 4, released on 13 June 2023.

However, except for use-of-proceeds financings, we note an operational inconsistency: How to disclose sustainable investments and its part of taxonomy-aligned if a corporate reports x% of taxonomy-aligned activities but fails to pass the SFDR DNSH at an entity level. Under the current rules, the investee company could not be considered as a sustainable investment under SFDR, but still reports taxonomy-aligned activities in its sustainability report. If the ESAs would like to introduce the safe harbour principle, the ESAs should consider distinguishing the reporting for sustainable investment alignment and for Taxonomy alignment (instead of defining Taxonomy alignment as a sub-category of sustainable investment).

<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>

No, we do not agree that the Taxonomy TSC should form the basis of the DNSH assessment.

The Taxonomy TSC define DNSH criteria for eligible activities. So, they ensure no significant harm on an individual activity level.

In contrast, the DNSH principle of the SFDR relates to the issuer level. Investee companies typically carry out a number of different activities of which not all are Taxonomy-eligible and therefore have no TSC.<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>

Yes, there are other options for the DNSH disclosures. Currently, the SFDR DNSH is based on the analysis of all PAIs of table 1. This implies an analysis of a large number of indicators for each investment.

We suggest ESAs to consider to focus on a smaller number of indicators which could be relevant and implementable.

<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>

No, we do not agree that there is a right balance between clear, reliable, decision-useful information and keeping the requirements feasible and proportional for FMPs.

As described already, we consider it difficult for FMPs to implement the proposed requirements. Instead, the ESAs should consider:

- a reduction of the number of PAI indicators, including for the DNSH assessment;

- integrating the consequences that investee companies that report under ESRS will only report material information, to reduce the data gap; and

- ensuring alignment between all EU regulations, including on their timeline (i.e. FMPs should not be required to provide information relying on data that is not required to be provided by investee companies yet).

<ESMA\_QUESTION\_SFDR\_22>

1. : Do you agree with the proposed approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR or would you prefer specific disclosures for such financial products? Do you believe the introduction of GHG emissions reduction target disclosures could lead to confusion between Article 9(3) and other Article 9 and 8 financial products? Please explain your answer.

<ESMA\_QUESTION\_SFDR\_23>

Yes, we agree with the proposed approach. The addition of hyperlinks could ease the assurance process, when assurance is requested. We see rather less confusion as a consequence. More important would be to define clear criteria for Article 8 and 9 products.

<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>

No, we do not find this distinction useful. In general we welcome the initiative of the ESAs to finance the necessary transition to a sustainable and low-carbon economy. When introducing the proposed distinction, a clear methodology of the ESAs has to be developed that can fulfil this objective. It should allow to easily identify the reasons for disinvestment.

In practice, we see difficulties in implementing the proposed approach because divestment could be based on sustainability factors, but also on financial perspectives (such as diversification). Even financial products that invest in companies that follow a convincing transition plan will have changes in the portfolio during the investment period. As a result, the majority of financial products could actually follow a mixed approach (divestment and engagement policy to incentive corporates to implement a convincing transition plan). This can include divestment when the active ownership turns out to be unsuccessful. It is important to note that the majority of financial products will not follow a buy-and-hold approach during their lifetime.

Without a clear and auditable framework, the proposed approach leads to a higher effort for providing assurance. In this case, the individual transition plans of investee companies would have to be checked.

<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>

Yes. It would be useful to have clear criteria and a consistent calculation method for GHG emission targets and referring to the degree of Paris-alignment could increase the comparability and reduce the risk of greenwashing. Also the method should be aligned with the European Sustainability Reporting Standards (ESRS).

<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>

No, we do not agree with the proposed approach to require that the target is calculated for all investments of the financial product.

In the proposed template, it is mentioned that FMPs should indicate which is the share of the investments of the financial product covered by the GHG emission reduction target. In such case, the relevant denominator is not all investments, but only eligible asset classes. FMPs should be allowed to disclose the target on the eligible assets only.

However, any CO2 reporting on financial product level should cover all investments in order to reduce greenwashing risks. This is in line with Article 10 (1) b) of SFDR that requires that sustainability indicators measure the achievement of the environmental or social characteristics of the overall sustainable impact of the financial product.

Furthermore, we would suggest to exclude cash because normally cash does not fulfil any ESG characteristics and this could distort the final result.

<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>

Yes, we recommend the proposed approach. As for all quantitative data, it is crucial for FMPs to base indicators or ratios on the ESRS reporting that will be published by corporates. Otherwise, FMPs will increase the reporting burden of investee companies by requesting data outside the sustainability reporting and additional third party's assurances. Moreover, given that phasing in provisions is included in ESRS, it would be appropriate to align the requirements of the indicators' publication with the same timetable.

<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>

Yes, we agree with the approach taken. It is crucial for FMPs that there is consistency with the ESRS reporting for the calculation of GHG emissions, removal and the use of carbon credits. Consolidation at portfolio level is also critical to allow FMPs to publish relevant information. Moreover, all data or information sourced through ESRS must be provided in a usable format, to ensure a smooth data collection process.

<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>

No, we do not find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participant’s entity level targets.

Even if a FMP has a target at the entity level, not all products will have an objective (e.g. Article 6 products). Moreover, on the point of view of the retail client, such information seems not to be relevant. The most important information for the end investor is what is the objective of the product because he/she invests in the product, not in the entity.

<ESMA\_QUESTION\_SFDR\_29>

1. : What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?

<ESMA\_QUESTION\_SFDR\_30>

As a general remark, the proposed new dashboard seems to be clearer than the current documentation. It could help the final client in its investment decisions, by taking into account the sustainable characteristics of the product.

Still, we draw the attention on the high cost of changes in the production and distribution of such documentation. Also, introducing several changes within a fiscal year would increase the work effort to provide assurance, where assurance is requested.

<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>

TYPE YOUR TEXT HERE

<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 asset allocation provides a graphical representation of the investment strategy followed by the financial product and provides context to the answers of the individual questions. It therefore includes relevant information (e.g. which part of the portfolio ends up in the bucket “other”).

Clear guidance how to fill the asset allocation is necessary for a consistent implementation across FMPs. In the current form, we recognize different implementation approaches across markets.

<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>

Yes, providing periodic reports (or precontractual appendix also) exclusively on paper is not feasible.

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

How the estimates are calculated and which percentage of estimates is disclosed could be an important information for investors.

<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>

Taking into account the varieties of sustainable investment methodologies that exist, an increased transparency about the approach followed by a financial product in order to determine what is a ‘sustainable investment’ allows investors to make informed investment decisions. However, it does not promote comparability among financial products issued by different FMPs. It may incentivize adopting a rather broad definition of what a sustainable investment means, as the KPI is part of the sustainability preferences of MiFID II and IDD. Therefore, allowing various individual sustainable investment methodologies will likely lead to additional due diligence efforts by distributors, to identify possible questionable methodologies used for determining what is a ‘sustainable investment’.

Long-term, one could hope that the results of an increased transparency might lead to the development of a common accepted market standard. We also note that, today, the EU Commission allows individual approaches for the definition of sustainable investment.

We acknowledge that clear rules could provide clarity, enable comparability and reduce greenwashing risks. However, very strict rules might limit the funding that the sustainable transition requires.

<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>

No, we do not agree with the proposed website disclosures for financial products with investment options.

For operational reasons, we suggest ESAs not to require a change between the terms ‘financial product’ and ‘investment option’. Such a change implies a double publication, but all documentation and the clarity of information for the final client is not really improved. We suggest adding a clear disclaimer on the website product page indicating that financial product means investment option when they subscribe through a multi-optional product.

<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>

Yes, we agree that information disclosed in a machine-readable format would be a desirable outcome. However, at this stage, we have been able to observe many challenges in implementing the ESEF regulation for the electronic tagging of financial statements. Therefore, we suggest to address the issues identified first, before moving to any mandatory machine-readable format in the SFDR.

Clear guidelines that ensure a consistent answering of the questions of the pre-contractual and periodic reporting should be prioritized before information is disclosed in a machine-readable format.

We would like to draw the attention of the ESAs on technical difficulties that may arise for parts of the templates. This includes the dashboard, the graphical presentation of the asset allocation and the Taxonomy pie-chart.

<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-2)