Reply form

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

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

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

ESMA will consider all comments received by 4 July 2023.

Instructions

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

- Insert your responses to the questions in the Joint Consultation Paper in this reply form.
- Please do not remove tags of the type <ESMA_QUESTION_SFDR_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP SFDR Review_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA_CP SFDR Review_ABCD.

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

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

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725. Further information on data protection can be found under the Legal notice section of the EBA website and under the Legal notice section of the EIOPA website and under the Legal notice section of the ESMA website.

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General information about respondent

<table>
<thead>
<tr>
<th>Name of the company / organisation</th>
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Questions

Q1: Do you agree with the newly proposed mandatory social indicators in Annex I, Table I (amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million, exposure to companies involved in the cultivation and production of tobacco, interference with the formation of trade unions or election worker representatives, share of employees earning less than the adequate wage)?

<ESMA_QUESTION_SFDR_1>

Yes, UNI Europa supports the newly proposed mandatory social indicators in Annex 1.

Rationale

- For the EU’s framework on Sustainable Finance to deliver on its broader socio-economic objectives, it is essential that, as well as reporting on mandatory environmental indicators, carefully selected social indicators are also included. This is a prerequisite for the Sustainable Finance framework being credible with EU citizens, and reducing the risk that investment flows contribute to human rights abuses and increased inequality.
- This submission on the Joint Consultation Paper should be read in conjunction with UNI Europa and the ETUC’s consultation responses to the ongoing EC Consultation on the European Sustainability Reporting Standards (ESRS). In order to be practical and achievable, the EU corporate reporting regime should be designed to deliver key data on environmental and social impacts which fit the requirements under the revised SFDR. Rather than an opt-in approach, mandatory social indicators are needed to ensure that that data gathered is comparable, credible and consistent. For example, UNI Europa’s view is that requiring companies to report against ESRS S1 (own workforce) and ESRS S2 (value chain) will also ensure that the data that Financial Market Participants and citizens require is readily available.
- UNI Europa supports the proposed mandatory indicators in Annex 1, Table 1, in particular those on amount of accumulated earnings in non-cooperative tax jurisdictions, interference
with the formation of trade unions or elections, and share of employees earning less than the adequate wage.

- UNI Europa represents 7 million workers in the services sectors across the European Union, and we support a specific mandatory social indicator on ‘Interference in the formation of trade unions or election of worker representatives.’ Reporting on this PAI is particularly helpful as the right to freedom of association is an enabling right, so this single indicator reflects a whole range of workplace impacts relevant to investors, end users, workers and customers. Clearly it is also very much at the heart of worker participation in the Green New Deal and achieving the just transition in line with the Paris Agreement.

- Through the Committee on Workers Capital (CWC), unions globally have already done considerable work on asset manager expectations in relation to ensuring respect for labour rights and the value of Freedom of Association and collective bargaining for Financial Market Participants (see for example https://www.workerscapital.org/our-resources/shared-prosperity-the-investor-case-for-freedom-of-association-and-collective-bargaining/)

- We support the new mandatory social indicator on wages. Investors have recognised increasing inequality as a major risk. We note that ESRS S1-10 provides a clear definition of 'adequate wage' (AR 72, AR 73, AR 74) and that “Fair Remuneration Policy” is part of the ESRs. This indicator is required with ESRS S1-10.

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

In our view, there is a clear case to explore strengthening the indicators related to freedom of association and the right to collective bargaining for the reasons mentioned above. This would also provide useful evidence indicators in relation to investee companies' compliance with the UN Principles including with regard to the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights. UNI Europa proposes additional mandatory social indicators which build on the data disclosures in the corporate reporting standards developed by EFRAG. These mandatory social indicators could be formulated as "share of workers whose working conditions are not determined by a collective bargaining agreement" [reference ESRS S1-8 Collective bargaining and social dialogue] and "share of workers without social protection" [reference ESRS S1-11 Social protection].

We also propose the first three newly proposed opt-in social indicators in Annex 1 Table III – ‘Excessive use of non-guaranteed-hour employees in investee companies’; ‘Excessive use of temporary contract employees in investee companies’; and ‘Excessive use of non-employee workers in investee companies’ should also be mandatory. It’s important this information is captured as we are seeing these alternative employment models becoming more prevalent across the services sectors represented by UNI Europa. For example, in the care sector almost 20% of long-term care workers across Europe have a temporary contract, with it being even higher in some countries with
over 1/3 of long-term care workers in France being temporary agency workers. We also see this in other sectors, in Germany 56% of newly hired cleaning workers are on a temporary contract.

These three proposed social indicators would provide information crucial to understanding the risks to the workforce and potential human rights abuses linked to current employment practices and whether the business model is sustainable. Those entities with poor performance in relation to these issues are unlikely to report against these social indicators if they are ‘opt-in’.

Q3 : Do you agree with the newly proposed opt-in social indicators in Annex I, Table III (excessive use of non-guaranteed-hour employees in investee companies, excessive use of temporary contract employees in investee companies, excessive use of non-employee workers in investee companies, insufficient employment of persons with disabilities in the workforce, lack of grievance/complaints handling mechanism for stakeholders materially affected by the operations of investee companies, lack of grievance/complaints handling mechanism for consumers/ end-users of the investee companies)?

Yes, UNI Europa does support social indicators on these issues. However as mentioned in the response to Q 2 above, in our view there is a strong case for making at least the first three newly proposed opt-in social indicators listed above in Annex 1, Table III mandatory.

We also think that it would be worth exploring whether to make all the additional social indicators in Annex 1, Table III mandatory. For example ESRS S1-3, paragraph 32 (b and c ) makes a specific reference to PAI 5 of Table 3 of the Delegated Regulation in relation to grievance/complaints handling mechanisms.

Rationale: reporting would then be more consistent across companies and provide financial market participants and regulators with data which would allow a greater degree of comparison.

There is a clear link to the reporting standard ESRS S1 as proposed by EFRAG in November 2022.

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

See the answer to Questions 2 and 3 above.
Q5: Do you agree with the changes proposed to the existing mandatory and opt-in social indicators in Annex I, Table I and III (i.e. replacing the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work)? Do you have any additional suggestions for changes to other indicators not considered by the ESAs?

UN Europa supports the proposed change to replace the reference to the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights. This will help to strengthen the consistency between the SFDR and the Minimum Safeguards in the EU Taxonomy. The UN Guiding Principles on Business and Human Rights were adopted in 2011. Investors, businesses, regulators and workers’ representatives are now more familiar with the concepts of human rights due diligence and in a position to assess and report on the elements of effective processes rather than simply asking whether a company has adopted a human rights policy. For this reason, it would be helpful if the metric for PAI Indicator 11 in Table 1 referred to ‘Share of investments in investee companies without processes, including a sustainability due diligence process supported by internal controls and Board oversight to enable and monitor compliance with the UN Guiding Principles, including with regard to the principles set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights, and the OECD Guidelines for Multinational Enterprises.’ The actual PAI indicator 11 in the Table 1 should be amended to replace ‘or’ with ‘and’ and refer to the OECD Guidelines for Multinational Enterprises and the UN Guiding principles including with regard to the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights.

The UNGPs and the ILO Declaration on Fundamental Principles and Rights at Work, with the revised OECD Guidelines for Multinational Enterprises, are the correct baseline social standards for the SFDR. Given their broad scope, we believe it is essential to complement the existing mandatory social indicators with the specific additional mandatory social indicators mentioned in our response to Questions 1 and 2 above.

In addition, for users of the data to have confidence that PAI reporting matches actual corporate practice at operational level, the review of the SFDR should be one element of a broader integrated approach. For example, it is also essential that the forthcoming Corporate Sustainability Due Diligence Directive, which underpins company practice on due diligence as opposed to reporting requirements, is sufficiently robust and that it explicitly includes the financial sector. Building a consistent regulatory and legal framework for corporate due diligence by companies will ensure that the data that is reported is reliable. Credible due diligence requires meaningful participation by stakeholders, including trade unions in identifying risks, see for example EFRAG’s proposed standard ESRS S1.
Q6: For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?

Given the value of real estate assets within Europe, and the number of pension funds turning to this asset class, UNI Europa supports applying PAI indicators related to social matters to the entity managing the real estate assets.

As the ESAs recognise in the consultation, under the current RTS, there is no social PAI indicator applicable to an investment in a real estate asset. This represents a clear gap. Further work is needed to develop robust social indicators for this asset class; as a starting point this should cover effective due diligence processes related to respect for the rights of workers in the value chain for the construction, maintenance and management of the real estate assets. This should include for example freedom of association and the right to collective bargaining, operational health and safety, freedom from discrimination and the payment of adequate wages. In line with the analysis underpinning EFRAG’s draft ESRS S2, non-employee workers, temporary workers and workers without guaranteed hours should also be covered.

UNI are the secretariat for the Investor Initiative for Responsible Care, which has the support of 138 institutional investors, with over $4.4 trillion in assets under management. The investors have set out their expectations of the sector on staffing levels, health and safety, wages and contracts, quality of care and freedom of association and collective bargaining and have extended these expectations to companies owning real estate used through nursing home to support the operators to meet these expectations through their oversight of their properties including through contractual obligations in leases and labour-related due diligence processes, demonstrates the investor concerned with how real estate manage social risks.

Q7: For real estate assets, do you see any merit in adjusting the definition of PAI indicator 22 of Table 1 in order to align it with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective under the climate change adaptation objective?

Yes, this adjustment could be helpful. We support increasing the alignment between the EU Taxonomy DNSH criteria and the SFDR to create a clearer and more consistent approach across the EU sustainable finance framework.
Q8: Do you see any challenges in the interaction between the definition 'enterprise value' and 'current value of investment' for the calculation of the PAI indicators?

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

Q10: Do you have any comments on the further clarifications or technical changes to the current list of indicators? Did you encounter any issues in the calculation of the adverse impact for any of the other existing indicators in Annex I?

Q11: Do you agree with the proposal to require the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies?

Yes, we think that this would be a helpful proposal. As well as increasing transparency about data sources, it will reenforce the link between the SFDR, the CSRD and the European Sustainability Reporting Standards underpinning the revised corporate reporting regime introduced by the European Union. If any data has been estimated, that should be made absolutely clear in the reporting.
Q12: What is your view on the approach taken in this consultation paper to define ‘all investments’? What are the advantages and drawbacks you identify? Would a change in the approach adopted for the treatment of ‘all investments’ be necessary in your view?

Q13: Do you agree with the ESAs’ proposal to only require the inclusion of information on investee companies’ value chains in the PAI calculations where the investee company reports them? If not, what would you propose as an alternative?

In principle this is a helpful proposal, however it depends on 1) policy measures to ensure more consistent reporting of value chain data by companies and 2) greater clarity on expectations on value chain reporting in relation to the different Principal Adverse Impact indicators within the SFDR.

For some indicators it is clear already that reporting should include value chain information, e.g. Scope 3 emissions in PAI 1 cover the value chain and PAI 10 requires the investee company to conduct due diligence in its value chain. PAI 11 requires investee companies to have relevant procedures in place to ensure that human rights are respected throughout the value chains.

Looking at the broader EU policy framework and the need to improve the quality and consistency of reporting against social indicators, UNI Europa’s view is that this strengthens the case for the ESRS S2 ‘Workers in the value chain’ to be mandatory for companies as envisaged by EFRAG in 2022, rather than subject to a materiality assessment as European Commission is currently proposing.

Q14: Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method
Q15: What are your views with regard to the treatment of derivatives in general (Taxonomy-alignment, share of sustainable investments and PAI calculations)? Should the netting provision of Article 17(1)(g) be applied to sustainable investment calculations?

Q16: Do you see the need to extend the scope of the provisions of point g of paragraph 1 of Article 17 of the SFDR Delegated Regulation to asset classes other than equity and sovereign exposures?

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

Q18: With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.
Q19  : Do you support the introduction of an optional “safe harbour” for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.

Q20  : Do you agree with the longer term view of the ESAs that if two parallel concepts of sustainability are retained that the Taxonomy TSCs should form the basis of DNSH assessments? Please explain your reasoning.

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

Q22  : Do you agree that the proposed disclosures strike the right balance between the need for clear, reliable, decision-useful information for investors and the need to keep requirements feasible and proportional for FMPs? Please explain your answers.

Q23  : Do you agree with the proposed approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as
their investment objective under Article 9(3) SFDR or would you prefer specific disclosures for such financial products? Do you believe the introduction of GHG emissions reduction target disclosures could lead to confusion between Article 9(3) and other Article 9 and 8 financial products? Please explain your answer.

Q24: The ESAs have introduced a distinction between a product-level commitment to achieve a reduction in financed emissions (through a strategy that possibly relies only on divestments and reallocations) and a commitment to achieve a reduction in investees’ emissions (through investment in companies that has adopted and duly executes a convincing transition plan or through active ownership). Do you find this distinction useful for investors and actionable for FMPs? Please explain your answer.

Q25: Do you find it useful to have a disclosure on the degree of Paris-Alignment of the Article 9 product’s target(s)? Do you think that existing methodologies can provide sufficiently robust assessments of that aspect? If yes, please specify which methodology (or methodologies) would be relevant for that purpose and what are their most critical features? Please explain your answer.

Q26: Do you agree with the proposed approach to require that the target is calculated for all investments of the financial product? Please explain your answer.
Q27: Do you agree with the proposed approach to require that, at product level, Financed GHG emissions reduction targets be set and disclosed based on the GHG accounting and reporting standard to be referenced in the forthcoming Delegated Act (DA) of the CSRD? Should the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF be required as the only standard to be used for the disclosures, or should any other standard be considered? Please justify your answer and provide the name of alternative standards you would suggest, if any.

Q28: Do you agree with the approach taken to removals and the use of carbon credits and the alignment the ESAs have sought to achieve with the EFRAG Draft ESRs E1? Please explain your answer.

Q29: Do you find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation? What could be the benefits of and challenges to making such disclosures available? Please explain your answer.
Q30: What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?

Q31: Do you agree that the current version of the templates capture all the information needed for retail investors to understand the characteristics of the products? Do you have views on how to further simplify the language in the dashboard, or other sections of the templates, to make it more understandable to retail investors?

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

Q33: Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?
Q34: Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?

Q35: Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?

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

Q37: Do you perceive the need for a more specific definition of the concept of “key environmental metrics” to prevent greenwashing? If so, how could those metrics be defined?

Q38: Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.
Q39: Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?

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

Q41: What are your views on the proposal to require that any investment option with sustainability-related features that qualifies the financial product with investment options as a financial product that promotes environmental and/or social characteristics or as a financial product that has sustainable investment as its objective, should disclose the financial product templates, with the exception of those investment options that are financial instruments according to Annex I of Directive 2014/65/EU and are not units in collective investment undertakings? Should those investment options be covered in some other way?

Q42: What are the criteria the ESAs should consider when defining which information should be disclosed in a machine-readable format? Do you have any views at this stage as to which machine-readable format should be used? What
challenges do you anticipate preparing and/or consuming such information in a machine-readable format?

Q43: Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?