**Reply form**

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

 12 April 2023ESMA34-45-1218

**Responding to this paper**

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

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

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

**Instructions**

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

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

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

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

**Publication of responses**

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

**Data protection**

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

**General information about respondent**

|  |  |
| --- | --- |
| Name of the company / organisation | Amundi Asset Management |
| Activity | Investment Services |
| 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>

We agree with these suggestions in principle given we are favorable to the extension of social Principal Adverse Impacts (PAIs).

However, in practice, we have a number of comments and requests for clarification to which the proposed indicators should be conditional before any implementation.

* **General pre-requisite before implementing any new PAI**

Financial Market Participants and data providers are facing a significant data gap due to the sequencing issue between the date at which investee companies shall report data points relevant to PAIs under CSRD/ESRS (gradual publication of the first reporting from 2025 to 2028 depending on the size) and the current obligations running under SFDR. In addition, this current lack of actual, voluntary or estimated data from investee companies de facto limits the capacity to make reliable proxies. To this extent, it is of the **utmost importance that additional PAIs do not worsen the situation**; Therefore:

* **Any additional PAI shall be sustained by a mandatory reporting obligation** of the undertakings. We appreciate the efforts from ESAs to cross reference the newly proposed PAIs with the ESRS proposal by EFRAG when applicable. As per the ESRS draft delegated acts recently issued by the Commission, it shall be made sure the data points / disclosures remain mandatory. Based on the recent Commission’s ESRS draft delegated acts, these ESRS data points would remain mandatory but unfortunately subject to a *materiality assessment* by the reporting undertaking. Therefore we call on the Commission to remove any materiality assessment for, at least, the indicators related to PAIs so that Financial Market Participants (FMPs) can meet their SFDR obligations, and the ESAs to support such an alignment or provide clear and common guidance otherwise [Please refer to our response to Q10 for more insight on this issue]
* The definitionof the PAI under SFDR shall **exactly** **match the definition** of the indicator in the reporting standards (ESRS) – **The integration of the reported information in the PAI should not be subject to interpretation.**
* The **application date** of any addition to the PAI list under SFDR shall be **aligned with the date at which, at least large undertakings** (as defined in CSRD) publish their report of the relevant data points under CSRD/ESRS for the first time i.e. 2026 for the 1st reporting on FY 2025, *plus an additional 1 or 2 years* for some indicators if the Commission maintains the phasing as per the recently issued draft delegated acts -; Any requirement to apply new PAI earlier than that date should acknowledge that FMP’s proxies of the missing data (more particularly all the smaller companies which are not well covered by data providers) will likely not be reliable.

On this basis we have specific comments about the following newly proposed PAIs:

* **Tax PAI : accumulated earnings in non-cooperative tax jurisdictions**

We **strongly support** the introduction of a tax-related indicator, **with the following provisions** :

* Disaggregated tax data is not always available through third-party providers. Under the EU Directive 2013/34/EU, the in-scope undertakings may report *for the first time* in the course of 2026 for FY 2025. To this extent the implementation of this PAI can only be 31.12.2026 the earliest.
* This information would be provided annually by underlying undertakings and it is therefore important to clarify that (a) the amount of accumulated earning and (b) the list of non-cooperative tax jurisdictions will be “frozen” as per their annual reporting, until the next annual report is published.
* Companies in-scope are large multinational companies with revenues exceeding € 750 mio a year; It should therefore be considered that **other investee companies below this threshol**d – i.e. out of scope of the reporting requirement are “irrelevant” for the PAI calculation and **can put at zero**.
* We believe that the formula of this PAI indicator would be more meaningful if it was based on the holding ratio (current value of investment over the enterprise value) given that accumulated earnings are part of the own funds of the investee.
* Non EU undertakings do not have this reporting obligation and it will be quite challenging to get the accumulated earnings information in any country by country report from multinational; To this extent “**profits before tax**” would be an information that is more likely to be obtained (and which is also covered by the EU reporting) and that is still relevant.

We would therefore support the introduction of an alternative metric included in the public country-by-country reporting requirements is **profits before tax in jurisdictions on the EU list of non-cooperative jurisdictions**. This indicator would serve as a proxy in the absence of disaggregated tax data, and it could highlight any risks of profits being shifted to non-cooperative jurisdictions, in the spirit of the originally proposed indicator. This indicator also has the advantage of not requiring technical knowledge from investors or stakeholders to interpret.

* **Interference with the formation of trade unions or election of worker representatives**,

We are concerned that a policy commitment on non-interference in the formation of trade unions or election of worker representatives may not always equate to non-interference. Therefore, clarification are warranted either in the terminology/definition used or in the methodology. As it is practically difficult to assess whether companies avoid interfering with union formation in practice at all times, one solution might be to refer to “formal commitment to non-interference in the formation of trade unions or election of worker representatives may not always equate to non-interference”.

There is no disclosure requirement under ESRS - this information is mentioned as an example -. Unless definitions and disclosures are clarified and aligned in the ESRS and in SFDR, we believe **this PAI does not meet the general pre-requisite** stipulated in §1 above and **cannot be implemented as such.**

* **Share of employees earning less than the “Adequate wage”**

We need further clarification on this PAI. We understand that the definition is aligned with ESRS, but are concerned that the term “adequate” may be confusing. The ESRS definition is, in effect, one of the living wage, which we would generally prefer. Using the term “living wage” or **clarifying** the relationship between the “adequate” wage and the living wage would be helpful. We would also encourage clarification on the definition of employees used in the formula to explain whether this includes permanent employees only.

<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

<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>

We agree in principle, provided that these additional PAIs meet the general pre-requisite (see our response to Q1 - §1) but this is not the case for the following PAIs. Indeed, in practice, these proposals need much more clarity. **Absent clarification, these proposals cannot be added to the list**:

* “Excessive…”: the term **“excessive”** is not defined clearly in the document (or the ESRS) and would likely require that authorities provide quantitative thresholds or further guidance. Without a “best-in” class approach (by sector for ex.) for DNSH we hardly see how this PAI can be relevant.
* “Insufficient employment of persons with disabilities”: The **inclusion of people with disabilities**, although a welcome addition to the list of optional PAIs, will likely have **poorer data coverage given the national differences** in reporting regulations around certain types of disabilities, local norms and the challenge of encouraging voluntary disclosures by employees. In addition “insufficient” is not defined.

<ESMA\_QUESTION\_SFDR\_3>

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

<ESMA\_QUESTION\_SFDR\_4>

***In substitution to the opt-in social indicators proposed***, given their lack of clarity (see Q3), we would suggest including the **proportion of women in the permanent workforce**, in line with ESRS [DR S1-6 in the draft delegated acts], as one of the opt-in social indicators. At this time, gender diversity is captured in board diversity and the pay gap indicators, but we feel that this does not fully capture corporate gender diversity performance. We appreciate, of course, that there are regional and sectoral effects affecting gender diversity, but this would nonetheless provide a much more encompassing view on the matter. Further, we believe that introducing this score with a standardized disclosure formula, could incentivize standardized disclosures and data across provider platforms.

The **proportion of women in the permanent workforce could also serve *as an alternative to the mandatory PAI12 (Gender pay gap between female and male employees),* which we would propose to temporarily suspend**. Indeed, although PAI12 is an important indicator of parity, there are a number of challenges associated with reporting on this indicator, most notably data availability.

* There are currently data availability issues for this indicator. There are still differences in regulatory requirements across Europe, resulting in varied levels of reporting. The CSRD and the EU Directive on Pay Transparency regulation might lead to improvements.
* There are differences in the proposed formula and the ESRS guidance for the indicator. The proposed formula would floor the gender gap at 0 – the ESRS does not do so. It would be helpful to review the formula for consistency with the ESRS. A further review of consistency across the two formulae would be recommended.

<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>

We agree with the proposed changes in principle, as this would strengthen alignment across sustainable finance and social responsibility regulations, as well as enhance alignment with global norms and best practices.

At the same time, we are concerned that **the proposed formulae** for both violations of the UN Guiding Principles and ‘𝑝𝑜𝑙𝑖𝑐𝑖𝑒𝑠 𝑡𝑜 𝑚𝑜𝑛𝑖𝑡𝑜𝑟 𝑐𝑜𝑚𝑝𝑙𝑖𝑎𝑛𝑐𝑒 𝑤𝑖𝑡ℎ 𝑜𝑟 𝑛𝑜 𝑎𝑣𝑎𝑖𝑙𝑎𝑏𝑙𝑒 𝑔𝑟𝑖𝑒𝑣𝑎𝑛𝑐𝑒 𝑎𝑛𝑑 𝑐𝑜𝑚𝑝𝑙𝑎𝑖𝑛𝑡𝑠 ℎ𝑎𝑛𝑑𝑙𝑖𝑛𝑔 𝑚𝑒𝑐ℎ𝑎𝑛𝑖𝑠𝑚𝑠 𝑡𝑜 𝑎𝑑𝑑𝑟𝑒𝑠𝑠 𝑣𝑖𝑜𝑙𝑎𝑡𝑖𝑜𝑛𝑠 𝑜𝑓 𝑎𝑡 𝑙𝑒𝑎𝑠𝑡 𝑜𝑛𝑒 𝑖𝑛𝑡𝑒𝑟𝑛𝑎𝑡𝑖𝑜𝑛𝑎𝑙 𝑔𝑢𝑖𝑑𝑒𝑙𝑖𝑛𝑒 𝑜𝑟 𝑝𝑟𝑖𝑛𝑐𝑖𝑝𝑙e’ **require further clarification so as to avoid confusion** as to what would constitute compliance with the UN Guiding Principles, and therefore, what acceptable monitoring policies and processes, as well as UN Guiding Principles’ violation would entail. For instance, at a minimum, entities would need to demonstrate evidence of continued human rights due diligence and monitoring of human rights risks as well as formal commitment to access to remedy. However, defining what constitutes a violation would be more challenging. We have learnt from the example of the UN Global compact violations, for instance, that the burden of evidence is high, and there are disagreements on what constitutes violation amongst third-party data sources in the absence of global agreement on the matter. **We would therefore welcome further consultation on the definition of relevant metrics.**

<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>

The particularity of investing in a real estate asset is that, unlike investing in a company, no workforce is attached to this asset. Thus we consider that implementing a social PAI indicator for real estate assets in the same way as it is done for companies is not relevant.

Moreover, the 2 options proposed by the ESAs do not seem for us to be consistent with the intent of the SFDR regulation:

* Considering a social PAI at the level of the management company would mean targeting the principal adverse impacts of the management company instead of those of the real estate assets in which the financial proceeds are invested and would result in a duplication of existing regulations for the management company.
* Considering a social PAI at the level of property managers and other service providers would require non-listed real estate investment funds to take into account the principal adverse impacts linked to the value chain of the investment, which is only optional for other asset classes, depending on the availability of information. In addition, these issues are already considered by non-listed real estate investments funds by using tools such as service provider charters, clauses in property manager contracts, etc., to justify good governance practices at asset level and comply with the DNSH principle of SFDR. Thus, making the reporting of PAI indicators related to social issues compulsory for non-listed real estate funds would only add an additional layer of reporting on a topic which is already addressed elsewhere by the SFDR regulation.

For these reasons, we consider that requiring real estate asset managers to take social PAI into account is not relevant.

<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>

We agree with this proposal as it should help better take into consideration the reality of the market by considering that an asset is inefficient only from an EPC “D” and not from an EPC “C”, as initially planned, but also as it will reinforce consistency between regulations and better take into account the level of availability and quality of EPCs in certain countries by proposing the use of a threshold based on the actual energy performance of buildings (top 30%).

<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>

The interaction between the definition of 'enterprise value' and 'current value of investment' can present some challenges when calculating the PAI indicators on a quarterly basis. Indeed, there can be inconsistences between the ‘enterprise value’ (tax year end of the underlying) and the 'current value of investment' (which changes anytime in the year).

We believe **the ‘current value of investment’ shall be assessed at market value as of the calculation date**, in full alignment with the value of all investments ie the assets under management or NAV at a specific date. Applying the share price as of the fiscal year-end (as per the ESAs’ Q&A dated November 2022) is not only an operational challenge but could also be inappropriate as the number of units/shares issued by the company may have changed since year-end (corporate actions,…) and therefore in the current investment position.

The most suitable approach for transparency and consistency purposes, would therefore consists in using an estimation of the entreprise value at the calculation date when possible, or the latest available ‘entreprise value’ otherwise.

To this extent, we recommend, modifying the Q&A, as well as the definition of entreprise value in the proposed Annex 1, going forward, allowing an approach based on market prices to calculate the detention percentage at each quarterly calculation point that **would rely on a quarterly estimation of the enterprise value, or by default the latest available data**.

Lastly, our recommendation is for regulators to push for large undertakings to release/report the quarterly enterprise value so that it is readily accessible for FMPs to utilize.

<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>

First and foremost we would like to emphasize that **it is very important that ESAs ensure the new formulae and definitions of PAIs under SFDR are fully consistent with the standards (EFRAG ESRS) as they *will* be adopted by the European Commission in the delegated regulation to come.** – The integration in the SFDR PAI of the information in investee companies’ reporting under CSRD should not be subject to interpretation

**More specifically, the formulae proposed call for the following comments:**

1. We appreciate the following changes proposed by the ESAs bring clarity and consistency:

- **Board gender diversity indicator:**  The formula included in the consultation has male board members as the numerator instead of female board members currently. This allows consistency across PAIs: the highest the value, the more adverse the impact.

- **Number of identified cases of severe human rights issues and indicators**: the reference to the weighted average basis has been removed.

These changes may **however raise operational issues so that the market aligns all at once on the new calculation formula and on the impact on disclosures**.

To this extent**, guidance as well as sufficient time for implementation will be necessary. Also it is important these changes only occur on Jan 1st** so as to limit the impact on the average PAI calculation within the reported year.

1. More clarity is expected on the following PAIs:

- **"amount of accumulated earnings in non-cooperative tax jurisdictions"** : given this information would be provided in the annual management reports, it is important to clarify that (a) the amount of accumulated earning and (b) the list of non-cooperative tax jurisdictions (prevailing in the management report) will be “frozen” on the period, until the next annual management report.

- Regarding **sovereign GHG intensity**, reference to country’s GDP should be clear that this should be the PPP-adjusted GDP as recommended by PCAF. The PPP adjustment of GDP allows for comparing the real sizes of the economies and the output by subtracting the exchange rate effect and mitigates the negative effect for countries where production and emissions are concentrated.

- Concerning the **"gender pay gap"** indicator, the formula floors the gender pay gap at 0 which the ESRS does not. However, to address the gender gap, companies where females are paid more than males should also be addressed. Thus, the formula should allow for negative values in cases where women are paid more. A further review of consistency across ESRS and SFDR would be recommended.

1. For **the "energy consumption intensity per high impact climate sector"** indicator, obtaining the information needed for the nominator and denominator (energy consumption and revenues belonging to NACE(𝛼)) can be difficult, especially for conglomerates operating in multiple NACE sectors.

We suggest that as long as there is no reporting obligation of this indicator per NACE sector applicable to the underlying investee company, then the overall energy consumption intensity is allocated to the NACE sector with the highest share in the company’s revenues.

1. **“Share of non-renewable energy consumption and production” indicator** – We welcome that the proposed wording now clarifies a requirement to split between consumption and production (as was the case in the EET).
2. “**Investee countries subject to social violations**” – We welcome the formula based on exposures and suggest the narrative and description of this PAI (#20 in the new numbering) is amended accordingly : “exposure to investee countries subject to…” instead of “(Number of) investee countries subject to…”
3. “**Number of days lost to work-related injuries, accidents, ill health and fatalities**”(currently PAI 3 in table 3) – In the draft ESRS delegated acts, the EU Commission has made optional the reporting of this indicator for “non-employees”. The SFDR PAI should be adjusted in its definition to stick only to the “employee” indicator.

<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>

In addition to our comments in Q9 on the proposed formulas of existing PAIs, we would like to emphasize the following issues in the calculation of PAIs as well as possible solutions:

* **DATA GAP**:

The current misalignment of SFDR and CSRD timelines generate data gaps which will only be reduced once CSRD is fully applicable to underlying undertakings. **This current data gap affects the accuracy and reliability of the results, even when best efforts are made to collect or estimate the data**:

* Different frameworks, reporting standards, and methodologies used by investee companies can make it difficult to compare and aggregate data consistently.
* Data availability and quality can vary significantly across different companies, industries, and regions which can bring some bias.
* Qualitative information, such as company policies, management practices, processes and compliance mechanisms is particularly difficult to appreciate and estimate in the absence of reporting obligations, and requires judgmental and expertise assessment which can lead to very different result by data providers or FMPs.
* For some PAIs, more particularly # 5, 6, 7, 8, 9 & 12 (in the current numbering), the collection of the raw data is so limited that assessing/estimating the missing data gap is quite challenging

**To this extent, ESAs should consider:**

* **Determining thresholds (50% for ex.) of coverage -** the coverage rate being the coverage of eligible assets by raw data AND reliable estimates; **Below the threshold, the PAI may be disregarded**. Indeed, extrapolating missing data of “uncovered” investments based on the data of the “covered” investments may not be meaningful when the coverage is low. Putting the missing data at zero is not a solution either as it understates the PAI value.
* Aligning the application date of any addition to the PAI list under SFDR with the date of application of the reporting obligations under CSRD/ESRS by large undertakings (see Q1). Any earlier date of application of new PAIs would entail acknowledging that proxies for missing data would not be relevant and reliable.
* **MATERIALITY ASSESSMENT**:

 Based on **the ESRS draft delegated acts recently issued by the EU Commission**, disclosures and datapoints within each standard may be **subject to a materiality assessment** by the reporting entity, including the PAI and transition plans/target disclosures and data points. In addition, explanations as to why the reporting entity has considered a disclosure “not material” is optional.

**This would create permanent data gaps between CSRD and SFDR**.

* We therefore urge the Commission to remove any materiality assessment in relation to the specific ESRS disclosures / datapoints sustaining SFDR obligations (PAI, transition plans, targets).
* Should the Commission maintain such materiality assessment, we call on ESAs and the Commission to:
1. initiate clear guidance under SFDR and consult key stakeholders in order to define how to deal with the “non material” information from investee companies. For example, this guidance could consist in determining a “neutral non detrimental” value for each PAI indicator (list 1,2,3) under SFDR – “zero”, “50%”, “Yes”,…- that could substitute to any “non-material” information of an underlying undertaking. It is of the utmost importance that authorities addresses the implication of materiality assessment for SFDR PAI reporting and for the assessment of Do Not Significant Harm (DNSH). Indeed :
* “Non-material” IS a reported information in itself. Estimates cannot substitute.
* In front of such asymmetrical treatment between CSRD/SFDR, clarity should be given by authorities, for a fair treatment by all stakeholders having to integrate “non-material” data, without leaving room for interpretation or incertitude.
1. require from undertakings a mandatory list of the disclosures deemed “non-material” in their reporting, with a short explanation on the rationale. It is indeed important that any investor can distinguish whether missing disclosures or data points are due to “non-materiality” - and why - or whether to they are due to the disclosures being optional or phased-in.
* **PHASING**:

In addition, the Commission is **postponing by one or two additional years the application of certain ESRS disclosures and data points**, including those used to meet SFDR obligations. We therefore call on the Commission to remove this additional phase-in for those indicators used to meet SFDR obligations.

Should the Commission maintain such phasing, we call on ESAs to set coverage thresholds [as proposed above] below which the current SFDR PAI could be disregarded, or to suspend temporarily those PAIs where it is commonly known data are insufficient.

And of course, any additional PAI shall be implemented only once all, at least large, undertakings are under the obligation to report, including the additional phasing period [see Q1].

<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>

While disclosing the share of investments for which FMPs (or their third party providers) rely on information directly from investee companies could be good practice, **the first priority should be addressing the coverage ratio issue. With the coverage ratio being defined as** the share of investments with **reported data** from investee companies **AND** with **estimates** (by third party providers or FMPs). (see our response to Q10 for the rationale behind this)

**Disclosing the coverage ratio of the PAIs** (i.e. investments with raw and estimated data, over “all investments” as defined in our response to Q12) provides a more accurate and detailed picture of the PAI data disclosed by FMPs.

For consistency and comparison purposes across FMPs it would also be relevant to clarify that **the PAIs disclosed should be “rebased”** so as to extrapolate the value of PAIs of “uncovered” investments based on the PAIs of the covered investments. Indeed, leaving the PAIs of uncovered investments at zero would underestimate the overall PAI value and give a reward to low coverage.

<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>

Our view and the rationale behind it is as follows:

* **“all investments”** in the denominator shall be the **exposure to eligible assets** i.e. the type of investment **to which the PAI relates** (investee company PAI over investments in companies, sovereign and supranational PAI over investments in sovereign and supranational assets, real estate PAI over real estate assets).

This brings consistency and allows to measure and compare (at one point in time and over time) the impact on the relevant assets where investment decisions can be made to take the PAIs into account.

It helps making comparisons as to how PAIs are managed by the entity (or in a product) and avoids the dilution effect of a denominator based on the assets under management. For ex: when based on all assets under management, allocating more cash or government bonds in a fund could “improve” or “deteriorate” the PAI linked to investee companies “artificially”.

* This should however be **completed by** the disclosure of the **eligibility ratio** i.e**. the eligible asset exposure over the Net Asset Value** (rather than Assets under Management which do not exactly match the volume of investments from end investors in the financial products).

This is more particularly relevant at product level. It allows end investors (who can in turn be FMPs subject to reporting and DNSH assessment obligations) to get a picture of the impact of their investment in the financial product for 1 € invested (= PAI on eligible assets/ eligibility ratio) and also to proceed with any aggregation of the PAIs of their portfolio’s direct *and indirect* (through funds, fund of funds,…) eligible investments.

As far as derivatives are concerned, they would be considered as detailed in our response to Q14. And, similarly to the above, the derivatives that would be looked through would be taken into account based on the “eligibility” of their underlying.

<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>

One potential challenge in including information of investee companies that are not reporting under the ESRS is that information on the value chains of investee companies may not always be readily available, especially for smaller companies or those operating in less transparent industries. In addition, it may make it more difficult to compare the impact of different investee companies because the reporting standards may differ between companies, making it challenging to compare the impact of companies with similar activities.

In conclusion, this may make it difficult for financial market participants to include this information in their assessments. This approach may face challenges related to limited availability of information, increased reporting burden, and lack of comparability.

We agree with the proposal to only require the inclusion of information on investee companies’ value chains in the PAI calculations where the investee company reports them. Provided however that whether the value chain has been considered or not can be tracked easily.

<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>

The methodology proposed by ESAs differentiate the consideration of derivatives in the PAI indicators on one side, and the Sustainable Investment (SI) proportion and the taxonomy alignment on the other side, on the ground of “greenwashing risk”.

We believe that **one same approach shall and can fit PAIs, % SI and % taxonomy alignment while mitigating greenwashing risk**:

* Derivatives are investment decisions and, similarly to their consideration in existing fund regulations, they should not be treated differently
* ESAs are reluctant to integrate derivatives (long expo) for the % SI or % taxonomy because, when the denominator is the NAV, and the numerator the equivalent exposure, it inflates the % systematically. But in our approach below (denominator with equivalent exposures, as the numerator, not at NAV/mark to market), this “greenwashing” issue is no longer relevant.

Please find below our proposed approach for PAIs, % SI and % taxonomy alignment:

* 1. **Scope**:

Derivatives shall **generally be “looked through”** for ESG consideration, more particularly when they provide exposure to single names or to a chosen basket of names .

There are however **« irrelevant » derivatives listed below that should be disregarded ” i.e. excluded from the numerator and the denominator**, for the following reasons:

* + - **Foreign exchange (FX) and interest rate (IR) derivatives** are “out of scope” and therefore “neutral” or “colourless” for the computation of PAIs, % SI or taxonomy. Indeed, they do not expose investors to “sustainable or non-sustainable activities”, unlike a bond or an equity.
		- Derivatives **used temporarily and/or for efficient portfolio management techniques** (ramp-up periods, beta and duration hedging, temporary derivative following large subscriptions or redemptions) in financial products. These exposures/hedges are **temporary** and carried out for specific purposes which intention is not linked to the ESG objective of the product. They are usually achieved through (non ESG) index derivatives or fixed income futures on sovereign issuers.
	1. **Exposure of “relevant” derivatives shall be taken into account [for PAI, SI and taxonomy]:**
		+ In equivalent exposure ie with the delta approach (also prevailing for AIF/UCITS ratios)
		+ At numerator
		+ And At denominator.

Compiling derivatives in equivalent exposure at numerator and denominator allows **consistency**, which is key when the indicator is a proportion (% SI, % taxonomy) or when it shows the adverse impact of all the exposure of the fund to eligible assets. In addition, the greenwashing risk that ESAs seem to point out for taking long exposures in %SI or %taxonomy does not exist if the denominator is including all relevant derivatives *in equivalent exposure*, unlike a denominator left at NAV/mark to market; for ex. suppose the underlying issuer of the derivative is not sustainable, the derivative equivalent exposure will be put at the denominator, but 0 (=not sustainable) will be at the numerator, resulting in a decrease of the overall % SI when integrating such derivative.

What is sought here is to **provide the volume of PAIs or the portion of sustainability relative to the exposure of the portfolio.** This is an **approach in “economic exposure”** which therefore does not have to assess whether the counterparty has physically invested in the underlying.

As suggested in our response to Q12, only derivatives on “eligible” issuers shall be considered in the numerator and denominator of the PAI and **the “eligibility” ratio** shall provide the proportion of eligible exposure, including derivatives.

* 1. **Long and short positions are netted per issuer**; Either we consider derivatives on both sides, or we don’t consider them at all. However, we agree that the net position on one issuer could be **floored at 0** so as to avoid “negative” SI or PAIs.
	2. **Total Return swaps for synthetic exposures (structured products and ETFs):**

In any case, for structured products and passive management using synthetic replication of an index:

* The “physical” portfolio swapped against the performance shall be disregarded
* The performance leg of the swap shall be considered for PAIs as well as for sustainable investments + taxonomy alignment in a look through “delta” approach as detailed above.
* A closed-end product such as a structured fund or note should be allowed to freeze the delta at launch of the product during the life of the product.

<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>

Please refer to our response in Q14.

**There should not be any distinction in the way derivatives are considered, whatever the indicator (PAI, % SI and % taxonomy).** Derivatives should be considered as investment decisions and both long and short positions should be considered. For the sake of consistency, derivatives should be considered (or not considered if irrelevant) consistently in the numerator and the denominator. This approach, described in our response to Q14, mitigates greenwashing risk.

<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>

No other asset classes than equity, fixed income corporates and sovereign should be considered.

<ESMA\_QUESTION\_SFDR\_16>

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

<ESMA\_QUESTION\_SFDR\_17>

We believe this is conflicting with the SFDR assessment announced by the EU Commission. Any development made in level 2 regulation should be able to withstand any future review of the level 1 framework.

Indeed, the SFDR DNSH is a sub component of a SFDR sustainable investment (SI). SI is a combination of contribution, DNSH and good governance. ESAs are well aware of the absence of a clear definition of SI in SFDR (level 1) which make comparisons in the SI assessment quite challenging – even for a professional investor - .

The SI topic is clearly one of the key topics that **should be left out of the level 2 consideration** in the short-medium term. For example, in the SFDR assessment and possible L1 review, removing or thoroughly revising the very notion of SI could be envisaged.

All the more because, absence of data in the context of non-EU issuers or small issuers raises issues; Notably in contexts where the availability of such data is not realistic to expect (for instance in frontiers markets), these markets will be excluded from SI while the need to mobilize sustainable capital flow is of great importance.

<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>

Not only the current timing is not conducive to changes in the DNSH/SI area as explained above, but we do not see the added value of expanding disclosures on the DNSH assessment of sustainable investments.

A sustainable investment (SI) is a combination of contribution, DNSH and good governance. Expanding the existing disclosures on one constituent of the SI does not help making pertinent comparisons of the overall SI assessment.

In addition :

* Thresholds on certain PAIs may have to be appreciated in different relative ways (e.g. on a sectorial basis)
* Thresholds can also usefully be applied through binary tests (Y/N) as is often the case with the Taxonomy DNSH, and not always quantitatively
* Data availability can limit the number of PAIs where thresholds are meaningful

The contribution test is more likely to exclude oil & gas (as per ESAs’ example in the consultation) from SI than DNSH.

<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>

The SFDR DNSH test is at entity level while the taxonomy DNSH test is activity based. Therefore the safe harbor can only apply if all the activities of an entity are aligned with the taxonomy. Therefore, we agree that not applying again a full SFDR test to Taxonomy-aligned investment would actually boost investment in use of proceeds instruments such as green bonds.

The “safe harbor” exemption should be kept optional.

<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>

The taxonomy DNSH is done at the very granular activity level for a limited number of activities. The investment universe of SI can instead encompass a vast number of economic activities.

Therefore, **in the long term, we hardly see why two parallel concepts of “sustainability” would be maintained** : there could be only one concept of sustainability based on the taxonomy – once its coverage is extended, **complemented with a “transition” concept** in order to finance transitioning firms that are not taxonomy aligned but aim at being aligned.

As explained above, these long term considerations are linked to the SFDR assessment.

<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>

It is not only DNSH that drives comparability of sustainable investments; In the absence of a clear definition of the concept of SI, comparing methodologies does not help much end investors in comparing the outcome.

**The priority for comparability is to focus on the availability and quality of the associated PAIs**. PAIs have to be material and well covered in terms of reported data.

We believe allowing a “relative” approach to set DNSH that focus on issuers’ performance relative to the industry instead of a single absolute threshold, could provide more relevance to the DNSH. This is consistent with the best-in-class approach applied by the Taxonomy in setting activity-level thresholds per sub sector for the substantial contribution test.

<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>

**We overall agree with setting disclosures related to GHG emission reduction target** for products with decarbonation strategie**s**. In particular:

* The target set in intensity terms is sensible, both absolute target numbers and % reduction (always in intensity terms) compared to the baseline are permitted;
* We support the adoption of PCAF as reference standard;
* We support corporate disclosure standards for investee companies that require the separate disclosures of GHG off-sets;
* At fund level, we support the proposal to set financed emission targets in gross terms.

Please note however the **following attention points** that we call on ESAs to consider:

* **If financed emission targets are set in gross terms**, then **the separate target setting related to off-sets** of investee companies (in association with baseline, intermediate target and final target), with the burden for the FPM to retrieve this information on a best-effort basis (also investing in data providers and direct engagement) **is not proportionate and decision useful**. We suggest the “progress on off-sets” template (e.g. in Annex IV for art8) is therefore removed.
* When the FMP commits to off-setting the residual portfolio emissions, the disclosure of off-setting targets and progress against targets is instead sensible.

<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 are supportive for 2 reasons :

1. PAB/CTB are benchmarks and it is usual to provide hyperlink with benchmarks;
2. The April response of the Commission to ESAs questions shows that PAB and CTB being “regulated” benchmarks there is no need for further disclosures.

<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>

The distinction of the 3 options a-b-c can have an explanatory value for the end investor**. But such options should not be construed as mutually exclusive, and an option “d) Other – (Explain)” may be added**. Indeed:

* It should be left to the FMP to set its own decarbonation strategy at the product level. What matters is that the strategy is correctly disclosed;
* In particular, b) should not be interpreted in the sense that a product can only invest in companies that have set decarbonation targets (line-by-line approach), while c) alone seems insufficient;
* We would like to highlight that lack of a sector allocation constraint in option (a) could lead to overstating the carbon reduction efforts ( through a shift from high carbon sectors to sectors with low decarbonation potential such as media, IT, financials during the life of a product). Typically, a sector allocation constraint is part of the PAB/CTB minimum requirements designed to develop credible decarbonation strategies.

<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>

First, the disclosures are presented in a binary way: either the product is aiming aligned with 1.5 degrees or it’s not aiming to be aligned to 1.5 degree – alternatively, there is the possibility to say that the alignment has not been assessed

**The possibility for article 8 products to be aligned with 1.5 degrees** is excluded from the template (Annex II) while we believe a strong decarbonation strategy can be implemented with less than 100% SI (excluding cash and hedge).

Second, we acknowledge that methodologies for the determination of temperature alignment are not well developed.

The fact of **having an objective of alignment with 1.5° should not replace the disclosure of a quantitative GHG reduction targets.**

<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>

Actually, the draft delegated act (art. 14a 1b) says that the target should be calculated on **all investments to which the PCAF standard (as referred in the ESRS) applies**. This approach is reasonable.

<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>

**A direct reference to PCAF could be preferable** than an indirect reference through the ESRS of CSRD delegated acts.

We are supportive of this standard, which has been widely adopted at the investment industry level (eg. By the NZAOA)

<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>

As mentioned under Q22:

* The requirement to report gross GHG reduction targets (not netted of off-sets) is sensible;
* Therefore, **once the targets are set in gross terms, the requirement to also set targets on off-sets seem redundant, and a considerable burden for FMPs with no real added value;**
* Reporting on off-sets would make sense if targets had to be set in net terms;
* **Reporting on off-sets should be mandatory only when the FMP declares that either it will off-set residual emissions of the product, or that it will take into account the off-sets of investee companies.**

<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>

The connection between product level and entity level targets is weak as distributed products (subject to SFDR documentation) represent only a share of all the assets under management which also include assets managed by delegation. There is no added value in extrapolating product level information to make assumptions on the overall performance of the entity with respect to its net zero commitment on global assets.

<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>

Before commenting the changes in templates, we would like to express the following comments about SFDR disclosure templates:

* **Proposed changes come too early and do not allow to leverage on “informed” feedback from investors.** The existing delegated acts have just been put in place on January 1st this year (with changes in February to incorporate new nuclear and gas disclosures). Therefore, it would be wise to leave some time to get pertinent feedback from investors once they have got acquainted to the current templates. Even before launching into any consumer testing on new changes. FMPs and end investors need to “digest” the current SFDR set-up.
* **The pre-contractual documentation (PCD) is complex for the mass market and its purpose should be clarified** – Its complexity (even with simplified language) makes it more of a technical appendix to the prospectus than a readable and understandable document for retail investors; Needless to mention the volume of the PCD (which can lead up to a thousand of pages for the prospectus of umbrella funds). This can discourage the most motivated investor. Clearly, a simplified language, or a dashboard or color codes, may not prevent from an in-depth redesign of disclosures to retail investors over the long term.
* **The overlap with SFDR assessment should be better considered** – The Level 2 review should leverage on the SFDR assessment. And only if the SFDR assessment concludes that SFDR level 1 should be re-opened, then the level 2 review may proceed, ahead of the “long term” level 1 review, with the only changes which bring quick clarification and simplification, truly help end investors in their understanding of the financial products and can withstand any future review of the level 1 framework. Indeed, it shall avoid additional requirements on topics which are very likely to be challenged further, which would not only put an additional burden with limited added value, but also raise much confusion with end investors facing multiple substantial changes.
* **Any change through the level 2 regulation should** be subject to consumer testing, and to a cost/benefit analysis. In addition, a minimum 1 year implementation would have to be granted to FMPs.

The above general comments are a pre-requisite to all the detailed comments on proposed disclosures [from Q30 to Q33]

As far as the dashboard is concerned:

We think it is clearer than the table as it only refers to art. 8 or art. 9 funds, i.e. there is not a column for art. 8 and art. 9 funds for each template; it also makes comparability amongst various products easier, and it is a good summary of the key information further developed in the templates.

We do have suggestion on how to improve the dashboard, kindly have a look at our answer to Q 31.

<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>

A) We believe that **templates could be made clearer**:

- by providing more examples of socially sustainable investments;

- by clarifying what it is meant by environmental and social safeguards for any assets that do not claim promotion and E&S;

- If there is a reference to Taxonomy in the template, there should be a reference to SFDR as well;

- in definitions: there is no description of what PAI (or now the ‘most significant negative impact’) is or GHG means, as well as a definition of what promotion of E and S means;

- by linking to MiFID – advisors should be able to link the concepts used in the templates;

- in the reference benchmark / broad market index - it is not clear from template whether it refers to an ESG benchmark.

B) We believe that **the dashboard could be made clearer**, please find below our comments:

1) We believe that the first box (see below) of art8 products is misleading and should be rephrased as ‘This product promotes environmental and / or social characteristics’



2) We think it is not necessary to include a narrative in the below box since there is already the 1st question in the template (also copied below) that requires a description on the same topic (i.e. E/S characteristics of the product). It may be overwhelming and confusing for the investors to have 2 narratives on the same topic.

We suggest instead to include in this box of the dashboard only a % as in the other boxes;



1st question in the template



3) The use of colors for the icons may be problematic and we believe it is not appropriate and can be misleading. For instance, fund managers could use the green color even if they have 1% of sustainable investments in their fund and these fund manager will be in the same position as fund managers having 70% of sustainable investments in their fund. The use of colors is also premature and we should wait for the revision of SFDR and whether minimum thresholds/criteria are introduced before using them. If colors are retained, we believe that asset managers should have no discretion over using them and that they should be prevented from greenwashing their products via the use of colors. We believe that the 1st two icons are not clear and do not convey the correct message.

4) We believe that the relationship between “q” and “r” is misleading. Indeed, “r” is not always included in “q” depending on the approach for assessing SFDR’s sustainable investments. We suggest removing the curly bracket

5) In the box below and in other sentences in the template it has to be very clear when we can remove the box/questions, and use consistent wording. For instance, to express this concept sometimes the template makes reference to ‘remove’, ‘include only’, ‘do not include’, ‘include section where’, ‘include section only’, these are different locutions to express the same concept, it is very confusing and misleading this has led to confusion and inconsistent approach amongst regulators. For instance one regulator asked us to reintroduce the whole Reference Benchmark section (i.e. the penultimate one) and to answer with N/A whereas the section, based on the RTS wording, did not have to be included if there was no Reference Benchmark.



6) We would also add that for clarity the sentence should say : ‘remove this statement, icon and box where the product…’

C) Please find below our comments in relation to **other sections of the template which could be made clearer**:

1) The question below should be rephrased to:

“If this product makes a minimum investment of [x]% sustainable investments what are the objectives of the sustainable investments? – reasons being that an art. 8 fund may not have sustainable investments.

2) The box re global warming 1.5 celsius on page 126 – why and how does this apply? Why wouldn’t art8 funds aim at limiting global warming?

3) Page 127: the 2 links we need to add, please see box on the top left of the page; page 128: another link, to what?

4) What is meant by ‘commitment’ in the question below? This is the old question on ‘binding elements’. Do we need to list the binding elements? Or do we need to include the % that we indicate in the ‘asset allocation’ question and that used to be put in the investment tree (proposed to delete in Question 33). There should be an explanation on the side on what is required here.



5) The language should be consistent, clearer:

- See comments above in relation to ‘remove’;

- ‘Share’, ‘proportion’, ‘%’ - 3 different words to express the same concept

6) The question below could be removed as it is redundant, the investment strategy is already mentioned in the prospectus (and in the PRIIPs KIDs).



<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>

Some sentences in Annex II cover the same concepts and their language should be harmonised and made consistent:

- The language used in the sentence “What is the minimum proportion of EU Taxonomy investments” and “What is the minimum share of sustainable investments with an environmental objective that do not meet the criteria of the EU Taxonomy?” should be harmonised. For instance the first sentence could become “What is the minimum share of sustainable investments with an environmental objective that meet the criteria of the EU Taxonomy?”

- The box on the left near the question “What is the minimum share of sustainable investments with an environmental objective that do not meet the criteria of the EU Taxonomy? is a repetition of the question.

- We believe it is not necessary to have the sentence highlighted in blue in the template if there is 0% taxonomy aligned investments and 0% gas and nuclear investments. One regulator asked us to reintroduce this sentence, and as a result we had to calculate the proportion of investments minus the sovereign bonds in the portfolio. This adds nothing to investor’s knowledge and has triggered a lot of calculations.



<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>

No, it is not. The investment tree has been subject to different interpretations in terms of completion from different NCAs. With respect to sustainable investments, we would appreciate indicating only one % of sustainable investments, namely without the distinction between environmental sustainable investments and social sustainable investments.

<ESMA\_QUESTION\_SFDR\_33>

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

<ESMA\_QUESTION\_SFDR\_34>

Yes, we do

<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>

We believe digitalisation is a good trend but, before providing this option, we call on ESAs to clarify the SFDR issues in priority, notably in line with our general comment in Q30.

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

The use of key environmental metrics to estimate the positive contribution to one of the environmental objective should not be limited to reported metrics. Indeed, the lack of standardized reporting, especially out of the scope of CSRD, prevents from the direct use of reported data. The use of data *derived from* reported metrics should be allowed to favor the development of estimates.

On the estimation of compliance with minimum social safeguards, while the use of controversies should not be encouraged to show compliance, it could be useful to demonstrate a misalignment with this criteria.

<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>

To prevent greenwashing and the lack of comparability of key environmental metrics, the concept should be defined more precisely. These metrics should be limited to metrics expressed in physical units to avoid comparability issues. Metrics that assess the entire value-chain of an issuer should also be favored to avoid focusing on a particular scope where a positive performance can be measured while hiding a negative performance on other scopes.

<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>

The calculation (numerator/denominator) of the proportion of sustainable investments (SI) shall be clarified :

1. To take into account “relevant” derivatives to be looked thru at the numerator and denominator on the basis of equivalent exposures (delta approach). Please refer to our response to Q14-Q16.
2. Given the clarification from the Commission to ESAs questions in April 2023, an SFDR SI can build on an entity approach. It is therefore not appropriate to "build upon art 17 of SFDR RTS" which deals with the taxonomy approach by activity.
3. **Government bonds (excluding use of proceeds bonds)**

In diversified funds/portfolios, government bonds allow to offer to mass retail the suitable level of risk : most retail clients claim for prudent profiles i.e. products/portfolios which government bond portion can reach up to 30-40% of the NAV.  Not recognizing sovereign bonds as possible eligible sustainable investments will involve very little match of products with low risk clients that have high sustainability targets. Moreover, clients trading on their own (i.e. not under advisory) may increase their risk by selecting high sustainable products at the cost of proper diversification.

In this context :

* 1. ESAs shall provide guidance as to whether government bonds are eligible to the qualification of SI under SFDR, and not leave level playing field issues between Member States.
	2. Meanwhile, for the FMPs/products that consider government bonds are not eligible to SI, ESAs could allow them to disregard governments bonds in the numerator and denominator of the % SI under the following cumulative conditions:
* Disclose that government bonds are not considered as eligible to SI;
* Disclose the proportion of exposure to government bonds over the overall exposure of the product;
* ESAs to determine a threshold above which this proportion of government bonds is too significant to be disregarded (ie the proportion of eligible investments is too low to be meaningful in terms of SI%).

<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>

The impact of this review of SFDR Delegated regulation is dependent upon its scope.

Overall, the changes foreseen by ESAs (in PAIs, in disclosures,…) demand extensive modifications to IT systems, operational processes, and all the costs associated with data providers, data gathering, validation, and calculation. These tasks cannot be rushed, as they require rigorous testing to ensure accuracy and reliability.

**A one year implementation is the minimum**. In addition, **changes to current PAIs should occur on a 1st of January** to avoid burdensome and worthless complexity in calculations, restatements and operational risks. And, as far as **new PAIs are concerned, the implementation shall not be earlier than the date at which the data will be reported by undertakings**, at least large undertakings, including any additional phasing period in the ESRS/CSRD delegated acts.

Additionally, it is challenging to quantify the costs related to the loss of consumer confidence in sustainable products due to constant updates and clarifications. To maintain stability and prevent incessant changes, FMPs require a reasonable bedding-in period, avoiding a situation where the goalposts are constantly shifting.

To this extent we re-iterate that:

1. **The overlap with SFDR assessment should be better considered** – This Level 2 review should leverage on the SFDR assessment. And if the SFDR assessment concludes that SFDR level 1 should be re-opened, then the level 2 review may proceed, ahead of the “long term” level 1 review, with the changes which bring clarification and simplification, and truly help end investors in their understanding of the financial products. But it shall avoid additional requirements on topics which are very likely to be challenged further (at level 1) – typically the SI DNSH framework -, which would not only put an additional burden with limited added value, but also raise much confusion with end investors facing multiple substantial changes. FMPs and end investors need to “digest” the current SFDR set-up which has entered into application for less than 6 months.
2. **ESRS/CSRD and SFDR shall be fully aligned, while it is not the case and the last draft ESRS delegated acts are worsening the data gap**, temporarily with an additional phasing for reporting undertakings and permanently with the introduction of materiality assessments in the ESRS.
3. Before proceeding with changes**, feedback on** existing templates in place since January 1st this year only (even February for the inclusion of nuclear and gas disclosures) should be sought, and in a second step, changes should then be subject to consumer testing.

<ESMA\_QUESTION\_SFDR\_43>

1. Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39. [↑](#footnote-ref-1)