**Reply form**

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

 12 April 2023ESMA34-45-1218

**Responding to this paper**

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

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

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

**Instructions**

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

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

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

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

**Publication of responses**

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

**Data protection**

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

**General information about respondent**

|  |  |
| --- | --- |
| Name of the company / organisation | Candriam |
| Activity | Investment Services |
| Are you representing an association? | ☐ |
| Country/Region | Luxembourg |

**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>

 In the context where the European Commission (EC) decided to make all ESRS standards, disclosure requirements and data points subject to the “materiality assessment”, we want to stress the fact that financial market participants (FMPs) depend on information provided by their counterparts to comply with their own disclosure requirements, it is hence of the foremost importance that mandatory PAI indicators are also mandatory in the CSRD framework. We highlight once again the need for consistency between ESAs’ work on the SFDR level 2 review and the EC work on the CSRD and would like to remind that any new PAI included should be made mandatory in the CSRD and only implemented when the related data point in the corporate reporting becomes applicable to all in-scope undertakings. Additional PAIs should not worsen the data gap issue FMPs are currently facing.

Moreover, it is also important to remind that some undertakings will not be subject to the CSRD (undertakings in emerging countries, undertakings below the thresholds,…), FMPs won’t be able to collect information from such counterparts. Clear guidance should be adopted to clarify how FMPs will have to deal with situations when the information is not reported by undertakings considering that materiality does not apply and by those not under the scope of the CSRD.

In this context, financial institutions will highly depend on data providers which are not yet regulated. There is hence a distortion between the obligations borne by financial institutions and data providers. It is quite important that final measures adopted for ESG data and ratings providers (following the publication by the European Commission of a new legislative text proposal on a regulation for ESG ratings providers) adequately address this distortion and that the need to create a holistic regulatory framework for data and rating providers (for both financial and non-financial information) is globally assessed.

While we believe that the new proposed PAI are seeking to address material social issues (tax, pay equity, worker rights, tobacco), we have strong reservations about making the reporting mandatory without further clarification (on calculation methodology, indicator definitions or use of estimates notably). We also believe that an impact analysis should be made to make sure that newly proposed social indicators are pertinent and with a good coverage.

As a general comment, we would like to highlight that KPIs may not be readily available for certain asset classes.

**We strongly advocate for the SFDR Level 2 review to prioritize the alignment of PAIs between SFDR and the delegated acts of the Corporate Sustainability Reporting Directive (CSRD) - related to the European Sustainable Reporting Standards (ESRS).** This alignment should encompass the following key aspects:

1. ***Scope:*** We propose that all disclosure requirements and data points (e.g. PAIs) included in SFDR should be mandated under CSRD/ESRS. If certain data points are made voluntary in the ESRS, the PAI should be removed from SFDR. If certain data points are being subject to materiality assessment, then PAI entity-level disclosure requirements should appropriately be recalibrated to reflect this incoherence (see (3) below).
2. ***Definition:*** It is essential to ensure that the definition of PAIs is consistent across SFDR and CSRD/ESRS. Harmonizing the definitions will provide clarity and avoid confusion for FMPs and end investors.
3. ***Materiality:*** If the Commission proceeds as proposed in the ESRS draft delegated acts (e.g. disclosures and datapoint within each standard will undergo a materiality assessment), then reflections need to take place under SFDR. Indeed, the ESAs and the European Commission must provide clear guidance on how FMPs should handle missing data points resulting from this materiality assessment. This guidance should cover aspects such as entity reporting and the DNSH assessment.
4. ***Timing:*** Subject to our comments regarding scope and materiality, it is of utmost importance not to aggravate the already existing data gaps for FMPs by ensuring that:
* the application date for any additions to the PAI list under SFDR aligns with the date of publication of the reporting under CSRD/ESRS, by all in-scope undertakings including any potential additional 1 to 2-year phasing period that the Commission would introduce as per the ESRS draft delegated acts. Should new PAIs be introduced before that date, it should then be acknowledged by regulators that FMP’s proxies of the missing data will likely not be reliable.
* as far as current PAIs are concerned: If the Commission proceeds as proposed in the ESRS draft delegated acts with an additional phase-in period, then a suspension of some existing PAIs from the SFDR list (where data coverage is very low for example) must also be considered.

More specifically, please find below some comments on the newly proposed mandatory social indicators.

1. **Amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million** (PAI 14)

ESAs indicates that this PAI is not an ESRS disclosure. but an Accounting Directive disclosure which we understand should become applicable for FY 2025 for EU undertakings establishing their accounts on a calendar year basis, therefore available for the first time to FMPs and data providers in the course of 2026. This new PAI shall therefore not come into application before 31.12.2016.

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 a multinational. To this extent “**net profits”** 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.

The threshold of € 750 mio is that of the EU directive. Applying the same threshold to non EU entities can be challenging in mapping and identifying entities, due to the complexity of corporate structures

Moreover, the EU list of non-cooperative tax jurisdictions is subject to change. This will make tracking this information difficult and we therefore suggest FMPs are allowed to freeze the information at the date of the last undertaking’s reporting. For non-EU multinational undertaking, the EU should provide guidance on the acceptable use of estimates in the absence of reported data. And for EU undertakings which revenues are below €750 million, therefore out of scope of reporting obligation, it should be allowed to consider the information irrelevant, therefore set at zero.

1. **Exposure to companies involved in the cultivation and production of tobacco** (PAI 16)

This indicator should be relatively easy to measure as there are established ESG databases which track company revenue exposure to tobacco production. Given that this indicator is required in ESRS (ESRS 2 SBM-1), we consider it would be relevant to include it in the set of social PAI indicators. We are in favour of limiting it to companies involved in the cultivation and production of tobacco products. Distribution of these products should not be included in the indicator as it would encompass a wide range of entities with only a tangential connection to the tobacco industry. Specific guidance should be given as to how involvement should be measured (e.g. revenue) and the tolerance threshold for this indicator.

1. **Interference with the formation of trade unions or election worker representatives** (PAI 17)

We agree that from a fundamental perspective this is an issue which is relevant and likely to be material for a number of sectors. However, we note that the underlying data may not be sufficient in terms of coverage as it is not a mandatory indicator as part of ESRS S1 (it is only mentioned as an example in ESRS 1 -8), with a calculation methodology which would need to be clarified. In that context, it will be challenging to propose it as a mandatory PAI (unless there is a modification of the ESRS).

Moreover, as currently worded this indicator would be very tricky to measure. Defining what constitutes “interference” is challenging as this could include systematic and idiosyncratic factors and could have a time dimension as well. The term “commitment” also needs refinement. It may be possible to check this based on the absence of related policies (e.g. one related to “Freedom of Association”), though typically we do not consider the existence of a policy as a material indicator of avoiding adverse impact as even companies with strong worker rights policies can interfere with unionization. Additionally, an indicator measuring the number of workdays lost to strike actions could be considered a meaningful indicator with readily available data. This metric could provide valuable insights into labor relations and their impact on corporate operations.

Finally, it should also be noted that this PAI may not be available for certain alternative asset classes.

1. **Share of employees earning less than the adequate wage** (PAI 18)

From a fundamental perspective, this is indeed an indicator which seems relevant to assess how a company handles social issues. The concept of adequate wages unfortunately remains insufficiently defined. Determining what qualifies as an "adequate wage” is influenced by numerous factors, including jurisdiction, supply and demand, and the qualifications and experience of employees. Ultimately, the assessment of an adequate wage is subjective and varies among financial market participants. As a result, measuring the proportion of employees earning less than an adequate wage becomes challenging. This raises the question of who should be responsible for determining and evaluating their adequacy. Rather than relying on financial market participants, we question whether the determination of wages and their judgment should be left to national labour markets or their regulatory frameworks.

In addition, we stress the importance of receiving this data point through the ESRS standards.

Also, it is crucial to establish a calibration and clear definition of "adequate wages" before adopting the corresponding PAI. Specifically, clarifying the relationship between an "adequate" wage and the ESRS-defined living wage would be beneficial. <ESMA\_QUESTION\_SFDR\_1>

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

<ESMA\_QUESTION\_SFDR\_2>

The European Commission invited the ESAs to “*(1) streamline and develop further the regulatory framework, (2) consider extending the lists of universal indicators for principal adverse impacts, as well as other indicators, and (3) refine the content of all the indicators for adverse impacts and their respective definitions, applicable methodologies, metrics and presentation”*. While we acknowledge the work done by the ESAs in this consultation, we believe that ESAs could have taken the opportunity of this consultation to streamline existing PAI indicators. A comprehensive assessment of existing PAI Indicators (coverage, data availability,…) would also have some added-value to understand where the market stands.

We see interest to disclose additional Social PAIs to strengthen social dimension in DNSH and corresponding consideration of related PAI in financial products. However, data relating to PAI is still a challenge both in terms of availability and reliability mainly because issuers are not yet due to report on existing PAI, with social being less advanced than other pillars in terms of maturity. Timing to including additional social PAIs will be appropriate after the largest scope of corporates start reporting on those social sustainability themes post CSRD’s entry into force (please refer to Q1 on our high level position with regards consistency between SFDR and CSRD).

We believe that there is a need for mature data on PAI prior to enforcing new PAI indicators. In this context, we believe that there is no need to add any other social mandatory PAI at this stage.

<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 believe that further clarification is needed on the interpretation of “*excessive use of*” (optional PAI 9, 10 and 11) or “*insufficient employment of*” (optional PAI 12). Indeed, FMPs may apply these concepts differently depending on the jurisdiction, sector, companies, thus reducing the comparability objective of the ESAs.

Therefore, we call for ESAs to bring more clarity on these indicators before requiring any implementation. Moreover, as already mentioned, the timing of reporting of any new PAIs under SFDR should be aligned with reporting obligations under the CSRD to avoid any data gap issues.<ESMA\_QUESTION\_SFDR\_3>

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

<ESMA\_QUESTION\_SFDR\_4>

We urge for a shift in focus away from the mere addition of indicators and towards **prioritizing relevance and simplification.** This is especially crucial given the current limitations in data quality, which first and foremost necessitates improvements in data coverage to ensure more reliable results.

Based on this overall principle we need to consider the risks of a long list of indicators that are not necessarily of direct relevance and may dilute the overall understanding of the PAIs of a product. In addition, it is imperative for investors not to receive an excessive amount of information. We, therefore, **recommend minimizing the number of PAIs, focusing only on the most relevant ones.**

The priority should, therefore, be placed on a selected few indicators that are universally relevant to all assets and strategies to make them aligned with ESRS/CSRD, providing investors with a clear and robust understanding of the material negative impacts investments have on various sustainability factors.

Additionally, the costs of reporting and disclosing by non-financial undertakings and FMPs should be carefully weighed against the benefits they offer to users. It is essential to evaluate whether retail investors genuinely need this information to make well-informed investment decisions. Thus, emphasis should be placed on investor-centric disclosures of relevant principal adverse impacts.

<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>

In principle, we welcome the proposed replacement of the UN Global Compact Principles by the UN Guiding Principles on Business and Human Rights and the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights to foster consistency with other regulations (in this case, Taxonomy). It should be reminded that consistency with the CSRD should be provided, and companies should be required to publish such information (please refer to our general comment in Q1).

At the same time, we have concerns regarding the proposed formulae for both violations of the UN Guiding Principles and "policies to monitor compliance with or avoidable grievances and complaints handling mechanisms to address violations of at least one international guideline or principle" that require **additional clarification.** This is necessary to avoid confusion about what is considered compliant with the UN Guiding Principles and, consequently, the appropriate monitoring policies, processes, and consequences for violating these principles.

To ensure clarity, it is important to define acceptable monitoring policies and processes, as well as establish a clear understanding of what constitutes a violation of the UN Guiding Principles. For instance, entities should demonstrate ongoing human rights due diligence, monitoring of human rights risks, and a formal commitment to providing access to remedy as a minimum requirement. However, defining the parameters of a violation presents a greater challenge.

Drawing from the experience of UN Global Compact violations, it is evident that the burden of evidence is substantial, and there are discrepancies among third-party data sources in the absence of a global consensus on defining violations.

1. : For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?

<ESMA\_QUESTION\_SFDR\_6>

No, we think that the Taxonomy Regulation already covers these matters for real estate assets. Applying PAI indicator related to social matters at the level of the management company of ther real estate assets would duplicate the work.

<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>

The proposed change makes sense, permitting that the below two main challenges are considered.

* The current lack of a European homogeneous EPC rating system based on letters (A/B/C).

This leads to an unequal definition and quality of the regional EPC which may penalize or favor some buildings according to their locations.

* Existence of very few detailed and relevant pan-European benchmarks that help to define the top 30%, which may exclude from the top 30% high energy efficiency and ESG quality buildings.

<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>

We see a challenge in estimating the detention percentage (current value of the investment/investee company’s enterprise value) as the delegated regulation does not include any indication on how to determine the detention percentage for periods other than year-end. The detention percentages during the year also have to be consistent with the impact figures published at year end-end by the company.

The approach described in the ESAs’ Q&A consists in calculating the detention percentage from the number of securities held by investors at the end of each quarter with the current value of investment calculated by taking as reference the ones included in the calculation of the enterprise value for the fiscal year-end. This is to ensure that the change in the current value of investment represents a change in the number of investments held and not a change in the valuation of that investment.

However, this:

* does not solve the consistency issue: as it focuses on how to manage the impact of financial market fluctuations, it does not resolve issues regarding changes in debt profile, activity perimeter of the company, credit event, etc., but introduces significant impact in case of changes in the capital structure of the company (stock split, capital increase, corporate action).
* introduces unwelcome complexity on the calculation approaches for only a limited number of PAIs while the others can be calculated based on quarterly market valuations, increasing operational risks.
* introduces a huge additional workload for reporting and is contrary to common practices for portfolio analysis (presentation of asset allocations, performance and risk calculations, look-through analysis for prudential reports), which are based on market valuations and this may at product level lead to breach of regulatory ratio in case the PAI indicator is part of the product binding objectives.

**Consequently, it will be virtually impossible to reconcile financial, risk and PAI assessments for portfolios, or provide look-through analysis for investments in funds.**

To reduce the bias in the PAI impact calculation, we recommend that the existing Q&A be modified to allow an approach that relies **on a quarterly estimation of the enterprise value based on market prices at each calculation point (e.g. quarterly) to calculate the detention percentage.**

Lastly, we ask regulators to **ensure that the estimation of enterprise value aligns with CSRD and is readily accessible for FMPs to make use of**, particularly considering the requirement to determine PAI on at least four specific dates during the reference period.

<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>

We welcome the work done by ESAs to clarify the PAI formulae, this work will enhance comparability and avoid different interpretations between financial market participants. As already mentioned, new formulas and definitions under SFDR should be aligned with the standards set by the CSRD and ESRS.

The ESAs should also not introduce additional requirements or change how the industry has already implemented the calculation of indicators. Below we highlight specific issues with the newly proposed formulas.

Please find below some comments:

* **Exposure to companies active in the coal sector:** the definition part of the Appendix does not provide a definition of the “coal sector”. The ESAs should provide a clear definition of what is meant by “coal sector” (Is it related to coal power plants, trading, transportation, or mining?).
* **Exposure to companies active in the fossil fuel sector and the coal sector:** the ESAs should specify what is expected: should we consider the entire investee company or only the proportion of its exposure to the fossil fuel or the coal sector? In the case where it is expected to consider the exposure of the entire investee company, a revenue threshold above which an investee company is considered in its entirety should be set. This threshold will have the merit to avoid considering an investee company in its entirety when it only has a limited part of revenues derived from fossil fuel or coal sectors.
* **Energy consumption intensity per high impact climate sector"** indicator: obtaining the information needed for the nominator and denominator can be difficult, especially for conglomerates operating in multiple NACE sectors. We suggest that if 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.
* **Share of non-renewable energy consumption and production indicator:** the current wording in the RTS does not indicate a requirement to split between consumption and production. As per energy consumption intensity per high-impact climate sector, we are unsure whether the split between consumption and production is available or will be required as part of CSRD and ESRS.
* **Sovereign intensity:** we would welcome clarifications on the scope of a country’s GHG intensity, focusing in particular on territorial emissions, treatment of agencies, treatment of imported emissions, and treatment of exported emissions. Reference to a 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. We also identify the possible issue of double counting for indirect investments (fund of funds).
* **Investee countries subject to social violations indicator:** We welcome the formula based on exposures and propose to amend the narrative and description of PAI 20 “Number of investee countries subject to social violations...” to “exposure to investee countries subject to...).
* **Hazardous and radioactive waste:** Nuclear waste and other hazardous waste although both calculated in tonnes, have very different levels of magnitude (nuclear waste often being negligeable). To facilitate an effective assessment in relation to nuclear waste, it could be appropriate to separate it from the other hazardous waste with two separate indicators.
* **Board gender diversity indicator:** current description is the average ratio of female to male board members in investee companies, expressed as a percentage of all board members. However, this is not aligned with the formula included in the consultation which has male board members as the numerator. Whilst using male board members as the numerator is consistent with showing the ‘negative’ impact, the current wording will have to be updated to ensure this indicator cannot be misinterpreted. Although our preference is for the ESAs to retain the industry’s current understanding (i.e. female board members as numerator) to avoid any need for restatement.
* **Gender pay gap:** the formula floors the gender pay gap at 0 which may not be the case in the related ESRS. 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.
* **Number of identified cases of severe human rights issues and indicators** (number of cases of severe human rights issues and incidents connected to investee companies on **a weighted average basis**)**:** Reference to weighted average basis has been removed in the consultation.

As a general observation, we note that the last available data to calculate the PAIs can lead to distortions in effective exposure. This is because the data used for calculation may not have been available or may have changed since the moment the PAI indicator was initially determined. It is especially crucial to consider this aspect given that most indicators are based on evolving factors.

For the aforementioned "**amount of accumulated earnings in non-cooperative tax jurisdictions**" indicator, the EU revised list of non-cooperative jurisdictions for tax purposes is a dynamic list with changing jurisdictions. Therefore, it should be specified at what time point the list should be used in the calculation. Please also refer to the comments in Q1.

Overall, modifications may introduce **operational challenges as the market transitions simultaneously to the new calculation formula and adjusts disclosures accordingly.** It would therefore be highly beneficial to receive **comprehensive guidance and allow sufficient time for implementation**.

**We also call on authorities to apply changes on a 1st of January** to minimize their impact on the average PAI calculation within the reporting year. Clarification is required on how FMPs should treat year-on-year changes to certain indicators. This becomes relevant when the ESAs change formulas resulting in previously disclosed indicators no longer being comparable. We, therefore, believe it best not to restate the prior year’s values and rather provide an explanation within the explanation column.

<ESMA\_QUESTION\_SFDR\_9>

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

<ESMA\_QUESTION\_SFDR\_10>

The current misalignment of SFDR and CSRD timelines generate data gaps, please refer to our answer to Q1 on the need for consistency between the SFDR and the CSRD.

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.

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| 1, 2, 3 PAI – Scope 3 | On Scope 3 of GHG emissions: estimated models can diverge significantly leading to heterogeneity between FMPs.Scope 3 data is very rarely disclosed and estimates vary dramatically across vendors. Where data is disclosed typically it is done so inconsistently. All of these factors could distort reporting figures and make them difficult to interpret by market participants independently and in reference to other asset managers.  |
| 5. Share of non-renewable energy consumption and production | Collection of raw data is very low (and high estimation error for entities that do not report) which could distort reporting figures.  |
| 6. Energy consumption intensity per high impact climate sector | We would welcome clarification on the primary NACE code of the company to be used for multi-sector companies, to understand how the primary NACE code is expected to be defined. |
| 7. Activities negatively affecting biodiversity-sensitive areas | Collection of raw data is very low (and high estimation error for entities that do not report) which could distort reporting figures. |
| 8. Emissions to water | Collection of raw data is very low (and high estimation error for entities that do not report) which could distort reporting figures.  |
| 9. Hazardous waste ratio | Collection of raw data is very low (and high estimation error for entities that do not report) which could distort reporting figures.  |
| 12. Gender pay gap between female and male employees | Collection of raw data is very low (and high estimation error for entities that do not report) which could distort reporting figures. |
| 19. Sovereign GHG intensity | We would welcome clarifications on the scope for a country’s GHG intensity, focusing in particular on territorial emissions, treatment of agencies, treatment of imported emissions, treatment of exported emissions. |
| 20. Investee countries subject to social violations | We identify a possible issue for indirect investments (Fund of Funds) that could lead to double counting. |

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

* The possibility for FMPs to mention that there is a low coverage of the PAI.
* Determining a threshold of coverage below which the PAI may be disregarded. The coverage ratio being composed of eligible assets for which we have “raw data” and estimates.

This would be particularly crucial in case PAI’s are not made fully mandatory by CSRD/ESRS or are postponed due to additional phasing.

<ESMA\_QUESTION\_SFDR\_10>

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

<ESMA\_QUESTION\_SFDR\_11>

We understand that the rationale for this proposal is to enable investors to access the robustness of the PAI indicators. Nevertheless, we have some doubts with regards the value of such information and we want to highlight that this data is complex to manage so implementing the proposal would require advanced and costly IT solutions, which may not be practical or cost-efficient.

The November 2022 Q&A from the ESAs indicates that providing this information is a “good practice” and we believe that this information should not be made mandatory and should remain a “good practice”. In any case, it should be clarified what is meant by “information received directly from investee companies”: can the information provided by data providers be considered as “directly received from investee companies” when such data providers have obtained the information directly from the company?

On another note, we believe that an information that will bring more added value to the PAI reporting would be the coverage ratio of PAI indicators (coverage being understood as “raw data” and estimates). Indeed, until the CSRD/ESRS is fully implemented (and depending on the evolution of CSRD requirements, please refer to Q1 for the CSRD context), financial market participants struggle to collect all the required information from investee companies to assess PAI indicators. This information will provide a useful information to investors for comparability purposes and investment decisions. <ESMA\_QUESTION\_SFDR\_11>

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

<ESMA\_QUESTION\_SFDR\_12>

We understand ESAs’ objective to enhance comparability between financial products. However, we believe that flexibility should be provided, as both proposed approaches make sense. Therefore, FMPs should have the possibility to decide which approach they wish to take (i.e. approach 1: “all investments” or approach 2: investments in the particular type of “asset” the PAI relates to i.e. investee entity or sovereign or real estate i.e. “the eligible assets”).

When using the first approach “all investments”, we believe that the denominator should be the Net Asset Value rather than Asset Under Management. This would ensure that the end investor understands the impact of their investment for each 1 euro invested in a product.

When using the second approach “eligible assets”, the denominator would be the eligible assets only. FMPs should complement their disclosure with the publication of an eligibility ratio. This ratio would be the eligible asset exposure over the net asset value of the financial product and would allow comparability between products using the approach 1 and products using the approach 2.

<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>

Requiring the inclusion of information on investee companies' value chains in PAI calculations poses practical challenges due to a **significant lack of data.**

Therefore, we **support the proposal to consider information on investee companies’ value chains to the PAIs where the investee company is reporting impacts in its value chain according to the ESRS under its own materiality assessment performed in accordance with the ESRS.** If the investee company is not reporting its value chain’s adverse impacts under the ESRS or this is disclosed in other reporting, then those do not need to be taken into account for the PAI calculations.

<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>

Derivatives are an integral part of asset management in the best interest of investors. We, therefore, appreciate that the topic of derivatives in being discussed in this Consultation Paper, as it rightly emphasizes the role of derivatives in investment decisions while seeking to provide clarity on how to incorporate them into investors' ESG disclosures.

**It is essential to have a coherent approach between the different metrics, i.e. all 3 metrics : SI, PAI, taxonomy alignment should bear a coherent, consistent and complete calculation methodology**.

If ESMA is right with the principle of counting in also the exposures gained through ESG meaningful/material derivatives, the suggestion to differentiate between indicators and only add exposure if it has a “negative” impact on to the indicator is disconnected to the consistency of the use of derivatives for UCITS and AIFMD directives. The use of the exposure through derivatives should consider both sides, whether it increases or decreases the indicator.

At least for the numerator**, ESG meaningful/material derivatives should be in**. For example, the use of ESG neutral derivatives such as foreign exchange or interest rate derivatives should be disregarded. Also, non-significant and/or temporary use of derivatives or the use of derivatives on broad indices do not concur to the ESG profile of the fund and are excluded. There is no doubt that the calculation is delta equivalent exposure following the UCITS and AIFMD global risk calculation guidelines. We also agree with ESMA’s suggestion that the net shorts should be floored to 0.

As a reminder, net delta equivalent exposures grasp the economical exposures of products, which represent the product and thus investors’ exposures to the economy.

In line with the SFDR disclosure regime, we favour that FMP remain transparent about the extent of the use of derivatives, the way they use those for the achievement of the E/S profile of the managed product and the calculation methodology applied for the different impacted metrics.

The question of the counterparty method of hedging is intrusive and irrelevant for this matter. It would be a nightmare with no value added to ask each counterparty on each deal, knowing that they have Basel strict rules of hedging risks on the management of their books. Funds’ counterparties of derivatives and other EPMs are banking regulated entities that are required to hedge their positions and not keep open positions. There will always be a buying (or selling) interest in the market linked to the derivative’s long (or short) exposure.

<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>

The solutions should be viewed in a broader context that goes beyond the asset managers and involves specialists’ suggestions like ISDA. As to the previous question, we insists on consistent calculation methods between long and short (consider both, i.e. their net result) and between indicators (PAI, taxonomy-alignment, share of sustainable investments).

Calculations should be based on the **net delta underlying-equivalent methodologies** as they are detailed in the UCITS/AIFMD global risk calculation methodologies.

**Netting provisions** should be applied to sustainable investment calculations.

As a reminder, derivatives are an integral part of efficient portfolio management performed in the best interest of the investors and rules to deal with derivatives’ underlying exposures are already in place in the UCITS/AIFMD Guidelines. The unique prism of greenwashing risk to deal with derivatives exposure is incorrect and leading to an inconsistent methodology. It is essential that the approach be similar for the 3 indicators : PAI, SI and taxonomy.

Derivatives should be included in the numerator of these ratios only (and systematically) when they have been integrated into the portfolios as part of the ESG management objective. For this, it is necessary to :

* disregard FX and interest rate derivatives
* distinguish a rather structural and non-negligible use to include derivatives . Indeed, the vast majority of derivatives’ use is not for ESG exposure purposes as they are only used for EPM - efficient portfolio management techniques for liquidity reasons / time to market reasons, risk management, and on a temporary/non-structural manner and/or for a negligible proportion of the portfolio. The indicators should instead account for derivatives that do contribute to the ESG strategy - both for long and short exposures.
* base the calculations on the net exposure by issuer (either when a single-underlying derivative is used or derivatives on indices/baskets with few securities and that be easily transparised)
* include shorts floor to 0 net short exposures
* include shorts if they are based on a single underlying derivatives or on undiversified baskets/indices (i.e. with few securities)
* ensure that counterparties for OTC derivatives are eligible entities with regards to the ESG criteria of the asset manager like controversies.

On the complex subject of the denominator, we would like to :

* recall the importance of meaningful transparency which is linked to accuracy in the calculation
* suggest not impose total assets as the sole denominator for all calculations because it is not appropriate for all PAIs
* recommend that “all meaningful assets” be used (including the delta equivalent exposure of meaningful/material derivatives), but net total assets could also be used in some cases for reasons of operational simplicity when the use of derivatives is mainly for risk/Efficient Portfolio Management reasons and are not entered with/have an effect on an ESG objective and/or when the part of non-ESG assets (in particular cash) is structurally non-significant. When the approach of “all meaningful assets” is used, the asset manager mentions the part it represents on the net assets.

<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>

Yes. The asset classes question is clarified if an additional reference is made to the UCITS and AIFMD global risk rules (including netting and hedging rules). The sectoral rules are more detailed and broader in scope than a literal reading of the specific provisions of the Short Selling Regulation pointed at.

<ESMA\_QUESTION\_SFDR\_16>

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

<ESMA\_QUESTION\_SFDR\_17>

A sustainable investment encompasses three subcomponents: contributions, DNSH, and good governance. Expanding the existing disclosures by introducing quantitative thresholds for only one subcomponent (i.e. DNSH), will not effectively resolve the issue of meaningful comparisons of the overall assessment of SI. Keeping in mind (i) that the EC is considering a possible SFDR Level 1 review to enhance legal clarity for key definitions, including SI and (ii) the integral role of DNSH in SIs and the potential inclusion of this concept in the SFDR Level 1 review, we firmly believe that **the current timing is not conducive to addressing additional changes and requirements, given that the significance and application of the DNSH test might completely change.**

Also, we do not agree that moving to a Taxonomy-based system would solve the issue. At the moment, there is: i) insufficient data available under the Taxonomy ii) the Taxonomy works by reference to activities rather than entities iii) the Taxonomy thresholds are too stringent for many valid sustainable strategies and iv) the Taxonomy does not cover all economic activities. Moreover, the DNSH criterion within Taxonomy is largely qualitative rather than quantitative, primarily focused on assessing alignment with EU environmental regulations using a binary approach. <ESMA\_QUESTION\_SFDR\_17>

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

<ESMA\_QUESTION\_SFDR\_18>

As SFDR is a disclosure framework, we do **not support** the idea of requiring financial market participants to set **quantitative thresholds** across mandatory indicators as part of the DNSH assessments. We strongly believe that expanding the disclosures on the DNSH assessment of SI does not provide any additional value. The publication of thresholds used for DNSH does not guarantee comparability between financial market participants as different PAIs consideration methodologies can be used in the DNSH analysis, leading to further confusion for investors.

Moreover, a sustainable investment encompasses not only DNSH but also contribution and good governance. Focusing solely on one component of SI in the disclosure requirements fails to capture all aspects of the overall SI assessment.

Furthermore, it is imperative to consider the following points:

* Thresholds for specific PAIs should be evaluated in a nuanced manner, such as taking into account sector-specific variations and also the direction of travel (i.e. focussing on more forward-looking thresholds).
* Instead of quantitative thresholds, binary tests (Y/N) can be a valuable alternative, as is the case with the Taxonomy DNSH criteria. A qualitative approach might better capture the complexity of assessing certain impacts.
* The availability of data is a crucial factor to consider as meaningful thresholds for PAIs may be limited by the lack of accessible data.
* While we understand that the goal is to give the market access to information on compliance with the DNSH criteria, there is a real risk of "disclosure overload", especially if this would have to occur across quantitative thresholds. For example, the publication of quantitative thresholds implies that, for each change or adjustment made in the methodology, all the relevant documents must be modified which creates a huge administrative burden.

**In light of these circumstances, we urge policymakers to prioritise excluding the SI topic from Level 2 considerations for the short to medium term.** <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>

In its Sustainable Finance package published on 13th June 2023, the EC has already confirmed that a “safe harbour” was provided for environmental DNSH for taxonomy aligned activities.

We would like to remind that it may be difficult to implement for FMPs from an operational standpoint. Indeed, it would be difficult to have two-parallel processes: i.e. applying the SFDR DNSH to the proportion of investments that is not taxonomy-aligned and not applying the DNSH to the other part of the product (taxonomy-aligned proportion).

In this context, we believe that this “safe harbour” should remain optional and FMPs should be allowed to apply the SFDR DNSH to taxonomy aligned activities.

Actually, the safe harbour option could be beneficial for use of proceeds products triggering only one activity.

<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 inherent inconsistencies between the two parallel concepts of sustainability (SFDR – investment level and Taxonomy – activity level) would be best addressed by a Level 1 SFDR review in combination with a further development of the EU Taxonomy. A more complete Taxonomy that covers social sustainability and more activities could help resolve issues within SFDR.

Furthermore, the Taxonomy DNSH applies at economic activity level while the SFDR DNSH applies at entity level so as a basis for DNSH assessment, the Taxonomy DNSH criteria should cater to assessing entities. This requires adequate data and thresholds that cover all economic activities. Any criteria and guidance on estimates should also account for markets and assets that are not required to disclose taxonomy-alignment to avoid discouraging investments in, for example, emerging markets and unlisted companies. <ESMA\_QUESTION\_SFDR\_20>

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

<ESMA\_QUESTION\_SFDR\_21>

 *No answer*

<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>

Overall, we believe that the proposal disclosures on decarbonisation are heading in the right direction and allows for further transparency and comparability. However, it should be clearly mentioned that these requirements only apply to products with GHG emission reduction targets. In addition, requirements are too detailed and complex to implement at this stage and some disclosures could be alleviated pending harmonized data and methodologies (please refer to our answers in Q23 to Q29 for further detail).

<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 in favour of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR. This proposal would have the advantage to alleviate the annexes which are already overloaded.

<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 is useful to understand how the product intends to achieve the GHG reduction it aims for. However, it should be reminded that there are many ways to achieve GHG reductions. In this context, the description of the strategy should remain in the hands of FMPs.

Thus, we believe that options “(a) divests from investments with particular GHG emissions levels and invests instead in companies with lower GHG emissions”, “(b) invests in companies that are expected to deliver GHG emissions reductions over the duration of the investment” and “(c) engages with investee companies to contribute to their GHG emissions reduction” should be completed with an option “(d) Other – explain” that would allow to capture other ways to reduce GHG emissions.

It is important to remind that it may be hard to assess whether the GHG reduction is achieved through one lever or another and it may be achieved by a combination of levers. In this context, we believe that options (a), (b), (c) and (d) previously mentioned should not be mutually exclusive.

<ESMA\_QUESTION\_SFDR\_24>

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

<ESMA\_QUESTION\_SFDR\_25>

We believe that it is useful to have a disclosure on the degree of Paris-Alignment. However, we have some additional comments:

* We do not understand why article 8 products do not have the possibility to be aligned with Paris Agreement. We believe that this disclosure would make sense for both article 8 and 9 products.
* The disclosures are presented in a binary way: either the product is aiming aligned with 1.5 degrees (“Yes”) or it’s not aiming to be aligned to 1.5 degree (“*if no, include the following text “The target of this financial product is not compatible with the objective to limit global warming to 1.5 °C.*””). There is also the possibility to say that the alignment has not been assessed. Such possibility should also be included in the templates.
* **The wording of the question** could be improved. The question lacks clarity, as the term "Paris-Alignment" can be interpreted differently by different market participants. To address this issue, we recommend requesting more details about the scenario and methodologies used for the product, rather than using the current phrasing of the questions. Moreover, to avoid any confusion, we believe the wording of the question should be modified: “Does the greenhouse gas emission reduction target aim to limit global warming to well below 2°c ?” and the fact of having an objective of alignment should not replace the disclosure of quantitative targets.

Regarding the **methodology**, there is currently a lack of standardized metrics to assess the Paris-aligned decarbonization pathway (cvar, carbon budget, and ITR,..). FMPs are utilizing various pathways to achieve Net Zero, which adds complexity to the situation. Given the absence of a universally accepted robust methodology for reaching Paris-aligned goals, it is important to focus on ensuring that FMPs are being transparent in relations to their chosen methodology (e.g., commitment over time, intermediary targets) for meaningful comparability without overly prescribing specific methodologies.

<ESMA\_QUESTION\_SFDR\_25>

1. : Do you agree with the proposed approach to require that the target is calculated for all investments of the financial product? Please explain your answer.

<ESMA\_QUESTION\_SFDR\_26>

We agree with the proposed approach to require that the target is calculated for all investments allowing for comparability between financial products.

<ESMA\_QUESTION\_SFDR\_26>

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

<ESMA\_QUESTION\_SFDR\_27>

We agree with the proposed approach to require the use of PCAF methodology as long as this methodology is referenced in the ESRS and ISSB framework. As already mentioned, there is a need for consistency between SFDR and the CSRD (and ISSB – “interoperability”).

We would like to raise that the financed emissions standard does not provide explicit guidance on methods to calculate financed emissions for every financial product including the following: private equity that refers to investment funds, green bonds, loans for securitization, exchange-traded funds, derivatives (e.g., futures, options, swaps), initial public offering (IPO) underwriting, and more. The focus should be on achieving harmonized data and reporting across all asset classes, which need to be considered further.

<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>

Subject to our response to Q22, we support the proposal to set financed emission targets in gross terms.

**Therefore, 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), **is not proportionate and decision-useful**. It would be a considerable burden for FMPs to retrieve this information on a best-effort basis (also investing in data providers and direct engagement), with little to no added value. We suggest the “progress on off-sets” template (e.g. in Annex IV for art8) is therefore removed.

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>

We believe that such disclosure wouldn’t be useful and may be difficult to explain to retail investors. Entities typically manage both sustainable and non-sustainable products and have a fiduciary responsibility to all investors to manage products in accordance with their respective remits. It is not appropriate to link product-level objectives for sustainable products to entity-level objectives when at the entity level there may very well be a fiduciary responsibility to their non-sustainable product investors. Conflating the two creates a conflict of interest and/or risks which mislead investors that entities are targeting sustainable outcomes for their non-sustainable products because

* Targets at entity and product level may not be similar.
* Methodologies used to calculate these targets may be different and difficult to reconcile.

<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>

# We emphasize the need for careful consideration of the challenges involved in altering the current Annexes in the prospectus. Such changes necessitate substantial modifications (and thus significant resources) to the underlying operating models of FMPs. Therefore, a comprehensive cost-benefit analysis should be conducted before implementing any modifications to the templates. This analysis should prioritize the identification of the most advantageous and impactful changes to ensure an optimal balance between costs and benefits. Furthermore, any revised templates or additional disclosures should be concluded only after the ESAs have conducted consumer testing scenarios involving retail investors.

Subject to the positive results of the cost-benefit analysis and consumer testing, we in principle **support the introduction of the dashboard initiative**. It could offer a more transparent and succinct representation of the overall share of sustainable investments, thereby taking a significant step towards promoting sustainable investments and enhancing transparency for retail investors. Furthermore, it could serve as an effective summary in assessing the alignment of a product with a client's sustainability preferences.

Nevertheless, we have some technical comments:

* On Annexes II to V:
	+ The numerous pictograms are confusing and will be difficult to implement on an operational standpoint. We suggest avoiding erasing the pictograms.
	+ We believe that the relationship between “q” and “r” is too complex for a retail investor to understand. Moreover, we believe that “r” is not always included in “q”, we suggest erasing the curly bracket.
* On Annexes II & IV – Article 8 products: we believe that the title of the article 8 template should not require a split between E or S characteristics promoted by the financial products.
* On Annex III & V – Article 9 products: the EC has clarified that “*passive funds tracking an EU Climate Benchmark fall under the scope of Article 9 and are deemed to have sustainable investment as an objective*”. In this context, we believe that article 9 templates should include two additional tick-boxes to clarify whether the product is an article 9(3) product or not.

<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>

We firmly support an investor-centric approach that reduces the number of disclosures and promotes standardization for the remaining ones. Nevertheless, a comprehensive evaluation of SFDR Level 1 is necessary to address this issue, and any standardization efforts should be focused solely on this issue. Even with the proposed "quick fixes" in the short to medium term, the SFDR disclosure requirements remain highly complex and are unlikely to be understood by retail investors. If the ESAs, nonetheless, intend to make interim changes before the SFDR L1 review, below are concrete proposals to further simplify the sections and the language of the dashboard.

**1. Numbering of questions**

For ease of reference, we believe that the templates’ questions should be numbered.

**2. Simplifying the language of the dashboard**

To enhance the practical usefulness of the dashboard summary, we believe that **the current 250-character limit** for describing environmental and/or social features, as well as indicating the proportion of assets, is **insufficient.** We also question the additional box, considering that the first question in the template already asks for a description of the environmental and/or social characteristics of the product. Having two side-by-side narratives on the same topic may simply confuse the investor.

Instead, we recommend an extended summary either by increasing the character limit or limiting the number of sentences within the box. Alternatively, one could include only a percentage, similar to the other boxes, which provides a detailed description of the features.

Furthermore, we would like to point out an inconsistency within the core element (iv) of the dashboard, specifically regarding the phrasing of GHG emissions reduction (i.e. “This product targets a reduction of \_\_\_% of greenhouse gas emissions in the **atmosphere** by \_\_\_”). The use of the word "atmosphere" could potentially be interpreted in two different ways: i) either as a general reduction of GHG emissions or ii) as the reduction of emissions already present in the atmosphere. In contrast, the GHG section of the template does not employ the term "atmosphere," but rather focuses on whether the product has a greenhouse gas emission reduction target.

We also propose to amend the sentence by adding “remove this statement, icon, **and box** where the product does not have a decarbonisation target”.

Also, the wording in the first box of Article 8 products is misleading and should be revised. Instead of stating "this product has some sustainability characteristics, but does not have a sustainable investment objective," we suggest rephrasing it as "This product promotes environmental and/or social characteristics”.

3. **Simplifying other sections of the template**

*Pre-contractual disclosures*

The current templates reveal a lack of **clarity** and logical **sequencing** in certain questions, leading to redundant or fragmented information that ultimately hampers investors' comprehension and overall understanding. To illustrate this issue, consider the following examples:

* The questions concerning the binding elements of the investment strategy should be placed at the beginning of the template and closer to the section regarding sustainability indicators to underline that the binding elements of the investment strategy and sustainability indicators are intrinsically linked. We also appreciate a clearer explanation of what is meant by "binding elements." Are we expected to provide a list of these binding elements, or should we include the percentage mentioned in the "asset allocation" question, which was previously placed in the investment tree?
* Within Annex III, the questions "How do sustainable investments not cause significant harm to any environmental or social investment objective?" and the sub-question "How have the indicators for adverse impacts on sustainability factors been taken into account?" appear repetitive and could be merged into a single question.
* When describing the investment strategy, the focus should solely be on describing the ESG strategy rather than the general investment strategy. This aspect should be clarified.
* The question should be revised as follows: "If this product allocates a minimum investment of [x]% to sustainable investments, what are the objectives of these sustainable investments?" This modification is necessary as an Article 8 fund may not necessarily have sustainable investments.
* The box on page 126, which pertains to limiting global warming to 1.5 degrees Celsius, is confusing. We question why Article 8 products that have greenhouse gas reduction targets do not have to answer a subsequent question regarding the aim to limit global warming to 1.5° Celcius.

We also recommend streamlining the templates to improve readability for retail investors by **removing** the following questions:

* The question "What is the asset allocation and the minimum share of sustainable investments?" from Annex III confuses investors and creates misunderstanding. Our experience shows that distinguishing between the technical concepts of "asset allocation" and "minimum share of sustainable investments" is challenging for investors. Simplifying the template by removing this question would contribute to a clearer and more understandable presentation.
* Additionally, we strongly support reducing the number of categories of sustainable investment. This can be achieved by removing the concepts *of ‘socially sustainable investments’* and *‘other environmental sustainable investments’,* as these ratios introduce additional complexity, which clearly outweighs any potential gains in clarity. We note that MiFID/IDD refers only to the proportion of sustainable investments. In addition, many FMPs do not differentiate between social and other environmental SI. Instead, commitments are made on the overall SI level, which may be a flexible combination of both. As such, reporting on sub-categories is impractical.

When FMPs commit to split into social and environmental SIs, various methodologies are employed which are not comparable or/and transparent. In addition, the absence of data for these two categories further complicates matters for fund of fund structures in providing meaningful disclosure of social versus environmental on an aggregated product level.

Finally, even if some FMPs choose to focus on a single sustainable investments theme - either social or environmental - they can already make use of the current SFDR Annex questions of SFDR (namely: ‘What is the asset allocation planned for this financial product?’ or ‘What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?’)

* The questions ‘To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?’ and ‘What is the minimum share of investments in transitional and enabling activities?’ should be removed.

If the ESAs insist on keeping the questions relating to the Taxonomy, they should still reflect on the following question: ‘To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?’ as it currently includes a graph. Firms that do not intend to allocate a minimum level of sustainable investments in taxonomy-aligned investments should be allowed to skip the graph and provide a brief explanation instead. This will further shorten the Annex.

* The template language should be updated to remove binary responses that are misleading for investors. The PCDs represent ex-ante commitments that a product makes not what it is currently invested in. For example:
	+ It promotes E/S characteristics, but will not make any sustainable investments” suggests a product would actively avoid sustainable investments which is unrealistic. In reality, SIs may be part of a portfolio but there is no commitment to invest in them. We suggest this should be rephrased as “It promotes E/S characteristics, but does not commit to making any sustainable investments”.
	+ “Does the financial product invest in fossil gas and/or nuclear energy-related activities that comply with the EU Taxonomy?” – similarly, most funds may invest in these activities but will not commit to investing a minimum % in such activities or avoid investing in them. Answering ‘yes’ may be interpreted as either a commitment or that it may invest in these activities. Similarly answering ‘no’ could be interpreted as the fund not committing to investing in these activities or the fund excluding these activities. We suggest this should be rephrased as “Does the financial product commit to investing a minimum proportion of its assets in fossil gas and/or nuclear energy-related activities that comply with the EU Taxonomy?”

*Periodic reports*

* The current version of SFDR L2 insufficiently considers specific characteristics relevant for funds of funds and discretionary portfolio management services (often investing in collective investment schemes) which represent a substantial part of the market. It is difficult to provide sector overviews of underlying funds (‘look-through). Furthermore, indicating the domicile of funds in the ‘country’ section has questionable value for investors.

It is also crucial to clarify when it is permissible to remove specific boxes or questions by using consistent wording throughout the templates. Currently, the template uses various phrases such as 'remove,' 'include only,' 'do not include,' 'include a section where,' and 'include section only' to express the same concept. This inconsistency in language has resulted in confusion and an inconsistent approach among regulators. Therefore, it is important to streamline the wording to ensure a clear and consistent understanding of when certain sections can be excluded or not.

***4.* Improvement on usability**

The inclusion of SFDR templates into the prospectus has resulted in an already massive document becoming even longer, compromising its efficiency in delivering essential information. Presently, the templates remain complex and exceed the analytical capabilities of most retail investors. The mere addition of new templates to an existing lengthy document does not necessarily enhance information accessibility for investors.

This being said, during the consumer testing phase, it would be crucial to assess the extent to which investors proactively look at both the pre-contractual documents and website disclosures. This information could help in deciding whether separate locations for these information sources (website and pre-contractual disclosures) are beneficial, or whether a single consolidated platform encompassing both elements would be more helpful.

Furthermore, we support the incorporation of external links, such as a global responsible policy, to centralise certain elements and avoid the need to update numerous PCDs when a common exclusion level changes.

**5. Taxonomy-alignment graphical representation**

The ESAs Final RTS published in September 2022 indicates that if the product does not invest in fossil gas and/or nuclear energy EU Taxonomy-aligned economic the Taxonomy breakdown is not required and it is possible to include the previous graphical representation format (“*If the product does not intend to invest in such activities, such breakdowns are not required in the graphical representation and the existing graphical representations from the already published version of Commission Delegated Regulation (EU) 2022/1288 should be used instead.*”). The current version of the templates does not allow for this possibility as it is not mentioned in the templates. We believe that this possibility should be included.

Moreover, it should be made clear that FMPs commitments is on the “global share of EU Taxonomy investment” (i.e. “d%” in the templates) and not on the taxonomy split (i.e. a, b and c in the templates).

Finally, from an IT perspective, the graphical representation is difficult to produce. ESAs should consider simplifying the format.

**6.Clearly define what information is expected in the template**

We also believe that ESAs should further clarify what is expected from the questions included in the templates. This would improve investors understanding and allow a consistent supervisory approach by National Competent Authorities.

Indeed, supervisory practices differ within the EU. If we take the example of the question “What investment strategy does this product, follow?”:

* Some NCAs consider that FMPs should only include financial elements,
* Others consider that only non-financial elements should be included,
* And others that both financial and non-financial elements should be included.

It is essential that ESAs clearly define what is expected from each question to allow a consistent implementation and supervisory practice within the EU. These clarifications could be included directly in the annexes or in a guidance document.

**7. PAI statement entity-level**

Whilst we understand the importance of ensuring there is transparency in relation to how PAIs are considered in the investment process, we do not believe the disclosure of principal adverse impacts at an entity level is useful. Consumers invest in products. As such, this is where the disclosure of relevant PAIs will have the most impact and will be more decision useful.

The rigid nature of the template required to be used for entity-level PAI statements lends for the disclosure of indicator values to be misinterpreted particularly in the absence of contextual information like comparison against an index. We are extremely concerned that these values will be taken at face value and will put FMPs in a very bad light.

<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>

**Please refer to Q30, 31, 33, 34**

<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>

We support ESAs proposal to erase the investment tree in the asset allocation. Indeed, the allocation tree was not clear and numerous questions were raised on the matter, notably: it gives the impression that ratios are subset of each other and may lead to double counting issues.

In conjunction with the deletion of the allocation tree, we believe that question “*What is the minimum share of sustainable investments with an environmental objective that do not meet the criteria of the EU Taxonomy?*” should also be erased.

Indeed as already mentioned, “sustainable investment” and “taxonomy” ratios are two different notions (as confirmed by the EC in the answer to the ESAs questions published in April 2023) and are not subsets of each other, we hence believe that this question would be confusing and lead to reporting errors.

<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>

The use of colors introduces potential challenges and can lead to possible misinterpretations. For instance, can a fund manager to employ the green color even if only 1% of their fund consists of sustainable investments (thereby placing them in the same category as a fund manager with 70% of sustainable investments)? This fails to effectively communicate the level of sustainability to investors.

We believe that requirements on the use of colours should not be maintained.

<ESMA\_QUESTION\_SFDR\_34>

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

<ESMA\_QUESTION\_SFDR\_35>

*No answer*

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

We support the ESAs’ proposal to align the definition of "equivalent information" with the wording of the Recital (21) of Regulation (EU) 202/852 and use the term “estimates” only. Clear guidance is necessary to ensure that (i) assessing taxonomy-alignment is possible for markets and assets that do not fall under CSRD, and (ii) estimating taxonomy-alignment is robust and comparable among market participants.

<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>

*No answer*

<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>

At this stage, no specific calculation rules should be introduced. Should the ESAs, however, insist, we suggest leveraging the market value or net asset value as the basis for determining the proportion of sustainable investments. This approach aligns with established financial practices and ensures a more consistent assessment across products.

Also, the EC’s response to ESAs questions in April 2023 clarified that a contribution could either be at the product or activity level. Therefore, we do not believe a calculation consistent with how the taxonomy alignment is calculated would be appropriate considering it deals with the taxonomy approach by activity.<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>

*No answer.*<ESMA\_QUESTION\_SFDR\_39>

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

<ESMA\_QUESTION\_SFDR\_40>

*No answer*

<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>

*No answer*

<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>

*No answer*

<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 proposed amendments to the templates and delegated regulation carry significant implications for FMPs. These changes demand extensive modifications to their IT systems, investment products disclosure, and operational processes, imposing a substantial implementation and monetary burden. We must not underestimate the costs associated with data gathering, validation, and calculation, as well as the technical challenges of adopting machine-readable formats and expandable paragraphs. These tasks cannot be rushed, as they require rigorous testing to ensure accuracy and reliability.

Furthermore, we cannot overlook the downstream impacts of template modifications, such as database connectivity adjustments, updates to industry data templates (such as the FinDatEx EET,) changes in advisory processes in MiFID/IDD and the ongoing monitoring of SFDR. To mitigate costs, it is crucial to grant FMPs sufficient time for the implementation of these amendments.

<ESMA\_QUESTION\_SFDR\_43>

1. Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39. [↑](#footnote-ref-2)