

Response to the ESAs' joint consultation on the review of the SFDR Delegated Regulation

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has over 600 members located in 66 jurisdictions. See www.icmagroup.org. The feedback to the ESAs' [consultation](#) is given on behalf of ICMA and its constituencies, especially by the [Asset Management & Investors Council](#) (AMIC) and the Executive Committee of the Principles.

Our detailed comments are presented in the response form below. In our response, we highlight the following points in particular:

- **Timing and sequencing of the proposed changes:** Considering the upcoming broader review of the SFDR framework, we query the timing and sequencing of this consultation and the proposed changes therein. A deep revision of the SFDR including its key issues and concepts (e.g., product classification, DNSH, SI, etc.) could make any changes at this stage redundant while still causing significant but interim implementation efforts and costs ultimately borne by asset owners. In particular, the proposed changes would necessitate amending thousands of existing pre-contractual templates ahead of yet another round of potential amendments under the SFDR 2.0. All our other comments below and in the response form are subject to this more general point.
- **Alignment across EU sustainable finance legislation:** We strongly recommend full alignment between the SFDR data points and CSRD/ESRS requirements as well as ensuring consistency with the EU Taxonomy and other sustainable finance regulations. The consistency should be ensured both in terms of content of references but also in terms of sequencing and implementation timeline of these regulations. Also, if the EC's recent materiality flexibility on the ESRS is adopted, it should be considered to make at least some PAIs subject to a sector-based materiality assessment with relevant guidance from ESAs.
- **The DNSH framework:** We support maintaining the status quo of the DNSH framework at this stage and consider that imposing quantitative thresholds would not be adequate due to many reasons including the current lack of available data. In any case, considerations on the DNSH should be part of the SFDR Level 1 review.
- **Products with GHG targets:** Transparency, standardisation, and enhanced comparability are key for such disclosures to ultimately benefit consumers. Nevertheless, some flexibility should be left during a transitional period to allow methodologies and metrics evolve and mature while such flexibility could be supported with additional transparency.
- **Limitations of the Taxonomy framework:** The Taxonomy alignment numbers at the EU economy-level are estimated to be less than 5% on average due to a number of factors including the lack of coverage by the TSC of many economic activities, lack of Taxonomy aligned assets, lack of regulatory recognition of transitional performance improvements, as well as significant usability challenges explained in the ICMA's paper "[Ensuring the usability of the EU Taxonomy](#)". At this

juncture, the EU regulators' primary focus should be fixing the EU Taxonomy's usability under the Taxonomy framework itself. To be fit for purpose, regulatory guidance for the use of estimates should however be clear and flexible while recognising the multiplicity of existing proxies.

- **Changes to existing templates:** While we refer to our comments on the timing and sequencing of the proposed changes (see above), in substance, we support both the removal of the current asset allocation diagram (and the need to segregate "E" vs. "S") and the proposal of a simplified dashboard.

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3 July 2023

Reply form

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

Responding to this paper

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

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

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

Instructions

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

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

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

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

Publication of responses

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

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725¹. Further information on data protection can be found under the [Legal notice](#) section of the EBA website and under the [Legal notice](#) section of the EIOPA website and under the [Legal notice](#) section of the ESMA website.

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.

General information about respondent

Name of the company / organisation	International Capital Market Association
Activity	Trade Association
Are you representing an association?	<input checked="" type="checkbox"/>
Country/Region	Switzerland

Questions

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

<ESMA_QUESTION_SFDR_1>

General comments

We would like to submit our broader comments on the SFDR Delegated Regulation consultation in particular on the timing and sequencing of the proposed changes before responding to the Q1 specifically:

- **The sequencing of this consultation seems problematic** given a broader review of the SFDR including potential amendments through the Level-1 text is upcoming. Such review could make the Level 2 changes proposed in this very consultation redundant if the EU legislators adopt different approaches, for example, to address the current ambiguity on the classification of Art.6, Art.8, and Art.9 products.
- **Introducing Level-2 changes ahead of the broader SFDR review would mean additional significant implementation efforts and costs for financial market participants (FMPs).** The industry has already been subject to a frequently changing SFDR and sustainable finance regulatory framework in the last couple of years. The changes proposed in this consultation paper would result in FMPs re-assessing and changing a significant number of documents regarding the offered products as well as adding new disclosures thereto. As per above, if the SFDR Level 1 text is fundamentally revised later on, there would be yet another implementation effort to come. Eventually, these additional costs are borne by asset owners.

- **More broadly, the perception of perpetual change for the SFDR and wider sustainable finance framework is damaging the credibility of the rules while the regulatory uncertainty and instability are arguably increasing greenwashing risks.** ESMA's recent Progress [Report on Greenwashing](#) (31 May 2023) highlight both the rapidly moving regulatory framework and the current deficiencies of the SFDR among the underlying drivers of greenwashing. In this Report, ESMA recognised the "*challenges faced by market players in ensuring compliance with a new and complex regulatory framework despite many of them seeking to provide investors and other stakeholders with relevant and high-quality information on sustainability aspects*". Also, according to ESMA, mitigating greenwashing risks would require, among other things, clarifications regarding the concept of contribution to a sustainable objective, standardised disclosures in particular for engagement, and addressing the misuse of SFDR as a labelling regime. All these imply that SFDR's key concepts are likely to be amended in the upcoming review process and reinforce our views regarding the misaligned sequencing issue above.

We therefore recommend the EU regulators to: **a)** consider the materiality and the added value of the proposed changes in addressing the most fundamental problems and enhancing the overall usability and credibility of the SFDR framework as well as **b)** whether such changes would necessarily need to take place ahead of the broader SFDR review. **This test would help avoid that the proposed Level 2 changes do not turn into yet another interim implementation exercise that would lead to significant costs, efforts, challenges for the industry with a risk of redundancy in the face of the upcoming broader SFDR review.**

Our response to the Q1:

We strongly believe there should be full alignment between the SFDR PAIs and the CSRD/ESRS data points both in terms of scope and implementation timeline. Therefore, the newly proposed social PAI indicators, if adopted, should not go beyond the ESRS requirements in scope and content. In any case, it needs to be also considered that CSRD/ESRS will not be fully applicable to many investees for some time. Therefore, aside from the broader sequencing issue mentioned above, the swift introduction of these new PAI indicators would not match the ESRS' implementation timeline on investees.

Most recently, the EC proposed some further relaxed measures under the ESRS such as making all disclosures subject to entities' own materiality assessment (except for "General Disclosures"). If these changes are adopted, it should be considered to make at least some PAIs (e.g., hazardous waste) also subject to a sector-based materiality assessment accompanied by relevant guidance from ESAs.

While the full alignment with the CSRD/ESRS is crucial to avoid data gaps, we note however that data challenges could persist in the case of non-EU issuers who are not caught by the CSRD as well as for alternative asset classes. Due consideration should therefore also be given to what data will realistically be available from international standards such as the ISSB and the TCFD.

Also, we note that some proposed PAI indicators are context-specific (e.g., adequate wage concept). Their application independent of the local context could create investment biases that could penalise less developed jurisdictions where, for example, social sustainability lags but can improve substantially.

Some FMPs believe that the proposed social PAI indicators, or at least some of those, could be made optional. |

<ESMA_QUESTION_SFDR_1>

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

<ESMA_QUESTION_SFDR_2>

|It does not seem necessary to add any other mandatory PAIs for social matters. |

<ESMA_QUESTION_SFDR_2>

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

<ESMA_QUESTION_SFDR_3>

|In line with our response to Q1, new optional indicators, if adopted, should also not go beyond the ESRS data points. |

<ESMA_QUESTION_SFDR_3>

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

<ESMA_QUESTION_SFDR_4>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_4>

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

<ESMA_QUESTION_SFDR_5>

Most members support the intention and focus on aligning different EU regulations and therefore are supportive of the proposals. However, we recommend further guidance and clarification on how “violations” should be understood for UNGP and more broadly.

On the other hand, some FMPs believe that the reference to the UNGC could be retained as an alternative, at least for some time, as several corporates have already policies to adhere to this standard. Some FMPs are also concerned that the more detailed and comprehensive nature of the UNGP in comparison with UNGC may create further complexity and exacerbate the data gaps. |

<ESMA_QUESTION_SFDR_5>

Q6 : For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?

<ESMA_QUESTION_SFDR_6>

For alternative asset classes, the data issues are particularly more pronounced, and therefore, adding new requirements could bring additional complexities. The focus should therefore be on enhancing the current framework and data availability without creating further challenges. |

<ESMA_QUESTION_SFDR_6>

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

<ESMA_QUESTION_SFDR_7>

<ESMA_QUESTION_SFDR_7>

Q8 : Do you see any challenges in the interaction between the definition ‘enterprise value’ and ‘current value of investment’ for the calculation of the PAI indicators?

<ESMA_QUESTION_SFDR_8>

[Yes. For the purpose of the PAI calculation, the enterprise value shall be fixed at fiscal year-end of the investee company which leads to multiple problems in practice, especially in case of subsequent capital events (stock splits, increases/decreases of issued capital, corporate actions) or liquidation. Hence, we would have the preference to use estimations of the enterprise value based on market prices at the end of each quarter and would support a modification in this direction. In any case, current value of investment and EVIC should be taken at the same date to accurately reflect the percentage of ownership of an enterprise by the investor.]

<ESMA_QUESTION_SFDR_8>

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

<ESMA_QUESTION_SFDR_9>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_9>

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

<ESMA_QUESTION_SFDR_10>

[Further clarity needed on: (i) the definition of “all investments”; (ii) whether denominator is based on AUM or NAV for some PAIs; (iii) the calculation of PAIs for eligible assets with data as well as those without; (iv) the heterogeneity of results caused by estimated Scope 3 emissions; (v) NACE Sectors in PAI6; (v) sovereign PAIs 15 regarding the scope of a country’s GHG intensity and PAI 16 where double counting may arise for indirect investments such as fund of funds.]

<ESMA_QUESTION_SFDR_10>

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

<ESMA_QUESTION_SFDR_11>

[We believe this needs to remain as a “good practice”. We are not supportive of making it mandatory as it could add complexity to data collection and disclosure processes with no known benefits to end-investors. Many asset managers themselves rely on data vendors and as such may not have such information on how data providers source the data. Also, such disclosure could cause information overload and create confusion rather than increasing confidence in a product.]

<ESMA_QUESTION_SFDR_11>

Q12 : What is your view on the approach taken in this consultation paper to define ‘all investments’? What are the advantages and drawbacks you identify? Would a change in the approach adopted for the treatment of ‘all investments’ be necessary in your view?

<ESMA_QUESTION_SFDR_12>

[We argue for the possibility to use both “all investments” and “eligible assets”. However, if eligible assets basis is used, it should be clearly mentioned, and the proportion of all investments the eligible assets represent should be disclosed.

Nevertheless, some FMPs also argued that to ensure comparability and commonality, “all investments” should be the basis of the assessment while the concept itself should be defined as “investments with an available PAI datapoint” and add the coverage of the fund associated to each PAI to allow comparability between funds. There would however need to be further guidance on the approach for indicators with a low coverage given that below a certain level an indicator may not be meaningful and add confusion.]

<ESMA_QUESTION_SFDR_12>

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

<ESMA_QUESTION_SFDR_13>

[**Inclusion of investees’ value chain information into the PAI calculations would be burdensome while the quality and comparability of the data may not be straightforward.** Under the proposed approach, especially when investees are not reporting under the ESRS and in a standardised manner, we understand that FMPs would have to chase the value chain impact information from any public reporting of the investee which may not be easy to locate. Moreover, even when such data can be obtained, it may suffer from quality and comparability issues given the value chain is one of the most complex areas in sustainability reporting.

The proposed approach could penalise the entities who are making extra efforts for value chain transparency as they may appear more significantly harmful than others who are not reporting. The systemic impact of this approach could be reduced efforts towards and transparency on value chain reporting by investees. We note that for both CSRD and non-CSRD entities, relatively reliable reporting on the value chain is likely to come at significant extra efforts. In recognition of the value chain reporting difficulties, the CSRD and the ESRS already provide flexibility to entities. For instance, the CSRD grants an initial 3-years “comply or explain” flexibility regarding the value chain reporting while the ESRS is likely to allow the use of estimates such as sector average or other proxies. It is also likely that value chain impact data will not be reliable and comparable for some time to come. |

<ESMA_QUESTION_SFDR_13>

Q14 : Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?

<ESMA_QUESTION_SFDR_14>

[\[See our response to the Q15\]](#)

<ESMA_QUESTION_SFDR_14>

Q15 : What are your views with regard to the treatment of derivatives in general (Taxonomy-alignment, share of sustainable investments and PAI calculations)? Should the netting provision of Article 17(1)(g) be applied to sustainable investment calculations?

<ESMA_QUESTION_SFDR_15>

[There should be consistency in the treatment of and methodology for derivatives with regards to their potential to contribute to the numerator of PAIs and their accounting for Sustainable Investment and Taxonomy-alignment. The proposed approach where derivatives can contribute to the numerator of PAIs in case of an equivalent net long position but cannot count into Sustainable Investments and Taxonomy alignment, as such is seen as a potential greenwashing accelerator, is not a consistent treatment. It makes however sense to categorically exclude some derivatives that are not linked to an issuer (e.g., interest rate, currency etc.) as they do not contribute to sustainability or adverse impacts. We otherwise agree with the fact that methodology is based on net exposure but caution that implementing it may be complex and require some adjustment time. Additional consultations would be necessary to review in more details the technical and methodological aspects. |

<ESMA_QUESTION_SFDR_15>

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

<ESMA_QUESTION_SFDR_16>

| We agree that scope of provisions could be extended to corporate bonds. |

<ESMA_QUESTION_SFDR_16>

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

<ESMA_QUESTION_SFDR_17>

| We agree that there is currently confusion regarding the application of the DNSH concept as both the Taxonomy Regulation and the SFDR provide different and inconsistent DNSH tests that apply on top of each for sustainable investments.

Nevertheless, “maintaining the status quo” seems to be a plausible option at this stage against the backdrop of the upcoming broader review of the SFDR framework and in line with our comments on timing and sequencing in Q1.

Regarding the “optional safe harbour”, it seems that the most recent EC guidance (“[EC Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation](#) released on 12 June 2023) already clarifies that where and to the extent an investment is Taxonomy aligned, it qualifies as Sustainable Investment under the SFDR (see p.8-9). However, as rightly explained by the EC Notice, such guidance is more relevant to and helpful for use-of-proceeds instruments which could be 100% Taxonomy aligned relatively easier. Otherwise, general purpose instruments usually speak to a partial Taxonomy alignment on the side of an investee. Therefore, it would still be required to apply the SFDR DNSH test to the non-Taxonomy aligned part of an investee, even in the case of such safe harbour, which would perpetuate the complexities. The potential Level 1 review of the relevant regulations would therefore present an opportunity to address this fundamental confusion. |

<ESMA_QUESTION_SFDR_17>

Q18 : With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.

<ESMA_QUESTION_SFDR_18>

| The requirement to impose quantitative thresholds disclosures would not be valuable at this stage for the following reasons:

- The current data gaps would make such quantitative disclosures impractical, at least until the ESRS is fully implemented. Having quantitative thresholds could favour products with no data. It must also be considered that most recently, the EC proposed some further relaxed measures under the ESRS such as making all disclosures subject to entities' own materiality assessment (except for General Disclosures), which, if adopted, would make the proposed quantitative thresholds impractical to implement. Also, we note that many ESRS data, where available, will be qualitative in nature.
 - It would be a departure from the SFDR's disclosure-based nature and amount to a behavioural requirement going against the recent clarifications by the EC on the SFDR's current nature.
 - Both sustainability and adverse impacts are sector- and context-specific. Applying one-size-fits-all thresholds to all sectors and geographies is not relevant and could have unintended consequences. For example, such approach could create investment biases towards already green sectors and geographies (e.g., DM) while disadvantaging assets in transitioning sectors and geographies (e.g., EMs) as they may appear more harmful to end-investors due to their starting points. The ability to contextualise the significant harm levels, where needed, is therefore crucial.
 - The PAI figures could also differ significantly for alternative asset classes, e.g., within the real estate sector (e.g., GHG performance of a big shopping center vs. office buildings).
 - New quantitative disclosures may require changes to the FMPs' already established criteria, and as such, have implications on investment decisions while making it difficult for investors to track performance. |
- <ESMA_QUESTION_SFDR_18>

Q19 : 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>

|As addressed in Q17, the DNSH related issues could be best addressed under the upcoming broader review of the SFDR potentially involving changes to the Level 1 text.

In the meantime, it seems that the most recent EC guidance ([“EC Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation](#) released on 12 June 2023) already clarifies that where and to the extent an investment is Taxonomy aligned, it qualifies as Sustainable Investment under the SFDR (see p.8-9). However, as rightly explained by the EC Notice, such guidance is more relevant to and helpful for use-of-proceeds instruments which could be 100% Taxonomy aligned relatively easier. Otherwise, general purpose instruments usually speak to a partial Taxonomy alignment on the side of an investee. Therefore, it would still be required to apply the SFDR DNSH test to the non-Taxonomy aligned part of an investee, even in the case of such safe harbour, which would

perpetuate the complexities. The potential Level 1 review of the relevant regulations would therefore present an opportunity to address this fundamental confusion. |

<ESMA_QUESTION_SFDR_19>

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

<ESMA_QUESTION_SFDR_20>

|While we agree with the intention to simplify the DNSH assessment and address the issue of double testing, we would note that the current Taxonomy framework suffers from significant usability problems including low data availability and quality. Please see ICMA’s “Ensuring the usability of the EU Taxonomy” dated February 2022.

Several research papers (see p. 11 of ICMA’s “Ensuring the usability of the EU Taxonomy”) indeed show how the DNSH usability issues significantly limit the availability of Taxonomy aligned investments. Relying on the DNSH of the EU Taxonomy without addressing those could therefore lead to a very narrow sustainable investment definition under the SFDR in its current form.

Moreover, there could be other limitations to the use of the DNSH of the EU Taxonomy:

- The Taxonomy TSC only cover a limited part of the economy and economic activities. The current Taxonomy eligibility of the EU’s economy is around 25-30%.
- Many DNSH TSC have Eurocentric references (e.g., relying on EU laws) that would not allow the assessment of international exposures, and as such, may disadvantage non-EU investees and exacerbate the current data gaps.
- The activity-level DNSH testing cannot be easily applied for entities or investees not subject to the CSRD and therefore reporting under the Art.8 of the EU Taxonomy.
- The applicable DNSH TSC vary depending on which environmental objectives the Taxonomy alignment is accounted for. This would not fit with the less granular SFDR perspective that does not vary depending on the lens of different environmental objectives.
- Depending on the economic activity and the environmental objective perspective, some DNSH TSC are highly subjective and may lead to inconsistent outcomes.
- As the EU Taxonomy does not sufficiently accommodate transitional assets, they may be at the risk of exclusion under such approach, which could create instability in the European market. |

<ESMA_QUESTION_SFDR_20>

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

<ESMA_QUESTION_SFDR_21>

[While we believe this should be addressed during the potential Level 1 review, additional transparency on how PAIs are taken into account, i.e., FMPs' methodologies to consider those, [in a simple format](#) could help address the relevant concerns. Enhanced reliance on the data that will realistically be available from international standards such as the ISSB and TCFD could also contribute to the comparability objective across markets and jurisdictions.]

<ESMA_QUESTION_SFDR_21>

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

<ESMA_QUESTION_SFDR_22>

[We agree that additional transparency, standardisation, and clarity regarding the funds with the GHG reduction targets would be in the interest of end-investors and consumers. We however recommend avoiding too prescriptive rules at the initial stage as target setting disclosures, methodologies, and metrics are still evolving and need to mature. In the medium to long term, convergence would be a desired outcome.]

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

<ESMA_QUESTION_SFDR_23>

[We support this approach as it could be helpful in avoiding some information overload.]

<ESMA_QUESTION_SFDR_23>

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

<ESMA_QUESTION_SFDR_24>

Additional transparency on how decarbonisation objectives are being achieved and the toolkit used to this end could be of value and lead to investor education. It could also explain why some carbon intensive companies are included in a transition product, therefore help avoid deceptions on the side of end-investors that were unintentional. In practice, however, many FMPs use blended approaches to achieve their goals depending on, among other things, how issuers advance towards decarbonisation and the wider policy developments. In terms of implementation, such transparency in periodic reports is more workable (vs. the pre-contractual phase) since whether it will be divestment & re-allocation, engagement, etc. depends on investees' actions and wider policy developments. We would also suggest enhancing the disclosure to also provide more clarity on engagement activities initiated to support the GHG emissions reduction objective, and corresponding policies. |

<ESMA_QUESTION_SFDR_24>

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

<ESMA_QUESTION_SFDR_25>

The proposed disclosure on "the degree of Paris Alignment" is not straightforward given that different FMPs may have different views and interpretations making such disclosure non-meaningful. Instead, we propose a more flexible and simple question asking FMPs to describe the level of ambition of the product and targets with accompanying transparency on the scenarios and methodologies used.

It also needs to be kept in mind that there are many pathways, methodologies, and metrics used by FMPs at this stage to assess the net zero ambitions. While methodologies and metrics are still evolving and need to mature, comparability and convergence could be achieved in the medium to long term. Therefore, the focus should be on ensuring adequate level of transparency with targeted, usable, and cost-effective disclosures (e.g., commitment over time, intermediary targets, etc.).

Some FMPs also cautioned that GHG emission reductions could be challenging to measure at scale when it comes to real estate (e.g., due to the lack of guidance on the scope of measurement (e.g., whole building lifecycle? Scope 1+2? Actual energy use by tenant? etc.) and difficulty in annual measurement and reporting. |<ESMA_QUESTION_SFDR_25>

Q26 : Do you agree with the proposed approach to require that the target is calculated for all investments of the financial product? Please explain your answer.

<ESMA_QUESTION_SFDR_26>

Most FMPs agree with the targets to be based on “all investments”.

However, some cautioned that for funds mixing a variety of investment types (e.g., corporate bonds, sovereign bonds, structured products, mortgages) flexibility would be needed as it will not be practical to aggregate emissions. Such approach would even conflict with PCAF which suggests reporting emission results of the different asset classes separately. Emission results of the different asset classes should be clearly reported separately, as for instance sovereigns and corporates can't be compared 1:1. Were they to be combined, double counting of emissions of non-sovereign sectors (e.g., corporates) would occur due to accounting of emissions at sovereign territorial level.

Therefore, while clarity and transparency are welcome, sufficient flexibility should be allowed in calculating the GHG emissions and in strategies to achieve the decarbonisation objective. It was also suggested as an alternative approach to ask for transparency on what is put in the denominator with mentioning which proportion of total assets has been considered. |

<ESMA_QUESTION_SFDR_26>

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

<ESMA_QUESTION_SFDR_27>

As mentioned in our response to Q22, while we believe that standardisation would be beneficial in the mid to long term, the ESAs should avoid too prescriptive rules at this stage and allow for flexibility during a transitional period. For example, it would hard to apply the same financed emissions metric to different type of issuing entities. Also, for green bonds specifically, PCAF also did not come to an agreement on netting the emissions of green bonds. As such, making its use mandatory may further add to confusion for green bonds. |

<ESMA_QUESTION_SFDR_27>

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

<ESMA_QUESTION_SFDR_28>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_28>

Q29 : Do you find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation? What could be the benefits of and challenges to making such disclosures available? Please explain you answer.

<ESMA_QUESTION_SFDR_29>

|We don't find it relevant and useful to mandate disclosures regarding the consistency between the product targets and FMPs' entity-level targets and transition plans. These are two different things in nature with the former being shaped by clients' mandates, segregate accounts, and deliverables. Also, it may be complex to explain and understand the link between the two since calculation methodologies may be different, leading to additional confusion. |

<ESMA_QUESTION_SFDR_29>

Q30 : What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?

<ESMA_QUESTION_SFDR_30>

|We refer to our general comments under Q1 on how this cost-effective and timely this change would be against the backdrop of the upcoming broader SFDR review. Amending templates at this stage risks becoming an interim implementation exercise ahead of potential Level 1 changes a causing significant costs and efforts despite the risk of redundancy after potential Level 1 amendments.

On substance, however, the inclusion of the proposed dashboard seems to go in the right direction. We are also very supportive of the removal of the asset allocation diagram and of the need to

disaggregate the “E” and the “S” which is quite challenging for FMPs to implement and for clients to understand. |

<ESMA_QUESTION_SFDR_30>

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

<ESMA_QUESTION_SFDR_31>

|Subject to our general comments on the sequencing and timing of the proposed changes, we would propose to further leverage the more simplified format in the website disclosures as well.

Otherwise, there could be other simplification and adjustments such as reducing the complexity of the table for the GHG emission targets, avoiding the disclosure of 2 different pie charts for Taxonomy aligned investments. The word limit of 250 could also prove too restrictive and impractical. |

<ESMA_QUESTION_SFDR_31>

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

<ESMA_QUESTION_SFDR_32>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_32>

Q33 : 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. In substance, we are very supportive of the removal of the asset allocation diagram and of the need to disaggregate the “E” and the “S” which is quite challenging for FMPs to implement and for clients to understand.

We also believe that some disclosures (e.g., EU Taxonomy alignment, social investments, etc.) are only relevant in case of a minimum commitment to those. This could be considered to avoid unnecessary data. |

<ESMA_QUESTION_SFDR_33>

Q34 : 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>

[We would caution against the use of “green” colouring, especially for the consideration of PAIs, as such could be misinterpreted by the user of the information. For instance, the same colour would be used for substantially different levels of sustainable investment and taxonomy alignment. The management of documents would also be more complex under such restrictive approach.

Also, we underline that different printing options could undermine the intended use of such colouring. |

<ESMA_QUESTION_SFDR_34>

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

<ESMA_QUESTION_SFDR_35>

[TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_35>

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

<ESMA_QUESTION_SFDR_36>

[Currently, the Taxonomy alignment numbers are low due to a number of factors including data unavailability and compliance problems with the DNSH criteria (including the Eurocentricity thereof), lack of full coverage of economic activities by the TSC, as well as the inclusiveness issue when it comes to transition.

ICMA’s paper “[Ensuring the usability of the EU Taxonomy](#)” (Feb. 2022) explains the usability challenges to determine Taxonomy alignment and provides ICMA’s recommendations. In this paper, ICMA recommended that estimates and third-party data are allowed based on a common

methodology where Taxonomy information cannot be otherwise produced or obtained. This would avoid potentially inconsistent and fragmented methodologies that would make the estimated Taxonomy information unreliable and open to greenwashing accusations.

Regarding the DNSH and MS alignment, ICMA also recommended that flexibility is provided to: i) allow as proxies issuer-level controversy analysis and ESG risk processes and mechanisms; (ii) to allow the assessment of alignment at a principle and outcome level per related environmental objective rather than with granularity; and (iii) to integrate proportionality to avoid excessive assessment and implementation challenges. ICMA also recommended the internationalisation of the testing criteria to address the Eurocentricity of many TSC in particular for the DNSH. **Accordingly, the Taxonomy’s usability issues would need to be primarily and swiftly addressed under the Taxonomy framework itself.**

There could also be enhanced reliance on the data to come from CSRD/ESRS and CS3D legislations when it comes to the DNSH and MS. We note that issuers subject to the CSRD will already be under extensive obligations to report on their policies, processes, targets, and actions on environmental and social risk management. Given the breadth of the upcoming CSRD/ESRS disclosures and the double materiality approach thereunder, all the environmental and social areas/objectives covered by the DNSH and MS will already be covered from a risk perspective and beyond, albeit at an entity-level rather than activity-level. The upcoming CSDD Directive will also have compliance obligations and requirements going beyond disclosure.

Otherwise, we welcome additional guidance on the application of estimates. Such guidance should be flexible and not further exacerbate the Taxonomy data unavailability issues. Also, we believe that the concept of “key environmental metrics” should be further clarified while exemplary case studies on the application of estimates could be useful for FMPs to ensure consistency. We also welcome the recent EC statement that “the Commission will assess the feasibility of issuing guidance to stakeholders on how to construct robust and reliable taxonomy estimates” which is in line with ICMA’s recommendation for a common estimation methodology.

In terms of potential proxies to assess the DNSH and MS, we recommend a flexible approach recognising the multiplicity of proxies used in the market currently (see examples in p.61 of the EU PSF’ Usability Report).

In the use-of-proceeds bonds market, and in line with the EU PSF view (see p.61 of the Usability Report), an external review assessment positively opining on the issuer’s ESG risk management should be seen a strong indicator of DNSH/MS compliance.

We otherwise recommend that:

- The EU regulators do not limit the MS assessment for UoPs bonds to the project-level information only and allow flexibility to make such assessment based on entity- and/or project-level data as well as jurisdiction-level assessments (e.g., compliance with a country’s laws where social norms are seen adequate) at the discretion of the FMPs. Awaiting wider guidance by the EC on the application of MS, data unavailability issues can be exacerbated if only project-level data is allowed for MS assessment of UoPs bonds.

- Controversy analysis should not be prohibited as a proxy. The use of controversy analysis alongside other tools (e.g., existence of adequate DD processes and a positive external review) would be a useful proxy to address the Taxonomy data gaps where necessary as per the Recital 21 of the TR 2020/852.
- Regarding the DNSH assessment, the reference should be made to “compliance with EU and/or international env. laws and standards” to allow compliance with international standards alone as a proxy for international exposures.

Otherwise, the EU regulators should also consider that obtaining and using direct information from investees may fall foul of market abuse rules where such non-public information is material to investment decisions. |

<ESMA_QUESTION_SFDR_36>

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

<ESMA_QUESTION_SFDR_37>

| Further guidance on what is meant by “key environmental metrics” as well as exemplary case studies would be useful to avoid inconsistent approaches. |

<ESMA_QUESTION_SFDR_37>

Q38 : Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.

<ESMA_QUESTION_SFDR_38>

| We don’t believe such specific rules are necessary at this stage also considering the fact that the key SFDR concepts may be changed under the upcoming potential Level-1 review. Such approach would also be more consistent with the current disclosure-based nature of the SFDR as well as the recent EC guidance confirming the discretion of asset managers to treat the key concepts including the sustainable investment.

Some believe however that rules on the treatment of negative assets in the asset allocation based on the fund’s NAV (negative MTM derivatives, cash...) would be useful. |

<ESMA_QUESTION_SFDR_38>

Q39 : 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>

Q40 : 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>

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

<ESMA_QUESTION_SFDR_41>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_41>

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

<ESMA_QUESTION_SFDR_42>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_42>

Q43 : 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>

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<ESMA_QUESTION_SFDR_43>