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Response to SFDR consultation

Dear Sir/Madam

Aegon Asset Management (Aegon AM) is an active global investor. We organize our capabilities around four global investment platforms where we have deep asset-class expertise: Fixed Income, Real Assets, Equities and Multi-Asset & Solutions. We serve a global client base of pension plans, public funds, insurance companies, banks, wealth managers, family offices and foundations. Our subsidiary Aegon Investment Management (AIM) B.V., which manages approximately EUR 93.6 billion[1] in assets for a broad range of clients, is subject to the Sustainable Finance Disclosure Regulation (further: SFDR).

General comments

Thank you for providing us with the opportunity to provide feedback on the functioning of the SFDR. We appreciate the enormous effort that has gone into designing the sustainable framework and we applaud the European Commission for stepping up in this regard. We are keen to contribute to the discussion, as we believe several changes to the current SFDR are needed. This letter contains our main considerations and concerns, which are also reflected in the response to the consultation.

We strongly believe that the primary goal of the SFDR should be investor protection, by ensuring there is a consistent and sufficiently defined regulatory framework, requiring clear and meaningful information so that investors can make an informed decision on which financial product they decide to invest in. We support the need to direct capital flows to more sustainable investments, to this end, transparency and SFDR are necessary, but not sufficient elements. In addition, our industry needs a robust and uniform definition of sustainable investments.

We support the introduction of labels. We also believe that the current framework can benefit from additional clarifications and harmonization, which will enhance comparability between member states, market participants and products. In addition, we suggest to reduce the administrative burden by removing some disclosure requirements, e.g. certain entity and product level disclosures, including the website disclosures.

Introduction of labels

We are supportive of the proposal to introduce a labelling regime rather than a disclosure regime, as market practice oftentimes views SFDR as a labelling regime – despite clarification from the European Commission in this respect. Labels benefit all end investors, who currently struggle to understand the wide variety of ESG products. We do believe that adapting requirements based on target audience would be a good thing to do, as well as introducing the labels in the PRIIPS information document.

The current SFDR disclosure requirements essentially put a heavier burden on financial market participants (further: FMPs) that claim to promote ESG characteristics and / or offer products with a sustainable objective than from FMPs that do not offer products with any ESG components. Although we understand that additional claims need to be further substantiated, including certain standards items would create a more equal level playing field. In addition, it would improve comparability. When introducing such standard items, we believe it is important to provide clear guidelines on what should be included for each item, otherwise it would hamper comparability and it will become more difficult for investors to make an informed decision. The European Commission should also clarify that disclosure on (the lack of) ESG practices would not constitute greenwashing.

[1] Figure as at 30 September 2023

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We have a preference for labels based on investment strategies, rather than the current disclosure categories. A descriptive label will provide more information than the mere categorization of products into article 6, 8 and 9 products. **While we generally support the different types of labels as suggested in the consultation, we would urge for the creation of an additional category for sustainable investments that does not require *measurable* outcomes, which we consider a requirement only of impact investments.** This category would have a similar focus on investees offering solutions, but might also include companies transforming industries and promoting systemic change. We note the EU taxonomy for sustainable investments itself does not require measurement of social or environmental outcomes or impacts.

While engagement should be considered an important aspect of any product making ESG-related claims, due thought needs to be given to the product's asset class and the available levers of influence such investment type offers investors over the investee (e.g. structured credit, sovereign issures). With regards to the use of quantitative standards or thresholds to determine compliance with label criteria, due consideration needs to be given to the availability, reliability and cost of the data necessary to apply meaningful, enforceable rules in a comparable and fair manner. With respect to third-party verification, while we agree this would be generally beneficial to increase investor confidence, we also urge a balanced approach taking into account costs, capabilities in the verification industry and whether regulation of such entities would be necessary to ensure reliability.

In addition, thought should be given if a product can have several overlapping labels, for instance by introducing a 'mixed labels' category or by offering products the possibility to have several labels, with one label being the 'dominant' label. In all cases, a certain amount of the assets managed should be subject to binding ESG characteristics of the financial product. Lastly, we believe that the types of products having to disclose under article 8 are too diverse, as are the proprietary definitions of sustainable investments being applied to article 8 and 9 products. We therefore recommend not relying on the existing classifications for a new labelling regime, as it is impossible for an investor to compare these different products.

However, if the regulation is being overhauled, sufficient time should be given to the sector to adapt, and we advise the European Commission to build on certain key concepts in the current SFDR. We also see value in ensuring there is some commonality with the approach currently taken by the FCA, as this would mitigate the risk of having to disclose under two different regulatory regimes for one specific product.

Improvements to the current SFDR framework

It will not come as a surprise, but AIM as an institutional investor struggles with data availability. While we were hoping that upcoming regulations would solve this problem to some extent, as under CSRD more information would become available and the data availability and reliability of data of data vendors would increase as they become regulated, the most recent developments of CSRD have not been hopeful. We currently see a similar situation with regard to Taxonomy alignment data. The data required from financial market participants and data required from investee companies is currently insufficiently aligned. Regulatory disclosure requirements need to be aligned across the value chain of data vendors and FMPs, to facilitate meaningful disclosures. Further, we believe that for the disclosure of PAIs SFDR should not only distinguish between real estate, sovereigns and investee companies. A separate category should be introduced for other investments, including structured finance investments. **In summary, we believe that for the sustainability framework to work properly, data throughout the investment chain should be consistent, and it should be possible for all market participants to access data in a timely and cost effective manner.**

As for the use of data, it is important to strike the right balance between being prescriptive and allowing for tailored flexibility. While we appreciate the possibility offered by the European Commission on the consideration of Principal Adverse Impact indicators (PAIs), we believe additional guidance, either in the form of best practices or in the form guidance on how PAIs should be provided (both when considering PAIs and when using these PAIs as a proxy for the consideration of Do No Significant Harm in the classification of investments as sustainable). In such guidance, one needs to pay attention to the potential conflicts where financial market participants – based on fiduciary duty and client preferences – cannot consider the

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PAIs when making an investment decision. We also notice that the use of PAIs varies greatly in the industry, with some firms claiming to consider all PAIs, some firms only selecting some, and some firms claiming to consider PAIs to the extent possible.

We encourage the European Commission to include more guidance on the classification of sustainable investments under SFDR as the methodology for classifying products or economic activities is too diverging. The various definitions of sustainable investments, which can be based on activities, companies or portfolios, hampers comparability. We also are keen to receive guidance if one can combine an activities based approach and a portfolios based approach to come to one uniform definition of sustainable investments.

We also strongly support the possibility to use estimates in cases where data is not available, for instance when the investee company is not subject to (EU) regulations hence does not provide this information. Engagement can sometimes be a useful tool to acquire this information, but it is time consuming and not every investee company fulfills such requests. We also notice inconsistencies when it comes to the different sustainability regulations. For instance, the approach to DNSH and good governance in the SFDR is only to a very limited extent consistent with the environmental, social and governance exclusions under the PAB/CTB. In addition, the recently released publication from ESMA (ESMA30-1668416927-2548) on the use of estimates shows that the use of estimates is diverging, even when it comes to similar concepts (e.g. taxonomy alignment). Such matters should be resolved and we are keen to see more guidance on this topic.

AIM has also opted into considering PAIs at entity level, as we believe it is our duty as a European asset manager to be as transparent as possible where it concerns sustainability. This, however, leads to a number of challenges, including limited data coverage as mentioned above and significant resources required to pull together the statement. In addition, it was unclear if opting in would require us to consider PAIs for all products, including products where this was impossible due to the type of asset class (e.g. interest rate swaps), or where the nature of the product did not allow for this (e.g. certain passively managed products). The entity level report is not downloaded frequently either. While pulling together the PAI statement, we also found out that in some instances the reported PAI indicators may not be as accurate as the estimated PAI indicators (for instance in the case where an investee company needs to report PAIs outside its area of influence). Reported data should in principle always be leading, but where the situation requires and there is a clear rationale, it should be possible to deviate from such reported data. For this to work, **there should be standards for estimates and there should be a regulation applying to estimation models.** We see some merit in entity level disclosure on remuneration and on sustainability risk management.

We noticed that the product disclosures are more regularly read by investors, probably because they provide a clear background on the ESG characteristics of the specific product. We support the use of precontractual and periodic reports, as these clarify what the product's characteristics are and whether they were achieved. We would continue such approach in a labelling regime. The website disclosures however are unnecessary as they largely copy the precontractual information, but these are not fully comparable, adding to investor confusion. In addition, the logging of changes requires substantial work with only limited benefits.

Separately, going back to the definition of 'Product' under SFDR, we are unsure why a discretionary portfolio (article 2 (12) (a) SFDR) is qualified as a product under SFDR as this historically has never been done. If the European Commission is keen to see disclosures on such portfolios, it should at least be tailored to the nature of the service provided, with flexibility on providing information to individual clients instead of imposing an obligation to publish such matters publicly on the internet, which may also breach privacy laws.

In addition, as a fund manager with operations in multiple EU member states, we notice that different regulators apply different requirements for products disclosing under article 8, thereby invertedly increasing the risk of greywashing or greenwashing. Rather, a refinement of the requirements should be pursued.

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We avail ourselves of this opportunity to express our appreciation for the efforts of the Commission, and its commitment to enhancing transparency and upholding market integrity, and prudence.

Yours sincerely,

On behalf of Aegon Investment Management B.V.
Brunno Maradei, Global Head of Sustainable Investment
Helena Naffa, Senior Responsible Investment Associate
Yannick Ellenbroek, Managing Legal Counsel Regulatory

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