ASSOGESTIONI position on the SFDR Review

Proposal for the disclosure and product labelling for ESG financial products

In the 3 years since its entry into force, the SFDR has been effective in promoting awareness both among investors and asset managers with regards to the role the industry and investors can play in supporting the transition to a more resilient and sustainable economy and the integration of sustainability considerations in all aspects of the investment process.
Assogestioni fully supports the EC decision to promote sustainable investing by enhancing transparency and comparability of the ESG features of financial products.
Transparency is key to empowering investors and promoting sustainable investing, while fostering healthy competition, allowing room for innovation and for the development of a diversified offering.
At the same time, some limits of the SFDR have emerged and risk hampering the unfolding of the full benefits of the Regulation.
While Assogestioni is in favour of a revision of the SFDR, the merits of the current framework and the very substantial effort and resources that the industry has devoted to implementing the Regulation should be acknowledged and continuity with the current framework should be preserved.
The position of Assogestioni on the SFDR review is detailed in the response to the EC consultation (enclosed), however, our key considerations are summarized here below.

Executive summary

In order to overcome the current challenges, while limiting disruption and preserving investors trust, we recommend revising the current SFDR framework, while keeping disclosure on sustainability at the core of the Regulation.
In particular, we support:

- **Entity level disclosures** regarding the financial market participant integration of sustainability risks policies in investment decisions, consideration of principal adverse impacts and remuneration policies in relation to the integration of sustainability risks, required respectively by Art.3, 4 and 5 of the current SFDR framework.
- **Minimum uniform disclosure for all financial products** on integration of sustainability risks into investment decisions, regardless of their sustainability claim, as already envisaged in the current art.6 SFDR;

- **Standard additional mandatory disclosure for all financial products with a sustainability claim** to disclose their key ESG features, using qualitative and quantitative information. The template for disclosure should be the same for all products with sustainability claims.
- **Voluntary label/categories** which financial products with ESG claims could choose to adopt if meeting minimum criteria/thresholds on the ESG features disclosed. Labels should be designed based on the objectives of the investment policy. No additional disclosure should be required.

The view of Assogestioni

Assogestioni has developed its view on the revision of the SFDR based on guiding principles, in particular:

- Preserve the **flexible and transparency-based approach** at the basis of the SFDR;
- Draw a clear **distinction between ESG risk integration** on one side **and impact of investments on environment and society** on the other – i.e. the two aspects of the double materiality;
- **Simplify and standardize the disclosure requirements for all products with ESG/sustainability claims** while allowing room for the diversity of approaches to sustainable investing;
- **Support (retail) investors in identifying** and selecting more easily those ESG products that best meet their sustainability preferences;
- Acknowledge **the key role that investing in companies committed to transition** plays in supporting the economy in the journey towards a more sustainable model.

In view of the above, Assogestioni has identified a few key points that should be considered when revising the SFDR, in particular:

➢ **Entity Level Disclosure**

In our view, entity level disclosure with regards to ESG risks and impact, as disciplined by art.3, art.4 and art.5 of SFDR, plays an important role in informing investors of the

overall approach of an asset manager to sustainability issues and in creating the framework for all market players to be public with regards to their commitment to a sustainable transition.
Quantitative disclosure of PAI (Principal Adverse Impact) as per Art.4 SFDR raises the awareness of intermediaries with regards to the effects of their overall investment activity, while disclosure of policies on prioritization of PAIs informs of the asset managers' commitment and overall strategy towards ESG issues and PAI considerations and prioritization.
While entity disclosure information has so far attracted limited attention from investors, it should also be considered that only the first full PAI statement has been published and that sufficient time should be allowed for the market to become aware of the relevance of the published indicators; we trust that this will become more apparent over time, when the action taken and planned with regards to PAI will also be part of the disclosure.
We therefore see benefits in **keeping entity level disclosures in the framework of SFDR,** including the annual statement on PAI consideration on E/S factors, as currently defined by the Regulation, also considering the degree of proportionality already envisaged by the Regulation.

- **Mandatory product disclosure**

The aim of the disclosure framework should be to make available to investors the key information they need to identify those investment products that best meet their sustainability preferences and make an informed decision. Asset managers invest their clients' funds and fulfil their fiduciary duty by respecting their client preferences also with regards to the client choice on whether to consider (or not) sustainability aspects.
On this ground, a distinction should be drawn between, on one side, those financial products that only considers ESG variables for the potential risk that they can cause to the product financial performance and, on the other side, those financial products that also take into consideration the potential impact of the investment activity on environment and society.

- **ESG Risk integration policy <u>for all financial products</u>**

  As all financial products are at least potentially exposed to ESG risks, the Regulation requires asset managers to have an ESG risk integration policy and to assess for every product whether ESG risk are actually relevant for that specific product, ESG consideration and information regarding the ESG characteristic of a financial product are of interest only to those investors with sustainability preferences.

For this reason, we consider that those products that make no sustainability claims should not be obliged to disclose ESG information other than that related to their ESG risk assessment/consideration. Disclosing information that refer to the impact of this type of products would not only burden investors with information they are not interested in but also cause potential confusion and greenwashing with regard to the objective and the ESG consideration of the product.
Requiring sustainability indicators only for products with ESG/sustainability claims would allow more clearly to distinguish between product which take into account and consider the impact of investment decisions on people and planet (the "inside out" dimension of double materiality) from those that look at ESG factors only as a potential source of risk (the "outside in" dimension), to the benefits of both asset managers and of investors.

- **Standard additional mandatory disclosure <u>for all financial products with a sustainability claim</u>**

In continuity with the SFDR current approach, we would recommend maintaining the transparency approach that characterizes the disclosure regulation, albeit recommending a simplification of the disclosure and a unique template for all sustainable/ESG products, removing the current distinction between art 8 and art 9 disclosure.

A standard disclosure should be mandatory for all products for which a sustainability claim is made. No minimum characteristics or threshold should be established beyond a set of standard disclosure requirements so to allow flexibility and innovation with regards to the integration of ESG characteristics into investment strategies.
As a result, the financial product universe and the disclosure obligations would be divided into two categories: financial products without ESG claims (only ESG risk consideration disclosed) and products with ESG claims – to which the standard ESG disclosure is mandatorily applied.

Products with ESG claims can be different according to a number of criteria and have a diverse definition of sustainable investing. Mandatory disclosure should strike the balance between giving financial market participants the opportunity and the flexibility to present their potentially very different sustainability features and priorities, while at the same time allowing comparability and not overburdening investors with too detailed information.
In our view, standard disclosure for sustainable product should therefore be based around the following key elements:

- A description of the product key sustainability features, that includes:

- the sustainability objectives of the investment policy;
- the investment strategy pursued and KPIs;
- good governance minimum standards.

- Some key information on the following elements, where applicable:
    - % of the portfolio in sustainable investment (as per art. 2(17) of the SFDR);
    - % of the portfolio taxonomy-alignment;
    - whether the FP has an emission reduction objective and which one;
    - exclusions applied (beyond ESG risk policy exclusion), specifying which exclusion and % of reduction of investible universe;
    - PAI indicators – e.g.: 4/6 PAI indicators that should be defined by the Regulator in order to promote comparability among sustainable FPs + 2 additional PAIs based on materiality considerations.
    - engagement policy on ESG issues.

No minimum quantitative criteria should be met but the disclosed information would allow investors to judge whether a product is in line with their preferences. The variety of indicators and information would allow financial intermediaries to offer products with a range of different ESG/sustainability focuses and objectives and inform the investors about these elements.

- **Voluntary labels for sustainable products**

In order to meet the need that has emerged from the market to label sustainable products and to help investors to quickly capture the key characteristics of an ESG/sustainable product, Assogestioni would favour the creation of a small set of voluntary labels that asset managers could use to reflects and summarize the key aspects of the product they are offering. This labelling system would be based on the information that are part of the standard disclosure for sustainable products, therefore not requiring any additional disclosure by FMPs, but the use of a label by financial product would require meeting certain minimum criteria/thresholds resulting from the information provided in the standard ESG disclosure.
Labels should aim at communicating the sustainability objective of products and be based on the minimum criteria that are most relevant for that specific objective. No hierarchy among labels should be envisaged as the proposed labels represent different possible ways to invest in the transition towards sustainability, either by investing in companies that directly impact positively on people and planet or by investing in those companies that in the broader economy strive to minimize

their adverse impact and meet high sustainability standards or by supporting those companies that, while not being sustainable yet, are committed to a transition. The labels are hence designed to meet different investor preferences.
Here below the three labels suggested and an example of the criteria that we would consider more relevant for those labels.

- **"SUSTAINABLE OBJECTIVE" label:** we would consider it the one closer to the current definition of sustainable investing, where the financial product is committed to mainly invest in assets that have a "real world" positive, measurable contribution - (e.g. job creation, producing new material out of waste, development of new green technology, etc) while not generating significant harm to any E/S factor. These products would invest primarily in what is currently defined as sustainable investing as per art 2(17) of SFDR. Their key criteria could be a significant share of sustainable investment, the identification of one or more KPIs for the positive contribution and/or PAI consideration.

- **"ESG LEADERS/ESG ALIGNED" label:** this label would identify financial products that invest in all sectors of the economy (possibly with some exclusions) but in issuers committed to minimizing PAI on E/S factors and/or meet high E/S standards. In such sense, FPs that would adhere to "ESG leaders/ aligned" label are expected to invest predominantly in assets that meet credible environmental and/or social standards or are better E/S performer as compared to their peers or adopt to a specific sustainability-related theme. The key criteria could be a certain level of taxonomy alignment and/or compliance with robust and evidence-based international standards.

- **"TRANSITION" label:** financial products adopting this label would typically invest in issuers that are committed to a credible and measurable transition to more sustainable practice (i.e. improvement on PAI indicators), even if not aligned with E/S standards or Taxonomy yet. Their key criteria could be having a carbon reduction target or another material PAI reduction target and an engagement policy focused on monitoring/accompanying issuers towards transition.

- **Continuity with the current SFDR framework**

Acknowledging the merits of the current framework and the very significant effort and resources committed by financial market participant and also recognizing that some key concepts have now become common knowledge also among investors, we would support a revision that builds on what has been done so far. The existing

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framework of art. 8 /art. 9 SFDR should not be discarded altogether but rather revised to lead to the new framework. In this respect, we would maintain art. 8, that could cover– as it does now – all products with an ESG claim (that “promote E/S characteristics” but also that have sustainable objectives) while envisaging a simplified disclosure framework, identical for all products with ESG claims. Art 9 should be significantly rewritten to define products’ labels and the criteria needed for financial products to fit in each of them. For asset managers, it would require a rethinking of the strategy and a redrafting of the precontractual and periodic information. From the point of view of the investor, it could appear as less disruptive since it would be perceived as providing additional information and clarity.

For the system to fully benefit from the transition and not cause unnecessary confusion and costs, we consider it essential to accompany the transition with an assessment of the consistency between SFDR and all the other regulations that interact with it, in particular the MIFID ESG, and allow sufficient time for transition to the new set up.

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