



JOINT COMMITTEE OF THE EUROPEAN  
SUPERVISORY AUTHORITIES

## Reply form

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



12 April 2023  
ESMA34-45-1218

## 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<sup>1</sup>. 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.

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<sup>1</sup> 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	EU Platform on Sustainable Finance
Activity	
Are you representing an association?	<input type="checkbox"/>
Country/Region	Europe

### 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>

The Platform on Sustainable Finance (the Platform hereafter) partially agrees.

- **General Remarks**

- **The Platform underlines the need for disclosure requirements for Financial Market Participants (FMPs) under SFDR to be based on EU regulatory disclosures for EU corporates either through ESRS or another regulatory framework.** ESRS should provide FMPs with the necessary information that is not readily available through other regulations. All PAIs should have their fully consistent equivalent in the ESRS. Those PAIs that are not included in the ESRS should alternatively be of mandatory nature under another disclosure regulation. In other words, FMPs should be able to easily access the information needed in the right format for all EU large companies.

The Platform therefore appreciates that the ESAs used the (draft) disclosure requirements under the CSRD as a basis for defining new social PAI indicators. Since the publication of the draft Consultation, the European Commission (EC or Commission hereafter) has published in turn the draft ESRS.

While the Platform understands the introduction of the concept of materiality into some of the ESRS reporting requirements, it notes that this has an impact on the reporting ability of FMPs on the PAI indicators. In line with the principle of proportionality and applicability, FMPs should be able to rely on the disclosure of companies under ESRS. If companies do not disclose information on certain indicators since they conclude that the impact is not material, Art. 7 (2) SFDR Delegated Regulation currently stipulates that FMPs should disclose details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts, or making reasonable assumptions. This is applicable to all FMPs that employ as an average more than 500 employees or that decide to comply with the disclosure voluntarily, who will inevitably pressurise companies to obtain the information.

The Platform believes that not all PAIs should be treated equally. Some indicators are only material for companies conducting certain economic activities, hence there is a need to formally acknowledge their sectoral nature in the respective regulations - in the definition of those same indicators - when requested to FMPs as PAI indicators or the equivalent for credit institutions. For example, this is the case of PAI 9 (hazardous and radioactive waste ratio); PAI 5 (non-renewable energy consumption and production – while energy consumption should apply across the board, it is not the case for energy production); PAI 8 (emissions to water) or PAI 11 (investments in companies without sustainable land/agriculture practices or policies). The ESAs could reflect such materiality similar to PAI 6 (energy consumption intensity per high impact climate sector) through identifying the relevant sectors with the NACE code. The rest of PAIs should be by definition material, given the importance that company performance on each one of the PAI indicators could have for their shareholders and potential investors. Equally, and to ensure proportionality, the ESRS could foresee the reporting of a "qualified zero" or an estimate in cases where a company does not operate in a sector for which a certain metric is of (sufficient) relevance (including a Not Applicable when relating to Y/N answers e.g. companies without a policy to address deforestation). Concerning indicators for which companies should be allowed to report a "qualified zero", FMPs should be allowed to exclude such companies in the numerator of the respective PAI indicator. There are other indicators for which an estimation on a best effort basis is preferable to a default zero, e.g. scope 1, 2, 3 emissions.

In a nutshell, the Platform believes that the best way forward is:

- Making mandatory the ESRS reporting at least of those PAIs that are critical to all sectors including GHG emissions, without them being bound by a prior materiality assessment.
- Including in the definition of PAIs and ESRS (or in the materiality assessment guidance) the economic activities for which they are relevant or material when that is the case. The Taxonomy could be useful to help making the materiality assessment. Such guidance in the definition will also be useful for FMPs when estimating performance for non-EU companies.
- Allowing companies to report a "qualified zero" (or not applicable for Y/N answers) if they do not operate in these sectors or do not conduct the identified economic activities.

In any case, if FMPs have an indication that investee companies should have assessed the materiality differently, they should engage with such companies in order to clarify the materiality assessment.

The Platform emphasises the need for a coverage ratio to be used in reporting, to signal to the end asset owner the proportion of the total investment for which the PAI information is available.

- **The Platform has previously (during its first mandate) insisted on the need for social and governance indicators within SFDR RTS to be aligned with the minimum safeguards of the Taxonomy Regulation.** The Platform welcomes the [EC's FAQ Notice](#) where it recalls that Article 18(2) introduces a direct link with the principle of 'do no significant harm' (DNSH) referred to in Article 2(17) of the SFDR.
- The EC clarifies that the link between the minimum safeguards and the principle of DNSH of the SFDR is to be understood, as a minimum, through the SFDR principal adverse impact indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters listed in the table 1 of Annex I of the SFDR Delegated Regulation (Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises; unadjusted gender pay gap; board gender diversity; and, exposure to controversial weapons). The only issue covered by Article 18(2) as of today that is not explicitly covered by Article 18(1) is the principal adverse impact relating to the exposure to controversial weapons as defined under the SFDR Delegated Regulation (anti-personnel mines, cluster munitions, chemical weapons and biological weapons). However, the EC further notes that "by virtue of Article 18(2) of the Taxonomy Regulation, undertakings are to ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation or remediation of any actual or potential exposure to the manufacture or selling of controversial weapons".

**Full consistency between ESRS, PAIs and the minimum safeguards of the Taxonomy Regulation will:**

- Eliminate the double layer of social and governance requirements for companies and other economic actors that exhibit revenue or capex Taxonomy-aligned activities.
- Simplify, while avoiding confusion in the application of social and governance considerations by FMPs and the use of estimates when assessing non-CSR actors, which will in turn limit regulatory overload.
- Allow for a social and governance safe harbour between Taxonomy-aligned and Article 2(17) SFDR sustainable investments, as has been proposed by the former Platform on Sustainable Finance in its Data and Usability Report (see here: [Platform on Sustainable Finance's recommendations on data and usability of the EU taxonomy \(europa.eu\)](#), p. 141 et seq.), which proposed greater alignment between the SFDR and the Taxonomy Regulation, by, inter alia, aligning social and governance PAIs and minimum safeguards of the Taxonomy Regulation as it has been confirmed by the EC in its [FAQ](#).

The Platform strongly welcomes the Commission's recent clarification that "investments in 'environmentally sustainable economic activities' within the meaning of the EU Taxonomy can be qualified as a 'sustainable investment' within the meaning of the SFDR" (Measure 1 of the Commission Staff Working Document, Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework).

The EC's recent FAQ also clarify that Art.18(2) of the Taxonomy Regulation does not introduce any additional topics compared to Art.18(1) (apart from weapons and tobacco – if the latter was to be included in the future). It is worth recalling that PAIs under SFDR are only disclosure requirements while Art.18(1) refers to due diligence. As the Commission's FAQ state, "by virtue of Article 18(2), undertakings are to ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation or remediation of any actual or potential exposure to the manufacture or selling of controversial weapons".

**Already during its first mandate the Platform recommended in its usability report, inter alia, to improve sequencing across the reporting framework by ensuring that the required data is available to FMPs, in order to satisfy their own reporting obligations.**

In light of the above, the Platform recommends aligning the timeline for introducing any new PAI indicator with ESRS reporting. Any indicator that is introduced prior to the availability of CSRD reporting data should benefit from a transitional period, during which its disclosure should be made optional.

**The Platform is not making a judgement call on the inclusion or not of the proposed new indicators - with the exception of tobacco - as it responds to a previous request from the Platform to further align the SFDR and BMR regulatory regimes. The Platform has analysed the proposed indicators and, more broadly the questions in this consultation, through the lenses of the following five principles:**

- **Principle of Relevance:** Indicators ought to be meaningful and capture the adverse impact well. The proposed method to calculate the indicator ought to be accurate.
- **Principle of Consistency:** The indicator's underlying methodology and concept need to be consistent with (i) the minimum safeguards and the DNSH assessment of the Taxonomy Regulation, (ii) the CSRD (i.e. ESRS) and (iii) the broader sustainable finance framework, e.g. the PABs/CTBs.
- **Principle of Proportionality:** The reporting burden ought to be evenly distributed among the different players, taking into consideration their different capabilities and responsibilities. The benefits of the reporting should outweigh the burden. Simplification is sought wherever possible.
- **Principle of Applicability:** Indicators ought to be easy to estimate, or part of an international reporting standard (or a proxy should be available), and they should allow for comparability. This should include also non-EU and/or non-/not-yet CSRD investments (e.g. alternative asset classes and SMEs). Indicators should be applied once ESRS reporting is available.
- **Principle of Precaution:** Every disclosure should be designed in such a way that it shall not overestimate positive nor underestimate negative information. This principle is considered overarching to protect the environmental integrity.

**With respect to the single suggested indicators, the Platform hereafter shares with the ESAs a series of considerations based on the five principles above.**

- **Amount of accumulated earnings in non-cooperative tax jurisdictions:** Taxation was identified as an area covered by Article 18 of the Taxonomy Regulation in reference to minimum safeguards (see [Final Report on Minimum Safeguards \(europa.eu\)](#), p. 10). Hence, the Platform agrees on the relevance of the proposed indicator and notes that European companies are bound by the EU Accounting Directive to disclose the information when exceeding the set threshold. The Platform

notes, though, that any tax-related indicator that might be included as a mandatory PAI indicator ought to be considered sufficient to comply with the taxation requirements embedded in the OECD MNEs as part of the Taxonomy minimum safeguards to ensure consistency between the social and governance requirements of the Taxonomy and Sustainable Investment of SFDR to avoid applying an additional burden to Taxonomy-aligned investments.

The Platform notes the difficulties that FMPs might encounter in estimating the amount of accumulated earnings in non-cooperative tax jurisdictions for non-EU companies.

**Exposure to companies involved in the cultivation and production of tobacco:**

The Platform welcomes the proposed inclusion of this indicator following its request for their inclusion in the Usability and Data report (recommendation 49, p. 151 et seq.) on the grounds of achieving greater consistency between the SFDR DNSH and PABs/CTBs exclusions. Its inclusion enhances the consistency between both regulations and their application.

The Platform welcomes the fact that the indicator follows the required ESRS (ESRS 2 SBM-1).

The Platform underlines the meaningfulness of the indicator, given the nature of tobacco as an always significant harmful activity. Furthermore, the implementation of this PAI is also achievable for alternative asset classes and for non-CSR and non-EU companies.

Were tobacco to be included as a mandatory PAI, by virtue of Article 18(2) of the Taxonomy Regulation, undertakings should ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation or remediation of any actual or potential exposure to cultivation and production of tobacco.

The Platform recommends that this is reported as the proportion of revenue the company makes from the cultivation and production of tobacco.

- **Interference in the formation of trade unions or election of worker representatives:** The Platform attributes great meaningfulness to this indicator. Interference in formation of trade unions is likely to be material for several sectors. While the Platform acknowledges that the indicator could be part of the minimum safeguards as it responds to one of the eight Core Conventions of the ILO on Freedom of Association and Protection of Right to Organised Convention and that it is implicitly already included under PAI indicator number 10, it is important that its objective is not lost in a very broad category. Where there is a problem with companies interfering in the formation of trade unions and preventing the election of labour representatives, this creates clear industrial risks, as well as reputational ones, linked to human rights abuses.

The Platform notes, though, that the indicator does not conform part of the mandatory indicators as part of ESRS S1. Under ESRS S1 the non-interference in trade union formation is mentioned in appendix B2 as an example of a policy that could be disclosed, though. What exactly interference entails, including which timeframe ought to be considered, requires clarification. The Platform also acknowledges that this is unlikely to be a data point reported by EU or non-EU corporates and thus FMPs would need to rely on controversy-related products to identify non-compliance. As per the former Platform's recommendation in the Data and Usability report, we advised against relying only on NGO or media-based data sets to inform 'estimated' data. Should this



PAI remain as a mandatory indicator, it would be important for the EC and ESAs to clarify the use of controversies in obtaining the data.

- **Share of employees earning less than the adequate wage:** The Platform attributes great importance to this indicator because it helps assessing how a company compensates and rewards its employees for their work and contribution to generate revenues and to the company’s activities. The Platform welcomes the use of the same definition as in ESRS S1-10, which provides a clear definition of 'adequate wage' (AR 72, AR 73, AR 74) and that “Fair Remuneration Policy” is part of the ESRS.

The Platform notes that for the private market and outside the EU, data is not necessarily reported. Therefore, dependency on estimates / proxies is higher. For newly made investments, it might be easier for FMPs to receive such information, e.g. through negotiating a respective information duty by the investee company. Existing investments often do not cater for such requirement and hence respective data is often not reported nor otherwise available.

In addition, and as a general comment, the Platform notes that company reporting under CSRD might be subject to different levels of auditing and assurance.

The changes to the PAI indicators will impact the DNSH test for Sustainable Investments, which in the worst-case scenario affects the commitments already done on product level by FMPs – and then also the sustainability preferences for products already sold with a higher commitment. This impact has to be acknowledged and addressed.

<ESMA\_QUESTION\_SFDR\_1>

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

<ESMA\_QUESTION\_SFDR\_2>

The Platform proposes the following adjustment to the social indicator number#8:

8. Excessive CEO pay ratio	Ratio within investee companies of the annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest-compensated individual)	We propose that total annual compensation shall be defined as fixed part and variable annual compensation, including any bonus granted for a given calendar year, pension contributions and additional allowances as well as related equivalent based on Long-Term Incentives Pay remuneration policy.
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The Platform recommended in its report on the environmental transition Taxonomy (see [Platform on Sustainable Finance's report on environmental transition taxonomy \(europa.eu\)](#)) that the European Commission define those activities that cannot be improved to avoid significant harm and will therefore remain always significantly harmful. Such activities should be prioritised for Taxonomy-recognised transition investment as part of a decommissioning plan with a just transition effort. Such a classification was named the “always significantly harmful” Taxonomy. If extended to other environmental objectives, it would include activities that cause significant harm and for which there is no technological solution. These are the activities causing real stranded assets. A filter that will identify and exclude such activities might prove to be most effective, not least from a risk management perspective.

When applying the concept to social objectives, activities such as controversial weapons or tobacco might be found, as they always cause significant harm, and no solution is feasible. Until a Taxonomy addressing always significantly harmful activities is developed, the Platform recommends the expansion of PAIs to a handful of indicators that capture those activities that always cause significant harm and for which no solution is feasible. FMPs can then set minimum tolerance levels to screen them.

In its [report on data and usability](#), the Platform already recommended the progressive inclusion of a short list of always significant harmful social and environmental activities as “always principally adverse”, in the absence of a Taxonomy addressing always significant harmful and social activities (or until such Taxonomy exists). This list could include - in addition to the existing indicators on fossil fuels and controversial weapons – for example, tobacco as suggested by the ESAs, and some significantly damaging pesticides and chemical substances.

The Platform therefore welcomes the inclusion of tobacco and recommends that any extension of PAIs should aim to include always significant harmful activities for which there are no technological solutions, but less harmful alternatives are available.

In addition, if there was a desire to expand the list of mandatory social indicators, the voluntary social PAIs would be good candidates. Specific examples of voluntary PAIs that could become mandatory, given that they are well defined and have high relevance, are the following: Lack of human rights policy (optional PAI number 9); Lack of due diligence procedures of adverse human rights impact (optional PAI number 10). <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>The Platform reiterates that also for the opt-in indicators the general principles of Relevance, Consistency, Proportionality, Applicability and Precaution should apply. The Platform recalls that for sustainable investments, FMPs need to describe how any relevant opt-indicators have been taken into account (see e.g. Article 26(2) and Article 39(a)(a) SFDR RTS). Therefore, and in line with the principles of Applicability and Consistency, opt-in indicators should be based on ESRS and/or all opt-in indicators should be included as a mandatory ESRS.

Regarding the proposed indicators, the Platform notes that:

- Non-guaranteed-hour employees, temporary contract and non-employee workers are only in scope of ESRS S1 and therefore, only applicable for own operations and not downstream value chain (investee companies). Consequently, the contribution of investee companies' value chains to such PAI would not be reported, and hence should not be included in the PAI calculation.
- While the formula of PAIs using the term “excessive use” and “insufficient” is foreseen, the definition remains unclear and subject to divergent interpretations. The Platform recommends setting a clear quantifiable formula (e.g. based on % or relative to).

The levels of protection of employees' rights vary significantly between jurisdictions. Depending on the regional scope of investments, the FMP might invest in a large range of jurisdictions with very different approaches and hence a large range of countries where employees' rights are not at a reasonable standard. When aggregating such diverse information in one indicator, the information might be of limited value.

The Platform also notes the difficulties that FMPs might encounter in reporting indicator number 20 “Lack of remediation handling mechanism for consumers/end-users of the investee company”, which very few entities will be able to address satisfactorily.”<ESMA\_QUESTION\_SFDR\_3>

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

<ESMA\_QUESTION\_SFDR\_4>

The Platform recommended in its report on the 29 March 2022 that the European Commission define those activities that cannot be improved to avoid significant harm and will therefore remain always significantly harmful. Such activities should be prioritised for Taxonomy-recognised transition investment as part of a decommissioning plan with a just transition effort. Such a classification was named the “always significantly harmful” Taxonomy. If extended to other environmental objectives, it would include activities that cause significant harm and for which there is no technological solution. These are the real stranded assets. A filter that will identify and exclude stranded assets might prove to be most effective, not least from a risk management perspective.

When applying the concept to social objectives, activities such as controversial weapons or tobacco might be found as they always cause significant harm, and no solution is feasible. Until a Taxonomy addressing always significantly harmful activities is developed, the Platform recommends the expansion of PAIs to a handful of indicators that capture those activities that always cause significant harm and for which no solution is feasible. FMPs can then set minimum tolerance levels to screen them.

The Platform recommends the progressive inclusion of a short list of always significant harmful social and environmental activities as “always principally adverse”, in the absence of a Taxonomy addressing always significant harmful and social activities (or until such Taxonomy exists).

The Platform therefore welcomes the proposal for inclusion of tobacco and recommends that any extension of PAIs should aim to include always significant harmful activities for which there are no technological solutions, but less harmful alternatives are available.

If there is a desire to expand the list of mandatory social indicators, the opt-in social PAIs are also good candidates. Specific examples of opt-in PAI that could become mandatory, given that they are well defined and have high relevance, are the following: Lack of human rights policy (optional PAI number 9); Lack of due diligence procedures of adverse human rights impact (optional PAI number 10). The Platform underlines, though, the need to keep the reporting burden proportionate. The opt-in indicators allow FMPs at financial-product level to tailor their use with the social characteristics they promote about individual products.

In addition, the Platform recalls its response to question 3.

The Platform reiterates that also for the opt-in indicators the general principles of Relevance, Consistency, Proportionality, Applicability and Precaution should apply. The Platform recalls that for sustainable investments, FMPs need to describe how any relevant opt-indicators have been taken into account (see e.g. Article 26(2) and Article 39(a)(a) SFDR RTS). Therefore, and in line with the principles of Applicability and Consistency, opt-in indicators should be based on ESRS and/or all opt-in indicators should be included as a mandatory ESRS.

Regarding the proposed indicators, the Platform notes that:

- Non-guaranteed-hour employees, temporary contract and non-employee workers are only in scope of ESRS S1 and therefore, only applicable for own operations and not downstream value chain (investee companies). Consequently, the contribution of investee companies' value chains to such PAI would not be reported, and hence should not be included in the PAI calculation.
- While the formula of PAIs using the term “excessive use” and “insufficient” is foreseen, the definition remains unclear and subject to divergent interpretations. The Platform recommends setting a clear quantifiable formula (e.g. based on % or relative to).

The levels of protection of employees' rights vary significantly between jurisdictions. Depending on the regional scope of investments, the FMP might invest in a large range of jurisdictions with very different approaches and hence a large range of countries where

employees' rights are not at a reasonable standard. When aggregating such diverse information in one indicator, the information might be of limited value.

The Platform also notes the difficulties that FMPs might encounter in reporting indicator number 20 "Lack of remediation handling mechanism for consumers/end-users of the investee company", which very few entities will be able to address satisfactorily".

<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>

The Platform warmly welcomes the replacement of the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work in line with the recommendation made by the former Platform in its report on Data and Usability (recommendation number 45). The previous Platform strongly recommended the replacement in order to align the two regimes (SFDR and Taxonomy Regulation) as well as the CSRD. This replacement simplifies the application of all three regulations while reinforcing the human rights framework.

The CSRD highlights the steps and scope of human rights due diligence as it is laid out in the UN guiding principles. CSRD Recital (31) mirrors the most essential points concerning human and labour rights.

The Platform notes that there is no common understanding in the market of (i) what violations entail and (ii) how far back information available for an investee company or country are of relevance – this is relevant for PAI number 10 and PAI number 20. While strictly speaking the PAI disclosures only concern a one-year reference period, it is unclear whether FMPs can simply ignore information such as controversies that date back a longer period.

The Platform notes that the calculation for PAI number 20 "Number of investee countries subject to social violations, as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" requires investments in select countries/all investments, not a count of countries as the PAI description suggests. The Platform suggests editing the descriptions of the PAI and calculation to fully match. It would be beneficial if the EC and the ESAs could provide more clarity on the interpretation of social violations and ideally even reference to a publicly available database / assessment. The Platform observes very divergent interpretations of social violations, which makes comparability essentially impossible on PAI number 20.

On PAI number 11 "Share of investments in investee companies without policies to monitor compliance with or with grievance/ complaints handling mechanisms to address violations of

the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights” the indicator still mixes “and” / “or” in the name and description. |

<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> | The Platform believes there is a need for further analysis on the special case of investing in real estate, which includes a thorough examination of social impacts and the development of adjusted social indicators.

The Platform notes that an ESRS link to real estate might be found in resilience of towns and cities and public institutions against natural disasters, i.e. E1 Climate Change (Nat Cat). While these are not focused on social criteria, given the social imperative to build resilience, the Platform believes it is worth considering its inclusion as an opt-in indicator. |

<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>

- [The Platform supports the adjustment of the definition of the PAI indicator 22 to align it more closely with relevant DNSH criteria under the EU Taxonomy’s technical screening criteria for climate mitigation and adaptation. Upholding coherence between the various regulations underpinning the EU’s sustainable finance framework makes it easier to compare disclosures and helps to reduce reporting costs and burdens for firms. The Taxonomy also better recognises the real estate investment lifecycle by distinguishing between different activities (e.g. acquisition/ownership of buildings, development, retrofit). The Platform notes that for real estate located outside the EU, information might be difficult or impossible to obtain.
- The Platform recalls the need to review and strengthen the Energy Performance Certificate (EPC) and Net Zero Energy Buildings (NZEBS) and the rest of recommendations made by its predecessor to the EC aimed at harmonising EPCs (and NZEBs) and rendering them equally mandatory across Europe and providing for international equivalence to systems like LEED and BREEAM.
- For further information please see section 3.1.5.3. page 106 of the [Data and Usability Report](#).

- The Platform stresses the need to do further analysis on the special case of investing in real estate as a sustainable investment. The peculiarities of such investments merit special treatment. Real estate managers interested in investing sustainably can do this in many forms. Their strategy might consist in acquiring buildings, investing in renovating them to get certified or to reach a certain sustainability standard and then selling them at a higher value. At present, PAI indicator 22 focuses only on a snapshot of the operational sustainability of the underlying assets, rather than forward-looking assessments of these assets' transition. This is arguably a slightly different issue that entails a special case within the definition of Sustainable Investment. Yet, worth exploring in the coming future. |

<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, the comparison of the current value of the investments at quarter-end to the enterprise value at year-end in order to determine exposure percentage leads to inconsistencies. Incidents happening at the investee company level, such as corporate actions which adjust the number of shares issued or a company's debt issuance, can lead to variations that are not matched when using end-year values of a company. In the absence of a perfect harmonization of point in time regarding the current value of investment and the enterprise value, this could over- or understate the principal adverse impact of the specific investment.

The Platform recognises the following:

- General E, S and G data is typically reported annually by corporates depending on their fiscal year; specific information (ad hoc) is rare, and normally occurs through companies restating their E, S or G data or from controversies such as news events or legal cases.
- Company-reported E, S or G data in their corporate sustainability report or standalone ESG disclosure carries a lag of approx. 3 to 18 months from the financial statement of the company.
- Following reporting of PAI on investee company level under CSRD, the reporting lag might be reduced whereby data gaps and lag will persist for CSRD-out-of-scope/non-EU companies

This allows for the following options on reported data with the following pros and cons:

Data set used	Pros	Cons
Using the data from investee company's fiscal reporting published during the PAI reporting period.	<ul style="list-style-type: none"> <li>• Use of official and legally required reporting</li> <li>• Easy to implement</li> <li>• Allows easy comparison between FMPs' PAI reporting years</li> </ul>	<ul style="list-style-type: none"> <li>• Data might already be fairly outdated</li> <li>• Adverse impacts occurring after an FMP divests would be included in PAI reporting</li> <li>• Does not consistently represent the data available at point of investment decision making</li> <li>• Different fiscal periods of investee companies lead to timing mismatches</li> </ul>
Latest Available data at point of Reporting	<ul style="list-style-type: none"> <li>• Closest to the current profile of the investee companies</li> </ul>	<ul style="list-style-type: none"> <li>• Does not consistently represent the data available at point of investment decision making</li> <li>• Adverse impacts occurring after an FMP divests would be included in PAI reporting</li> <li>• Different fiscal periods of investee companies lead to timing mismatches</li> </ul>
Latest Available data at each Quarter End Date	<ul style="list-style-type: none"> <li>• Closest to the point of investment decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Requires FMPs to take snapshots and store PAI data at each quarter end date of the reference period</li> <li>• Does not represent the most current profile of the investee companies</li> <li>• Different fiscal periods of investee companies lead to timing mismatches</li> </ul>

The Platform welcomes the freedom that the current guidance gives to report PAIs using any of the above-mentioned methods. Should the ESAs wish to become more prescriptive, the only viable option from a usability point of view would be "Latest Available data at point of Reporting."

Further, calculating the exposure at each quarter also creates complexities compared to other PAI indicators where calculations can be based on market valuation each quarter. It requires adjusting the current value of investments for each quarter-end with the year-end enterprise value. Such adjustment has to be made based on the following information:

- Share price as of portfolio date
- Fiscal year-end of the investee
- Share price as of fiscal year-end of investee

These data points are not necessarily available for all investee companies and all securities in scope. For this the Platform sees the following options:



Value level	Pros	Cons
Leave current value as is	Not adjusting end-of-quarters current value of investments with fiscal end-year value	Imports market price volatility for certain PAIs
Recalculating for quarterly EVIC (current approach)	<ul style="list-style-type: none"> <li>• EVIC is calculated as all shares outstanding * price (=market cap) plus notional of all outstanding debt.</li> <li>• Outstanding debt is reported usually quarterly, but the market cap changes every day.</li> <li>• Calculating EVIC with share price at every quarter-end, brings it "in sync" with the market value of positions in the portfolio</li> <li>• This matches market practice and is already implemented by managers and data providers</li> </ul>	<ul style="list-style-type: none"> <li>• Deviates from current interpretation of the regulation, still imports some market volatility</li> <li>• For those who have implemented year-end EVIC calculations could be costly to undo</li> <li>• This is likely to include some bias, e.g. changes in the numbers of shares issued, liquidation and changes in net debt ratio.</li> </ul>

The Platform notes that in all cases the fiscal periods of investee companies will not be fully aligned with the reporting period of the PAI indicators. Further, data that is reported as part of the fiscal year reporting should be as an assumption more reliable than other data published in voluntary reports. The Platform suggests seeking a solution based on the following two elements:

- As a general rule, the latest officially reported (fiscal year) data should be used.
- Based on the proportionality and precautionary principles, FMPs should make the following adjustments:
  - Take into account material information including with respect to UNGPs, OECD MNEs guidelines or other violations
  - Only take into account such material information if it had relevance for the investments, i.e. not in case it only occurred after divestment.

Any change to the existing approach would require adjustment of the statement in JC 2022 62, section II Question 7. It would also need a fixed conversion date for products denominated in other currencies than EUR to avoid currency effects between quarters. This could be dealt with by using the year-end conversion rate of the reporting year and apply it to all quarters.

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

<ESMA\_QUESTION\_SFDR\_9>

< The Platform suggests the ESAs consider the following changes to the proposed adjustments to the new formulae suggested in Annex I:

### Fossil Fuel Sector

The Platform restates its concerns over the first PAIs (see the Data and Usability Report, page 144). The first PAI “captures the exposure to companies active in the fossil fuel sector”: measured as share of investments in companies active in the fossil fuel sector. By treating a company that has a residual activity in fossil fuels (sometimes this responds to governmental mandate or is only used in extreme circumstances, e.g., cuts or interruption of supply) the same as another for which the gross of their activities are linked to fossil fuels might seriously mislead investors; this could lead to divestments from companies that are making serious efforts to transition and discourage the development of sound transition strategies. It should be noted that most utility companies, even if residual and even if they have 95%+ of electricity generation from renewable sources, will count as a principal adverse impact.

A more fit for purpose indicator, and better aligned with the Taxonomy, would be the percent of capex invested in activities directly linked to fossil fuels in addition to revenues. By using capex, investors can identify companies that are in transitioning out of fossil fuels.

The Platform notes that the percent of capex invested in activities directly linked to fossil fuels in addition to the percent of revenues will provide even more meaningful insights as it will allow investors to also identify the extent to which companies are investing in expanding or prolonging the fossil fuel-linked activities vs. greening them. However, the Platform notes that the information might be very difficult to obtain.

In either case, FMPs could set minimum tolerance levels for revenues and only allow, for example, maintenance expenditures while the bulk of capex is invested in transitioning their activities. See below:

- 1%, 10%, and 50% for coal, oil and gas revenues to align with PAB thresholds
- 1%, 5%, and 10% for coal & other solid fossil fuels, oil, and gas capex. Capex to be tougher than PAB threshold as capex is much more fungible than revenue.

The Platform welcomes the specification required on investments in the coal sector but calls for it to be based on revenues (and ideally allowing for capex where available) for the reasons stated above.

### With regard to other environmental indicators:

- PAI number 1: The “financed” or “owned” numbers look worse if the FMP manages more assets even if it is invested in the same underlying companies. Consequently, on a fund level it could create an incentive system whereby smaller funds seem more ESG attractive

than larger funds when they may be invested in worse performing companies. The same argument applies at financial-product level.

- PAI number 1, 2 and 3: Scope 3 carbon data is rarely disclosed, estimates still vary significantly across vendors and disclosed data is not consistent. These factors impact significance and comparability of reporting figures.
- PAI number 8 and 9: There is very low disclosure (and high estimation error for entities that do not report) which could distort reporting figures. Vendors also capture different emission types and there is some uncertainty about which should be considered as per the regulation. Companies also inconsistently report pollutants.

The Commission Delegated Regulation 2022/1288 Art. 7 (2)) states that financial market participants shall disclose "[w]here information relating to any of the indicators used is not readily available, ... details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions." This allows completing data gaps including in house or external estimations, engagements with portfolio companies or even the imputation of values arrived at via "reasonable assumptions". However, as per Commission Delegated Regulation 2019/2088 Recital 17, financial market participants have to ensure adherence to the precautionary principle, especially in relation to information on 'do no significant harm' aspects.

By noting the difficulties that FMPs encounter when calculating PAI numbers 1, 2, 3, 8 and 9 as described above, the Platform wants to stress the need for these hurdles to be acknowledged and considered when supervising, comparing or assessing financial products or FMPs' performance with respect to PAI indicators. The quality of the indicators will improve over time and by no means is their relevance being questioned.

The Platform calls the ESAs to review PAI number 19 as described below and to make note of our observation on PAI number 15.

- PAI number 15: Sovereign carbon emissions for Scope 3, provided by OECD, are as of 2018. However, Scope 1 & 2 data, already sourced by different providers, correspond to 2019. Combining these would mean mixing carbon emissions from different years.
- PAI number 19: The attribution factor should be changed from GDP to Purchasing Power Parity (PPP)-adjusted GDP for PAI reporting of the Sovereign carbon footprint. This leads to a fairer reflection of a country's actual economy size as exchange rate effects are eliminated and comparability of actual economy sizes is enhanced.

	Absolute CO <sub>2</sub> e (Scope 1)	Nominal GDP (US-\$)	PPP-adjusted GDP (current int. \$)	(Emissions/Nominal GDP)*1000	(Emissions/PPP-adj. GDP)*1000
Germany	728,737,653	3,846,413,928,654	4,560,920,212,744	0.19	0.16
USA	5,981,354,372	20,893,743,833,000	20,893,743,833,000	0.29	0.29
Indonesia	954,000,000	1,186,092,991,320	3,566,265,111,447	0.80	0.27
India	3,360,000,000	3,173,397,590,817	10,218,572,963,097	1.06	0.33

As the above examples show, countries with relatively weak currencies like Indonesia would be ranked better in terms of emission intensity by using PPP-adjusted GDP. This is a fairer reflection of their true economy size. In particular, many developing countries would be affected by switching from GDP to PPP-adjusted GDP.

The adjustment of the formula would be as follows:

Financed Emissions <small>PCAF / ASCOR</small> :
$\sum_{i=1}^n \frac{\text{€investment}_i}{\text{sovereign's PPP – adjusted GDP}_i * \text{sovereign's emissions}_i}$

**With regard to social and governance indicators:**

- PAI number 12 was previously defined as “Average unadjusted gender-pay gap of investee companies”, which is now changed to “Average gender pay gap between female and male employees of investee companies”. It would be beneficial to keep the “unadjusted” specification in to ensure comparability (i.e. for the ESRS equivalent).
- PAI number 13: There seems to be a misalignment between the formula provided to calculate the indicator and its description. The calculation provided in Annex I is based on the number of male board members as of the total board members, in contrast with the description "Average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members."
- PAI number 14: The definition of ‘controversial weapons’ should specify which exact activities are to be included in the calculation. The definition provides a list which does not include all weapons usually considered as controversial. It should specify whether this list is exemplary or exhaustive.
- PAI number 20: The Platform notes that the calculation for PAI number 20 "Number of investee countries subject to social violations, as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" requires investments in select countries/all investments, not a count of countries as the PAI description suggests. The Platform suggests editing the descriptions of the PAI and the calculation to fully match.

The Platform reiterates the need for disclosure requirements for FMPs under SFDR to be based on EU regulatory disclosures for EU corporates either through ESRS or another regulatory framework. Hence also timewise alignment to the CSRD/ESRS implementation dates (from 2025 onwards) in order to avoid any data gaps is recommended. |

<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>

The Platform suggests the ESAs consider the following changes to existing PAIs:

Indicator		
4. Exposure to companies active in the fossil fuel sector	a) Share of investments in companies active in the fossil fuel sector b) Share of investments in companies active in the coal sector	The Platform suggests splitting the % of revenue and capex by coal & other solid fossil fuels, oil, and gas. Thresholds: <ul style="list-style-type: none"> <li>- 1%, 10% and 50% for coal, oil and gas revenues to align with PAB thresholds.</li> <li>- 1%, 5% and 10% for coal &amp; other solid fossil fuels, oil and gas capex to be tougher than PAB threshold as capex is much more fungible than revenue and is a forward-looking KPI.</li> </ul>
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	The Platform suggests reflecting on specific NACE Codes. NACE sections A to H and L include: <ul style="list-style-type: none"> <li>• manufacture of bicycles</li> <li>• manufacture and operation of renewable energy technologies</li> <li>• manufacture of healthcare equipment, life science diagnostics, etc.</li> <li>• manufacture of doors, windows, lights that could be eco-labelled</li> <li>• manufacture of ZEVs</li> <li>• manufacture of recycling equipment</li> <li>• waste management including CCUS and recycling services etc.</li> </ul> All of these elements could qualify as Taxonomy-aligned (or not, be taxonomy eligible in the case of healthcare)
7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	The Platform recommends that for the mandatory biodiversity PAI indicator, two options are advised to modify the definition of ‘activities negatively affecting biodiversity-sensitive areas’. <p>Option A: mitigation measures are fully excluded from the definition, given that they do not ensure no significant harm to biodiversity.</p> <p>Option B: if mitigation measures are kept, the Platform recommends that carrying out and implementing Environmental Impact Assessments (EIAs) is mandatory and these are publicly disclosed or, for activities located in third countries, conclusions, and equivalent environmental impact assessments are adopted in accordance with national provisions or international standards and publicly disclosed. The Platform asks for greater consideration for</p>

		<p>international standards to apply, specifically concerning those jurisdictions which do not have EIA practices.</p> <p>The Platform expresses a preference towards Option A, given the low confidence in both EIAs as mitigation measures and substantial lack of data by governments worldwide quantifying the degradation and intactness of ecosystems that can be attributed to different types of economic activities.</p> <p>The Platform also recommends that the definition of biodiversity-sensitive areas for the mandatory biodiversity PAI indicator is extended to areas of high intactness and biodiversity value outside of protected areas. Furthermore, the Platform recommends the ESAs consider the definition of high biodiversity value outside of protected areas in accordance with the renewed (EU) 2018/2001. The Platform further encourages the ESAs to consider including a definition of biodiversity value in oceans, seas, coasts and inland water ecosystems, which EU 2018/2001 does not contain.</p>
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	The Platform also suggests looking into possible alternative indicators such as water ecotoxicity as optional indicators.
<b>Additional Environmental Indicator</b>		
2. Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested	The use of available (and scientifically accepted) characterization factors for the currently reported substances to obtain environmental impact values as indicator (similar approach done for GWP), instead of mass indicators, could be explored. The Platform specifically suggests Toxicity (e.g., tonnes of 1,4 DCB equivalent; other units available in literature).
3. Emissions of ozone-depleting substances	Tonnes of ozone-depleting substances equivalent per million EUR invested	The use of available (and scientifically accepted) characterisation factors for the currently reported substances to obtain environmental impact values as indicator (similar approach done for GWP), instead of mass indicators, should be explored. The Platform specifically suggests Ozone-depleting potential (ODP). (E.g., tonnes of CFC-11 equivalent, using relative ODP reported in The Montreal Protocol).
4. Investments in companies without carbon emission	Share of investments in investee companies without carbon	In order to be consistent with ESRS, the Platform recommends using the terminology 'climate change mitigation actions' instead of 'carbon emission reduction initiatives', which are not well defined, and 1.5 degrees

reduction initiatives	emission reduction initiatives aimed at aligning with the Paris Agreement	<p>instead of Paris Agreement, =&gt; 'climate change mitigation actions compatible with limiting global warming to 1.5°C'.</p> <p>While it is hard to determine whether this action is 'aimed at aligning with the Paris Agreement', a suggestion could be to reference either the company's transition plan or target (i.e. Actions in line with the company's GHG emission reduction targets).</p>
6. Water usage and recycling	<p>1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies</p> <p>2. Percentage of water recycled and reused by investee companies</p>	<p>The Platform proposes to make this indicator based on m<sup>3</sup> of reused (or recycled) water coming from other user(s) / m<sup>3</sup> of total water consumption (%). Counting internal recycling or reusing flows would not help to quantify the environmental impact.</p> <p>This would affect the numerator of Equation 29 as follows: amount of water recycled and reused by investee company from external waste streams.</p> <p>The Platform recommends using the amount of water recycled and reused by investee companies from external waste streams.</p>
9. Investments in companies producing pesticides and other agrochemical products	Share of investments in investee companies, the activities of which fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006	<p>To be better aligned with Taxonomy and ESRS, the Platform proposes to use the definition of "Substances of Concern" included in Annex II of ESRS because in both, ESRS and Taxonomy, one of the targets is to reduce the use of this kind of substances. Investments in companies producing or putting in the market Substances of Concern (as defined in Annex II of ESRS).</p> <p>Point c) of this definition should be aligned with the Generic DNSH for PPC (appendix C of Climate DA), and only minor wording adjustment in points a) and b) would be necessary. A critical reflection on whether only "producing" should be considered or also "using" as done in Taxonomy.</p> <p>Finally, the Platform also advises that the PAI name should be revised as Investments in companies producing Substances of Concern.</p>
11. Investments in companies without sustainable land/agriculture	Share of investments in investee companies without sustainable land/agriculture practices or policies	The current formula doesn't account for a company's activities but rather suggests reporting this indicator for all investments. If the underlying investment universe doesn't include companies active in agricultural/land activities, the indicator will show 100% of companies without sustainable land/agriculture practices or policies.

practices or policies		The Platform further recommends the inclusion of forestry and other land uses in the PAI.
12. Investments in companies without sustainable oceans/seas practices or policies	Share of investments in investee companies, the activities of which involve oceans, seas, coasts or inland water activities without sustainable oceans/seas practices or policies	The Platform recommends that a more rigorous definition should be developed (analogous to PAI number 14 on terrestrial ecosystems) to include impacts e.g. on species, habitats, and water quality.
13. Non-recycled waste ratio	Tonnes of non-recycled waste generated by investee companies per million EUR invested	The Platform recommends including non-recycled waste in the non-recyclable fraction of sold products.
15. Deforestation	Share of investments in companies without a policy to address deforestation	The Platform proposes that the "Share of investments in companies without a policy to address deforestation" PAI is defined as share of investments in companies without a policy to address deforestation. The Platform requests that companies who publicly declare that they themselves or their supply chain are not having an impact on deforestation would also count as meeting this PAI.

Currently the formulae for several indicators (emissions to water, hazardous/radioactive waste, emissions of air pollutants, emissions of ozone depleting substances, non-recycled waste (ratio) indicators) are expressed as a company's impact in relative terms (i.e., tonnes of emissions to water / EVIC), instead of absolute terms (i.e., tonnes of emissions to water). In several cases, this is inconsistent with the name of the indicators.

The list of characterisation factors for several indicators (emissions to water, emissions of air pollutants, emissions of ozone depleting substances) should be published and reviewed periodically (e.g., list of characterization factors to calculate Ozone Depletion Potential: [Annex C: Controlled substances | Ozone Secretariat \(unep.org\)](#))

Lastly, for GHG emissions the current PAI list includes both absolute indicators (scope 1,2,3) and indicators adjusted for company size (relative to EVIC = called carbon footprint, relative to revenue = called carbon intensity). The Platform is bringing the ESAs' attention to those potential inconsistencies. <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>

Yes, the Platform agrees that information should conceptually be separated into (i) those directly collected from the investee companies, (ii) those estimated with precautionary principle and (iii) those procured otherwise. The Platform notes that in practice, FMPs will not collect data themselves but to a large part rely on third-party data providers, which will reduce the numbers for (i) and (ii). The Platform therefore views it as more practical to separate between information (i) collected from investee companies either directly or through a third party and (ii) estimated with precautionary principle.

In addition, the Platform notes that in practice:

- FMPs collect data from investee companies only in specific cases (e.g. for some private market investments). The Platform notes that there are approximately 60,000 companies listed worldwide. Larger asset managers will have a broad range of investments which will cover a significant percentage of the number of publicly listed companies.
- For certain PAIs, e.g., with a low coverage and/or where coverage is biased towards a certain jurisdiction or industry, FMPs refrain from estimating or extrapolating available information for the investments with no coverage.

The Platform recognises that even after applying the precautionary principle and the Platform's recommendations for the use of estimates (see question 36), there could be cases where estimations will be misleading. With such cases, the risk for assurance providers will increase, which consequently increases the cost for obtaining assurance. To strengthen transparency over how widely estimates have been used, an additional column could be added to show the share of the investments for which data exists or is estimated (within their coverage ratio). By coverage ratio, the Platform means a ratio that is identifying for which part of the indicator data is neither available nor can be estimated. For such a ratio the following should apply:

- The calculation methodology of such a ratio should be defined to ensure clarity and comparability.
- The calculation methodology should be consistent with the calculation of the PAI indicator itself to avoid additional complexity. ]
- <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>

The Platform points out the importance of the principles of consistency and precaution when answering this question.

The following approaches regarding the understanding of all investments are used/discussed in the market and/or foreseen on a specific indicator level:

- Use all investments of all asset classes in the denominator
- Exclude asset classes not covered by PAI indicators in general (e.g., cash, derivatives)
- Only use the relevant asset classes in the denominator

The Platform has identified the pros and cons regarding each methodology as described in the following table:

Denominator	Pro	Cons
All investments	<ul style="list-style-type: none"> <li>• Mostly consistent with Taxonomy share denominator for relevant asset classes</li> <li>• Same denominator might be easier to understand as percentage of the overall FMP's assets</li> <li>• On the surface easy comparability because the only adjustment is according to the size of the FMP's assets</li> <li>• The same denominator could be used consistently, which reduces complexity in calculation</li> </ul>	<ul style="list-style-type: none"> <li>• Inconsistency between numerator and denominator can trigger a bias and allows FMPs to (mis)use denominator in order to decrease impact.</li> <li>• Sensitivity to PAI category, i.e., an FMP investing in more derivatives, cash, companies with unavailable data or assets in an irrelevant asset class would score better on most PAIs compared to an FMP that invests mainly in relevant asset classes</li> <li>• Comparability between FMPs limited since indicator performance depends on portfolio of strategies managed</li> <li>• Some indicators would need to be revised, e.g., current indicator for real estate requires a denominator to be limited to real estate assets.</li> </ul>
Certain range of investment (equity, fixed income, sovereign use of proceeds financial instruments, mortgages) excluding cash,	<ul style="list-style-type: none"> <li>• Same denominator might be easier to understand as percentage of the overall FMP's assets</li> <li>• The same denominator could be used consistently</li> <li>• Compared to all investment including assets that are not covered by PAI</li> </ul>	<ul style="list-style-type: none"> <li>• Inconsistency between numerator and denominator can trigger a bias and allows FMPs to (mis)use denominator in order to decrease impact.</li> <li>• Methodology is sensitive to PAI category, though not as sensitive as all investments without any excluded asset classes.</li> <li>• Some indicators would need to be revised, e.g., current indicator for real</li> </ul>

Denominator	Pro	Cons
commodities, liquid reserve, infrastructure, derivatives)	indicators, some bias is removed	estate requires a denominator to be limited to real estate assets.
All consistent investments	<ul style="list-style-type: none"> <li>• Full consistency between numerator and denominator removes any bias and avoids (mis)use of denominator in order to decrease impact</li> <li>• Increased comparability between FMPs since indicator performance would be tailored to specific asset classes</li> <li>• Would be consistent with asset specific indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Would not be fully consistent with the Taxonomy denominator.</li> </ul>

As outlined above, there are merits and disadvantages for every approach. There is no prevailing opinion in the Platform on which advantages outweigh the disadvantages, i.e., which approach is the preferred one. The Platform strongly advises to only choose one of the alternatives in line with the principle of proportionality.

Regardless of the approach, in alignment with the wording in Art. 4 SFDR and Art. 6 SFDR RTS ('principal adverse impacts of their investment decisions'), PAI reporting on entity level for FMPs should exclusively cover investments made by the FMP itself, i.e., proprietary owned investments, where the investment decision lays with the financial market participant. For unit-linked contracts, the investment decision itself is made by the client. The client decides for a specific product out of several options and hence, explicitly or implicitly chooses the option to invest in, not the financial market participants. Also, in cases of outsourcing of the discretionary investment decision, the decision is made by the *insourcer*. Otherwise, this leads to double or triple counting (e.g., asset owner, investment fund manager and external asset manager) of the same impact. The Platform therefore recommends including in Annex I point (4) 'current value of all investments' (p. 75 of 'Joint Consultation Paper - Review of SFDR Delegated Regulation regarding PAI and financial product disclosures') the wording "[...] investments of the financial market participant, [where the investment decision is made by the FMP].

On the basis of usability and comparability, the Platform would suggest a coverage ratio is disclosed. For such a ratio the following should apply:

- The calculation methodology of such a ratio should be defined to ensure clarity and comparability.
- The calculation methodology should be consistent with the calculation of the PAI indicator itself to avoid additional complexity.

Further, as a side remark, for funds, common denominator for e.g. investment thresholds is the net asset value. Any of the aforementioned solutions differ from this and might therefore be more difficult to understand for end investors.

The Platform notes that these are based on the disclosure of PAIs on entity level, which is the disclosure prescribed by the regulation. For the disclosure of PAIs on product level, the Annex I could also be used but it is not mandatory (see Art. 7 para. 1 sentence 3 SFDR). The Platform considers that the disclosure of PAIs on product level would allow investors to evaluate the impact of the product they are investing in and help end-investors make better informed investment decisions. The Platform believes that performance at product-level and for the entire product should be prioritised, given their importance and scope. It is worth noting that only a limited number of FMPs ought to disclose at entity-level and that comparison between FMPs is extremely difficult given the variety of investment strategies, types, treatments of delegated portfolios, etc. Such product disclosure should be made on the website. Considering the already lengthy disclosure in periodic and pre-contractual templates including additional PAI disclosures would overburden end-investors and oppose contrasting efforts to simplify the templates and make them more comprehensible to end-investors.

Furthermore, there should be a distinction made for asset owners with general account-based life products. For these types of investors, disclosure on entity level could add meaningful information if the disclosure is focused solely on the general account, excluding Unit-Linked investments. ]

<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>

Yes, the Platform agrees but highlights that it would be best if, for each indicator it is specified whether there is an expectation of including value chains based on the relevance of including them for measuring the adverse impact. Based on the principle of consistency, the ESRS equivalents to those PAI indicators for which including the value chain impact of the investee company is necessary should do likewise. The Platform notes that Scope 3 emissions in PAI 1 cover the supply chain and that PAI 10 requires the investee company to conduct due diligence in its supply chain. PAI 11 requires investee companies to have relevant procedures in place to ensure that human rights are respected throughout the value chains. For such indicators, the reporting should include and consider supply chain information also allowing for estimations in accordance with the precautionary principle.

The Platform sees real value in clarifying for each indicator whether the supply chain information needs to be included or not. If there is no clarity on the extent to which an FMP's reported information includes investee company value chains, then this reported information is potentially inconsistent across all metrics and therefore confusing for users of this reported information.

While the Platform's preferred solution is to include whether the supply value chain information ought to be included for each PAI, if it is not specified it may be worth considering if the FMP should provide information on the extent to which each reported datapoint includes investee company supply chain information. This might be achieved (for example) by detailing it in the explanation column or by having a specific reference to the average, which is a mandatory item to disclose.

<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>

The Platform reiterates its recommendation to exercise an in-depth analysis on the treatment of derivatives for the taxonomy-alignment share and recommends its extension to sustainable investments and PAI indicators.

For the treatment of derivatives, both the Principle of Consistency and of Precaution are of significant relevance. Based on the work of the Derivative Working Group during the first mandate of the Platform, participants noted that derivatives infrequently lead to a real-world flow of capital to the underlying company. Typical use cases explored where derivatives act as synthetic cash transfers included access to a market for which you are not a member of the exchange (typically in emerging markets) and for specific tax treatments (e.g., CFDs in the UK Equity market). Similarly, a concern was raised that some market players (mis)use derivatives in order to bet against improvements of the real economy. This would be detrimental to the overall sustainable finance agenda.

Given the complexity of derivatives, the former Platform did not reach a consensus on treatment of derivatives but suggested that more work should be done. The Platform recommends, though, adhering to the Precautionary Principle and disclosing information on derivatives used for purposes other than hedging and liquidity management to ensure that FMPs using derivatives for non-hedging or liquidity management purposes will at least have to disclose any use of derivatives for current, future, or optional positioning. In particular, it is important to consider when, and whether at all, integrating derivatives actually adds value and supports the sustainable transition. Where this is not the case, they should be reflected accordingly. The Platform re-emphasises this recommendation and suggests conducting further analysis built on the ESAs considerations in the CP aimed at developing a consistent framework for the treatment of derivatives throughout the sustainable finance package, i.e. for all sustainability KPIs (i.e. taxonomy-alignment, sustainable investments and PAIs).

<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>

The Platform reiterates its recommendation to exercise an in-depth analysis on the treatment of derivatives for the taxonomy-alignment share and recommends its extension to sustainable investments and PAI indicators. Please refer to the Answer to Question 14 in more detail.

The Platform views that offsets should not be considered. Even if some exemptions might be reasonable, it would be impractical to identify the derivatives to which such exemptions apply and nearly impossible to supervise inclusion/exclusion. Therefore, allowing such exemptions would be too complex.

<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>

Yes, the Platform believes that the scope of the provisions of point g of paragraph 1 of Article 17 of SFDR shall be extended to other asset classes but not all, rather than being limited to equities and sovereign debt as in the cross reference.

Article 17 (1)(g) refers to the calculation of the market value of the proportion of those financial products representing the degree to which investments are in environmentally sustainable economic activities, as calculated in accordance with this Article.

With regard to asset classes, the Platform observes the following:

1) Commodities - would be challenging to assess PAI without being able to link the commodity to the manufacturer, therefore it would not be practical for reporting purposes to include this asset class as the measure of harm in accordance with article 2(17) Regulation (EU) 2019/2088 could not be applied. The Platform does not believe the scope should be extended to Commodities.

2) Currency - the Platform believes that measures of environmentally sustainable economic activities should not be applied to currency products.

3) Money market - whilst the Platform observes that PAIs & measures of environmentally sustainable economic activities could be applied to the lending institution for commercial deposits or repos, we do not think that the purpose of money-market based investments is to direct capital to sustainable outcomes. Per recital (12), the Platform agrees with the exclusion

of "investments are hedging instruments, unscreened investments for diversification purposes, investments for which data are lacking or cash held as ancillary liquidity", within which we agree money market products would not be counted. The Platform agrees with the disclosure requirements for these products as laid out in articles 53 and 61 of the Delegated Regulation.

4) The Platform agrees that Article 17(1)(g) could apply to cash equity, fixed income instruments (both use of proceeds and general purpose), mortgages, municipal lending, and sovereign debt. The Platform notes that corporate general purpose should be treated and is being treated in the market exactly like equity with regard to sustainability.

5) With regard to the Platform's view on derivatives - please read the answer to Question 14 and 15. ]

<ESMA\_QUESTION\_SFDR\_16>

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

<ESMA\_QUESTION\_SFDR\_17>

The Platform believes that SFDR should aim at establishing two types of environmental "Sustainable Investments" in the long run:

- Sustainable investment (SI) Activity-based: An investment in an economic activity that contributes to an environmental objective, as defined by the Taxonomy Regulation, provided that the rest of the activities being conducted by the economic actor or undertaking do not significantly harm any of the other objectives as defined by Article 6 of the Taxonomy Regulation and respect Article 18 of the TR with regard to minimum safeguards.
- Sustainable Investments (SI) Entity-based: An investment in an investee company that contributes to an environmental objective, as defined by the Taxonomy Regulation, as measured, through improvement of indicators, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to minimum safeguards of the TR. This means that the Sustainable Investments will be defined by an indicator (s) that captures reduction of a PAI or positive contribution to the PAI, for example, emission reductions, energy saving or energy efficiency gains. These investments, when part of a financial product, can be supported by the development of voluntary benchmarks based on the indicator as it is today by CTBs/PABs in the case of emission reductions.

The Platform notes that the same two types could apply to a social sustainable investment once a social taxonomy is developed (please see the Platform's report on a potential social taxonomy).

The Platform is aware that for the above to work smoothly the following steps are advisable:

1. With regards to the Taxonomy:

- 1.1. Expansion and completion of the Taxonomy to cover all economic activities that can significantly contribute to one or more environmental objectives.
  - 1.2. The development of general DNSH for all economic activities that neither significantly contribute to nor impact any of the environmental objectives (Low Environmental Activities as defined by the former Platform in its [report on the extended environmental Taxonomy](#)). In its [feedback to the EC on the Taxonomy Delegated Acts](#), the Platform already called for the development of general DNSH for these activities, to allow them to benefit from the Taxonomy Adaptation.
  - 1.3. Because all activities ought to be included in order to be able to apply DNSH of the Taxonomy Regulation for activity-based investments as proposed by the ESAs (this is to investments that are only partially aligned with the Taxonomy), the Taxonomy eligibility needs to be revised in order to include those economic activities for which there are no criteria developed because there is no technological solution to green them or reach net zero but have a lower-carbon or greener activity replacement in the Taxonomy. This means that they can only become aligned when they are replaced by an activity for which there are technical criteria (e.g., a coal power generation plant is replaced by a renewable power generation one). It also means that the general DNSH to be developed for low environmental impact (Lenvi) activities does not apply to these activities, which by definition will not pass the DNSH of Taxonomy Regulation as they are always significantly harmful.
2. The Platform notes that activity-based investments allow for stock selection based on revenues-alignment as well as on capex-alignment. This means that those companies that conduct activities not yet aligned with the Taxonomy or even not complying with DNSH of the Taxonomy Regulation could be eligible for financial products under article 9 SFDR or qualified as sustainable investment if their capex investments were to be partially aligned with the Taxonomy but fully comply with DNSH Taxonomy criteria, introducing this way a forward-looking and transition finance approach. With regards to DNSH of SFDR:
- 2.1. Aligning social and governance PAIs with minimum safeguards of the Taxonomy in line with the recommendations made by the former Platform in the data and usability report
  - 2.2. In the longer term, replacing the “good governance” check in Art. 2(17) SFDR with Minimum Safeguards as described in Article 18 of the Taxonomy Regulation as they include both social and governance safeguards. The Platform, in order to align both regimes, recommends replacing the sentence “with respect to sound management structures, employee relations, remuneration of staff and tax compliance” by “with minimum safeguards”, which include European Commission’s good governance practices and labour rights recognised in the EU law. The Taxonomy regulation recognises safeguards at a high level associated with gender diversity, taxation and high labour standards through the OECD MNEs and ILO conventions.

The limitation of sustainable investment to two categories will:

1. Avoid the current double layer of DNSH - social and governance - that currently applies to investments made based on the taxonomy but that are not 100% aligned.
2. Avoid the concurrence of two types of activity-based investments: taxonomy and those defined by the industry, which cannot ensure they are science-based and do not reflect



the European classification. The concurrence of the Taxonomy and other “industry or in-house taxonomies” will de facto mean the failure of unifying the European market and having one common language when it comes to defining sustainable economic activities within the EU market. It will fail to protect end investors interested in investing in sustainable economic activities and leave the door open for greenwashing.

3. Avoid applying DNSH of the Taxonomy Regulation to investments made through the lenses of one or more indicators at entity-level and reduce transition possibilities.
4. Expand financial products development based on the improvement of performance indicators with potentially a benchmark reference. These (Sustainable Investment-based) respond mainly to thematic (activity) and BMKs-based funds (entity).

Were tobacco to be included as a mandatory PAI, by virtue of Article 18(2) of the Taxonomy Regulation, undertakings should ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation, or remediation of any actual or potential exposure to cultivation and production of tobacco.

The undergoing and coming changes to SFDR whether at level 1 or 2 should work towards or at least not contravene, the establishment of the two types of sustainable investment in the future.

The Platform supports the ESAs’ recommendation of providing more specific disclosures. The Platform had already asked for more disclosures, including the tolerance levels set by FMPs, in its report on data and usability.

The Platform agrees with the ESAs’ general assessment that SFDR is a disclosure-based regulation. The EC has reaffirmed this stance in April 2023 in ‘Answers to questions on the interpretation of Regulation (EU) 2019/2088, submitted by the European Supervisory Authorities on 9 September 2022’: ‘The SFDR does not set out minimum requirements that qualify concepts such as contribution, do no significant harm, or good governance, i.e. the key parameters of a ‘sustainable investment’. Financial market participants must carry out their own assessment for each investment and disclose their underlying assumptions’. There is no clear definition of the notion of ‘take PAI indicators into account’ in DNSH principles hence leaving room for heterogeneous DNSH methodologies and preventing comparability between financial products and FMPs. End investors could benefit greatly from more specific disclosure guidance.

The Platform believes that guidance on estimates should include specific recommendations for each PAI indicator – including on how to estimate, or potential proxies for non-CSR undertakings and indicative guidance on the establishment of tolerance levels.

The Platform is working on a full analysis of the PAI indicators in relation to the indicators used in the Taxonomy, ESRS, potential estimates and/or proxies and tolerance levels. |

<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>

Yes, the Platform supports requiring FMPs to disclose quantitative thresholds which, depending on each case, should be absolute thresholds in real units, percentages, or other as appropriate. The Platform recalls that FMPs should be able to set their own tolerance levels, which might be adapted to the investment strategy of the financial product accounting for asset, geographical and sectoral context or might respond to the FMPs' policies on some of the indicators.

The Platform believes that requiring FMPs to disclose the tolerance levels they set is enhancing the ability of end investors to make informed investment decisions. The Platform has a preference for absolute thresholds in real units rather than percentages, e.g. CO<sub>2</sub>e thresholds for the following mandatory indicators: 1, 2, 3, 6, 8, 9, 14, 19, and 20. . In case FMPs set thresholds on a percentage level (e.g. excluding the worst X%) they could convert such thresholds in real units. This is in line with 'the precautionary principle, which is one of the guiding principles of environmental laws in the EU, including the Taxonomy Regulation (Recital 40 and Article 19(1)(f)), and stems from the fact that harm to the environment needs to be seen from an absolute, not relative perspective. For example, global warming arises due to the absolute level of the stock of GHG emissions. However, the Platform understands that FMPs might prefer for some indicators quantitative thresholds in sector percentiles rather than numerical thresholds as they better reflect selection processes, eliminate sector biases and are more accurate to each sector risk profile.

A valuable approach overall is demonstrating outperformance to the reference benchmark (either an ESG or a financial benchmark would suffice).

The disclosure of quantitative thresholds will enhance comparability and transparency, as well as improve investors' decision making.

The Platform notes, though, that it is essential to provide guidance on how to set tolerance levels in terms of understanding the nature of each indicator and what can be expected (e.g. thresholds could be set on revenues or better on capex, depending on the investment objective of the fund, or better to use relative, etc.) and how to interpret them. PAIs that capture performance, e.g. GHG emissions, might vary substantially depending on the geographical and sectoral exposure, size of the companies and on factors that render comparability complex and can, if misinterpreted, penalise financial products with a more thorough sustainability approach than others that, at a first glance, might look as performing better. The guidance should aim at helping FMPs set the tolerance levels and improving comparability between different DNSH thresholds and could be based on the first data published by FMPs when disclosure on PAI thresholds becomes mandatory.

The Platform is working on a full analysis of the PAIs in relation to the indicators used in the Taxonomy, ESRS, potential estimates and/or proxies and tolerance levels. |

<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>

The Platform celebrates the recent Commission FAQ that establish a safe harbour for the concept of taxonomy-aligned investments with respect to the concept of sustainable investment of the SFDR. The former Platform had expressed the need for establishing such safe harbour.

The approach that the ESAs are consulting on, an optional safe harbour for environmental DNSH for taxonomy-aligned activities, needs to be rethought in light of these FAQ. In principle, the Platform supports the ESAs' proposal for an optional safe harbour for environmental DNSH of Taxonomy-aligned activities and its consideration with regard to longer term issues relating the DNSH framework with the caveat of the need to also include a Sustainable Investment definition that responds to an entity-level approach (as explained in the Platform's answer to question 17) and for the following to be implemented:

1. With regards to the Taxonomy:

- 1.1. Expansion and completion of the Taxonomy to cover all economic activities that can significantly contribute to one or more environmental objectives.
- 1.2. The development of general DNSH for all economic activities that neither significantly contribute nor impact any of the environmental objectives (Low Environmental Activities as defined by the former Platform in its report [Platform on Sustainable Finance's report on environmental transition taxonomy](#)). The Platform in its [feedback to the EC to the Taxonomy Delegated Acts](#) already called for the development of general DNSH for these activities to allow them to benefit from the Taxonomy Adaptation.
- 1.3. Because all activities ought to be included in order to be able to apply DNSH of the Taxonomy Regulation for activity-based investments as proposed by the ESAs (this is to investments that are only partially aligned with the Taxonomy), the Taxonomy eligibility needs to be revised in order to include those economic activities for which there are no criteria developed because there is no technological solution to green them or reach net zero but have a lower-carbon or greener activity replacement in the Taxonomy. This means that they can only become aligned when they are replaced by an activity for which there are technical criteria (e.g. a coal power generation plant is replaced by a renewable power generation one). It also means that the general DNSH to be developed for Low Environmental Activities (LEI) does not apply to these activities, which by definition will not pass the DNSH of the Taxonomy Regulation as they are always significantly harmful.

The Platform notes that activity-based investments allow for stock selection based on revenues-alignment as well as on capex-alignment. This means that those companies that conduct activities not yet aligned with the Taxonomy or even not complying with DNSH of the Taxonomy Regulation could be eligible for financial products article 9 or qualified as sustainable investment if their capex investments were to be partially aligned but comply with DNSH, introducing this way a forward-looking and transition finance approach.

2. With regards to DNSH of SFDR:

- 2.1. Aligning social and governance PAIs with minimum safeguards of the Taxonomy in line with the recommendations made by the former Platform in the data and usability report

- 2.2. In the longer term, replacing the “good governance” check in SFDR with Minimum Safeguards as described in Article 18 of the Taxonomy Regulation as they include both social and governance safeguards. The Platform, in order to align both regimes, recommends replacing the sentence “with respect to sound management structures, employee relations, remuneration of staff and tax compliance” by “with minimum safeguards” which include European Commission’s good governance practices and labour rights recognised in the EU law. The Taxonomy Regulation recognises safeguards at a high level associated with gender diversity, taxation and high labour standards through the OECD MNEs and ILO conventions.

The limitation of sustainable investment to two categories will:

3. Avoid the current double layer of DNSH social and governance that currently applies to investments made based on the taxonomy but that are not 100% aligned.
4. Avoid the concurrence of two types of activity-based investments: taxonomy and those defined by the industry which cannot ensure they are science-based and do not reflect the European classification. The concurrence of the Taxonomy and other “industry or in-house taxonomies” will de facto mean the failure of unifying the European market and having one common language when it comes to defining sustainable economic activities within the EU market. It will fail to protect end investors interested in investing in sustainable economic activities and leave the door open for greenwashing.
5. Avoid applying DNSH of the Taxonomy Regulation to investments made through the lenses of one or more indicators at entity-level and reduce transition possibilities.
6. Expand financial products development based on the improvement of performance indicators with potentially a benchmark reference. These (sustainable investment-based) respond mainly to thematic (activity) and BMKs-based funds (entity).

Were tobacco to be included as a mandatory PAI, by virtue of Article 18(2) of the Taxonomy Regulation, undertakings should ensure that their due diligence and remedy procedures allow for the identification, prevention, mitigation or remediation of any actual or potential exposure to cultivation and production of tobacco.

This approach that includes a sustainable investment at entity-level as well as at activity-level can benefit from the development of voluntary benchmarks on specific environmental objectives and/or indicators. It is already the case for emission reductions. The Platform aims to work on the development of a proposal for other environmental objectives. ]

<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>

[The Platform agrees with the ESAs’ direction of travel and reiterates the points addressed in questions 17, 18 and 19.

The Platform agrees that the Taxonomy TSCs should form the basis of DNSH assessments for activity-based sustainable investments. The Platform sees though merit in also having a

sustainable investment approach based at entity-level that aims at reducing impact or improving contribution to an environmental or social objective as an overall entity e.g. GHG or water emissions or pollution or gender pay or equality. The Climate Benchmarks are a good example. This approach allows for companies that do not conduct activities that neither significantly harm nor contribute, to also be eligible.

The Platform believes that the regulatory package should therefore aim at establishing two types of environmental “Sustainable Investments”:

- Sustainable investment (SI) Activity-based: An investment in an economic activity that contributes to an environmental objective, as defined by the Taxonomy Regulation, provided that the rest of the activities being conducted by the economic actor or undertaking do not significantly harm any of the other objectives as defined by Article 6 of the Taxonomy Regulation and respect Article 18 of the TR with regard to minimum safeguards.
- Sustainable Investments (SI) Entity-based: An investment in an investee company that contributes to an environmental objective, as defined by the Taxonomy Regulation, as measured, through improvement of indicators, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to minimum safeguards of the TR. This means that the Sustainable Investment will be defined by an indicator (s) that captures reduction of a PAI or a positive contribution to the PAI, for example, emission reductions, energy saving or energy efficiency gains. These investments, when part of a financial product, can be supported by the development of voluntary benchmarks based on the indicator as it is today by CTBs/PABs in the case of emission reductions.

The Platform notes that the same two types could apply to a social sustainable investment once a social taxonomy is developed (please see the Platform’s report on a potential social taxonomy).

The Platform reiterates the steps necessary, which are outlined in the answer to Question 19. <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>

The Platform makes two proposals:

1. The Platform believes that for products disclosing under Article 8, the PAIs should be disclosed for the entire product (all consistent investments as for our response to Question 26) for the following reasons:
  - a. Having the performance of only a % of the product does not provide investors with the necessary information to assess the extent to which a product might

impact adversely social, environmental or governance aspects, and therefore impedes investors from making an informed decision.

- b. Only for those financial products, for which FMPs have considered all PAIs quantitatively, do investors have a full picture of the impact of the product. The market tends to disclose those PAI indicators where they have considered the PAIs. The above enables the rest of the product to contain investments that do not respect PAIs in a significant manner and practically can offset any benefits. It limits investors' choices and prevents the establishment of a level playing field.

The Platform acknowledges that this increased transparency request for Article 8 SFDR products will require Level 1 reform. The Platform reiterates that the disclosure of PAI indicators is far more relevant at financial product level and for all Article 8 products than at entity-level.

2. The DNSH section within SFDR annexes or website could include an overview table listing all PAIs. For each indicator, the FMP should specify whether it has been considered, the methodology and the tolerance level alongside the reasons. This would provide a more transparent and clearer explanation on how DNSH is being considered, which will help comparability, even if it will still not be straight forward for end-investors to fully understand. The Platform notes that in practical terms it might be helpful to include such information only on a website, in particular if the FMP applies a more sophisticated regime, e.g. depending on asset classes, industries, and jurisdictions.

The Platform notes that there are different understandings in the market regarding “taking into account” of PAIs and “consideration” of PAIs. We understand from the public hearing that the ESAs require for “take into account” setting of specific thresholds (tolerance levels) for the indicators, whereas “consider” requires at least disclosure.

The table below shows the use of PAIs in the market as known to the Platform:

<b>Regulation</b>	<b>Wording</b>	<b>Understanding</b>
Art. 4 SFDR (entity level)	Consider PAI	Disclosure of PAI indicators according to Annex I and disclosure of actions taken
Art. 7 SFDR (product level)	Consider PAI	Either or both of the following: <ul style="list-style-type: none"> <li>- Commitment to take certain action,</li> <li>- disclosure of considered PAI indicators, e.g. through European ESG template</li> </ul>
Art. 18(6) AIFM-Regulation (231/2013)  Art. 23(6) UCITS Delegated Regulation (2010/43)	Taking into account PAI	Review of PAI in the investment decision making process

<p>Art. 2(7) MiFID Delegated Regulation (2017/565)</p> <p>Art. 2(4) IDD Delegated Regulation (2017/2359)</p>	<p>considers PAI</p>	<p>Either or both of the following:</p> <ul style="list-style-type: none"> <li>- Commitment to take certain action,</li> <li>- disclosure of considered PAI indicators, e.g. through European ESG template</li> </ul>
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The Platform sees a merit in streamlining and clarifying the use of PAI indicators. There should be an inherent difference between

- the duty of integrating PAI assessments in the investment decision making process as Investment Manager or Insurer throughout all the products similarly to the integration of a sustainability risk assessment, and
- the duties in case an FMP commits to take actions against a certain PAI or a range of PAIs for a specific product, which would also be the relevant product feature to address sustainability preferences under MiFID and IDD. For such products, the disclosure of the PAI indicators would be meaningful, in order to allow investors to understand the level of principal adverse impact as well as the changes over time.

<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>

The Platform agrees with the introduction of GHG emission target disclosures. Such disclosures will help asset owners make informed decisions with regard to their own emission reduction targets and monitor their performance over time. It will also help asset managers implement their own transition plans and emission reduction targets. It will help reward those companies that are making efforts to transition their respective businesses to net zero GHG emissions.

For the templates, the Platform suggests adding the following:

- For the pre-contractual disclosure of GHG emissions targets
  - o i) a precision on the scope of the emissions targets (Scope 1,2,3 – if applicable),
  - ii) column on the asset covered (as % of portfolio), instead of having it in text fields, and potentially a column for the methodology used for target setting (which could include a link to CTB PAB and mention alignment of the target to 1,5 instead of the

additional question in the article 9 template. It could also include a breakdown per asset class if targets are different.

- For the reporting templates, ex-post assessment of contribution between reallocations, market movements (EVIC for financed emissions), and real economy decarbonisation could be included. This could also help identifying cases where the target was missed (i.e. real economy did not decarbonise, or low carbon company lost in Enterprise value).
- While qualitative explanations are very relevant and will be unique to each FMP, that level of information might be overwhelming and/or too detailed for retail investors. Therefore, a simple way of differentiating between the main methods of meeting a climate target (e.g. by reference to predefined headings) may assist here (and then further qualitative explanation on the factors which are unique to the FMP strategy can be used to provide further differentiation).

<ESMA\_QUESTION\_SFDR\_22>

**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>

Yes, the Platform agrees with the introduction of GHG emission target disclosures but makes some tangible proposals to avoid any confusion.

The Platform agrees that when a product has emission reduction targets as their investment objective (i.e. Article 9(3) SFDR), a link to the benchmark disclosures where the methodology is explained should suffice. It contributes to the principle of proportionality. When the product is not replicating or its sustainability approach is not linked to a specific benchmark (e.g. Article 8 fund with emissions reduction screening mechanism or absolute return fund) then specific disclosures ought to be required. Though regard should be taken to the principle of applicability, i.e. for certain types of products (e.g. focussing on SMEs), no relevant benchmark might be available.

The Platform makes the following recommendations in order to avoid confusion:

- The ESAs should clarify the difference between following to tackle environmental and/or social characteristics and following for financial performance. It is important to evaluate any spill-over effect that disclosure under SFDR has for triggering requirements under the Benchmark Regulation.
- Every other product with decarbonization as its objective, should disclose the targets set on product level including the target setting framework as well as the level of achievement of these targets in terms of evidence CO<sub>2</sub>e reductions. In addition, if the FMP has set an overall target at their entity level, the Platform sees a merit in adding



such disclosure also in the product description where it has an impact on the products ambitions.

- While qualitative explanations are very relevant and will be unique to each FMP, that level of information might be overwhelming and/or too detailed for retail investors. Therefore, a simple way of differentiating between the main methods of meeting a climate target (e.g. by reference to predefined headings) may assist here (and then further qualitative explanation on the factors, which are unique to the FMP strategy, can be used to provide further differentiation).

From a practical point of view, the Platform notes that the use of deeplinks is providing challenges regarding updates of websites as well as possibility to set deeplinks. |

<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>

Yes, the Platform agrees that the distinction is useful, but it cautions the ESAs, in line with the FISMA Q&A of April 2023, to the fact that transition plans on their own are not sufficient. The former ought to comply with a list of criteria to be deemed credible and need to be backed by a progress reporting of evidences CO<sub>2</sub>e reductions in line with the commitments.

A strategy that mixes both approaches is not only feasible but rather recommendable in many cases. The reduction in emissions at portfolio level might come from a blended approach of (i) changing the holdings or not refinancing bonds unless green credentials are secured and (ii) having investees reducing their emissions ("real world decarbonisation"), partially thanks to shareholder and debtholder pressure.

Consequently, whilst it will be useful to compare the contribution from the different approaches on an ex-post basis to the overall decarbonisation of the portfolio, at pre-contractual level the possibility of having a mixed approach ought to be contemplated, while recognising that disclosures will be qualitative (i.e., explaining whether the portfolio will rely on (a) particular approach(es), without quantifying on an ex-ante basis as market conditions impact end results). This is particularly true for those FMPs whose engagement and voting policies regarding climate change are defined at entity-level. The distinction at pre-contractual level is particularly useful for those financial products that have made one or the other approach a key element of their investment strategy. We understand that this is supposed to be allowed but we would recommend clarifying this.

The distinction, when reporting periodically, will help:

- i) comparability between funds through the lenses of both and each approach.
- ii) encourage active ownership and allow for a real interpretation and comparison of the emissions' profile of the fund (e.g., a fund is invested in a utility company that has too high emissions today to qualify for a PAB), and without this distinction it could make the fund seem like a product with very high carbon emissions compared to others, while it is focused on real economy impact. Disclosure could identify stewardship in relation to real economic emission reduction.
- iii) encourage transition finance; if the aim is to leverage taxonomy data (forward-looking capex), focusing on initial carbon reduction could disincentivise use of this metric. In general, investments in secondary markets can influence real economy mainly through engagement (and signalling, although impact on cost of capital not really proven yet), while investments in primary markets have much more direct impact options, such as providing fresh capital for green infrastructure and conditioning refinancing on green credentials.

The Platform would like to caution against the current possibility to measure the "due execution" of corporate transition plans. The Platform recommends following the recommendations of the [UN Secretary General High Level Expert Group on what a credible transition plan and net zero pledge](#) is including the need to report progress annually and the consistency between the targets and companies' capital investments. For those activities that are either eligible or have a lower-carbon replacement in the taxonomy, capex-alignment with the taxonomy or setting targets for their capex-alignment is key (although indicative revenue-based targets are also feasible).

The Platform would like to underline the importance for investee companies to define and disclose transition plans, as envisaged within the CSDDD and CSRD. Such requirement and the overall ambition level of CSDDD and CSRD are critical for real-world decarbonisation and to enable FMPs to build portfolios that target emission reductions.

While highlighting the merits of "investing in companies that have adopted and duly execute a convincing transition plan", the latter is not a sufficient condition to prove that a reduction in investees' emissions was achieved due to the investor's action. The key parameter for "achieving a reduction in investees' emissions" is the "additionality" of the investor action compared to a counterfactual baseline scenario. The impact of the investment *per se* can be defined as "a specific change to the environmental parameters, caused by the investor's actions." (See [Investor Impact- How Can Investors Change the World?](#)) |

<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 Platform agrees with the direction of travel proposed.

The Platform believes that even in the case proposed, where the product might have a decarbonisation target without its objective being decarbonisation (e.g. investment objective focused on a social objective):

1. It would be useful to contrast financial products targets with relevant EU CTBs or PABs pathways to know how much they deviate from those.
2. For those funds that do not track a climate benchmark and for which EU CTBs or PABs do not exist to contrast, it might be challenging to assess their credibility and robustness in practice.

There are methodologies to assess the alignment of companies' targets with 1.5 (SBTi), based on sectoral analysis. There is ongoing work to develop science-based targets for financial institutions. Critical features include baseline physical intensity emissions (to incorporate growth considerations), absolute CO<sub>2</sub>e emissions, year of baseline/target, % reduction, and sectoral pathways. It is known that at portfolio-level, the degree of alignment of intermediary targets is a by-product of the fund's sectoral exposures. Yet, apart from EU Paris-Aligned Benchmarks (PABs), there are no robust methodologies for assessing targets yet, especially when taking into consideration different asset classes. The Platform recalls the importance of Scope 3 and absolute emissions when setting targets and reporting on progress. The Platform notes that long term targets (i.e. to be achieved by 2050) need to fully commit to Scope 3 emissions, which is not always the case, and that short term targets (i.e. to be achieved by 2030) also need to commit to absolute CO<sub>2</sub>e emission reductions.

In addition, the Platform recommends developing a set of requirements under which emission reduction strategies currently not able to be contrasted against EU CTBs or PABs due to the absence of existing benchmarks (i.e. infrastructure private equity), could qualify for Article 9.

The Platform highlights the need for proper analysis and discussion. The analysis ought to consider the specificities for different asset classes, e.g. real estate.

The Platform recommends the European Commission to develop such criteria at a later stage and that it would for the time being,

- a) recommend financial products that have an emission reduction target to benchmark themselves with the relevant CTB or PAB; or,
- b) request the following information:
  - details of the trajectory (including the baseline year and the corresponding absolute emissions), scenario used at fund or sectoral level and the methodology used.
  - specified intermediate targets at fund or sectoral level. Targets at corporate and fund level ought to be on absolute emissions (even if relative emissions are included) for all



three scopes in line with the phasing in for scope 3 stipulated in the Benchmarks regulation. |

<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>

Yes, the Platform agrees that the target should be disclosed generally for all investments.

The Platform believes that it is important to calculate and set targets for all investments because:

- i. It will promote fair comparability between financial products and enhance clarity to end investors.
- ii. It will level the playing field and reduce the risk of greenwashing.
- iii. It will maximise positive impact.

The Platform notes that it might create complexities for cash and hedging instruments due to their nature in the target setting. The Platform notes that derivatives and structured products pose a challenge when calculating emission reductions. Beyond the Platform's separate recommendations on PAI disclosures for derivatives, it stresses the need for ongoing research on how to calculate emissions and emissions reduction for certain asset classes and proposes a phase-in approach for these assets. To ensure feasibility of portfolio targets for multi-asset products it would be useful to specify that the targets should be calculated for all investments but can be specific to individual asset classes. For Multi-option Products it should be sufficient, following the logic laid out in the RTS, to calculate the target/indicators on each investment option separately.

In addition, the Platform would like to recall the importance of resilience and energy efficiency as well. Sustainable investments in these two areas – activity or entity-based - are crucial. |

<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>

The Platform generally agrees with the proposal of using PCAF except for the phasing-in of scope 3 emissions. It notes, though, that other appropriate tools can be available and should hence be useable as alternative.

In addition, the Platform notes, though, that the EU CTBs and PABs have established a phase-in approach for the inclusion of scope 3 emissions and highlights the need for the EU benchmark regulation phase-in to be respected and prioritised. The PCAFs phase in timeline differs from that established in the European regulation. In addition, the methodology used to calculate emission in BMR is weighted average, which is different from the finance emission metric of PCAF.

The Platform requests that the inclusion of scope 3 emissions follows as closely as possible Article 5 Phase-in of Scope 3 GHG emissions data in the benchmark methodology and not the PCAF, in order to:

- i) maintain the comparability between funds;
- ii) ensure that when contrasting or benchmarking against a CTB or PAB, the same calculation and scope coverage is included (N.B.: the terminology 'emission intensity' refers to emissions / EVIC in the BMR versus emissions/revenue in SFDR); and
- iii) not undermine the financial products that replicate a CTBs or PABs and continue to foster the use of the European Climate Benchmarks.

The Platform supports, in line with the principle of consistency, the ESAs' call for the PCAF to become mandatory for use by financial institutions as laid out in the EFRAG's first batch of ERSR submitted to the Commission in November 2022.

Following the precautionary principle, the Platform further advises to review the work and progress of external organisations with regulatory recognition such as potentially given to PCAF at regular intervals to avoid mission drift. This is particularly relevant, in the face of methodology changes or evolution. |

<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>

The Platform agrees. The Platform agrees that voluntary carbon credits should be disclosed separately as they should not count for the achievement of intermediate targets. The Platform suggests a clear separation of voluntary carbon credits into avoidances and removals. Avoidances should simply not be reported, whereas GHG removals deserve reporting and separate treatment as they can potentially contribute to emission reductions in a significant manner. The Platform recommends careful consideration as regards the disclosures of voluntary carbon credits. The precautionary principle should prevail at all times when reporting and dealing with voluntary offsets.

While voluntary purchases of carbon credits by companies and other players can support emission reductions and provide financial support in developing countries, carbon credits

cannot be used to divert attention from real emission reductions and from much-needed investments in technological solutions. Many corporates are currently engaging in a voluntary market where low prices and a lack of clear guidelines risk delaying the urgent near-term emission reductions needed to avoid the worst impacts of climate change. For this reason, offsets cannot be counted towards interim emission reduction targets.

A high-quality carbon credit should, at a minimum, fit the criteria of additionality (i.e., the mitigation activity would not have happened without the incentive created by the carbon credit revenues), and permanence, and respect human rights at all times. There is a need for clear guidelines on high-quality and integrity standards. Technologically, these conditions are given for instance in case of removals via Direct Air Capture (DAC) combined with geological carbon storage.

The Platform stresses the need for full consistency on how voluntary carbon credits and, separately, removals are treated and asked to be reported in the forthcoming Delegated Regulation of the CSRD and the SFDR RTS.

<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 your answer.**

<ESMA\_QUESTION\_SFDR\_29>

The Platform believes that it is useful to ask for a description on how the product targets and investment goals fit the overall FMPs targets for Scope 3 CO<sub>2</sub>e emissions and transition plan for climate change mitigation but also give the option for those FMPs whose transition plan is broader than climate change mitigation (i.e. includes other environmental objectives) and might have established reduction or improvement targets in their funds in relation to another environmental objective (e.g., reduction of water footprint). This would be in line with the concept of transition defined in the recent Commission Recommendation on transition finance.

The Platform understands that a target established for a specific product does not necessarily coincide with the target established at entity-level or for another product, and that targets might differ depending on the investment universe – size of the companies, sectoral biases, geographical exposure, the investment objective and the asset class, etc. A descriptive explanation on how it fits with the Scope 3 CO<sub>2</sub>e emissions in the FMP's transition plan seems more appropriate and easier for end investors to understand. For example, an FMP could have two separate funds with the same exact investment universe - one, concentrated in reducing emissions by selecting the companies within the fund that have exhibited better progress and have a higher degree of capex-alignment with the Taxonomy, and another fund based on the same investment universe that selects some of the worst performers but that present an opportunity for change, that is coupled with a credible commitment and applies a very active engagement and voting policy. Both funds could be part of the same overall transition plan of the FMP, subject to evidencing progress of actual CO<sub>2</sub>e reductions.

In the case of Multi-Option products, no conclusion can be drawn from the target of the underlying, individual fund to the targets of the FMP as the provider of the Multi-Option products. Consequently, for Multi-Option products where clients can choose out of a multitude of differently focused funds, the requirement to assess alignment to the FMP's targets might be misleading, given that the fund template refers to the fund issuer as the "FMP" and not the product provider of the Multi-Option product itself. In Multi-Option products, the customer can choose dedicated thematic funds with differing targets. For social funds we see a risk that they are treated less favourably if they are benchmarked against for example AOA-targets of the FMP, despite climate not being their strategy focus. |

<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>

|The Platform is fully supportive of the revision of the dashboard. The new dashboard is meaningful in providing information regarding the general sustainability approach, the three MiFID pillars and the new GHG commitments. It is consistent with MiFID and IDD. Given that taxonomy-aligned investments provide for a more stringent standard than sustainable investments or PAI consideration, the Platform encourages the ESAs, following the description of the environmental and/or social characteristics or sustainable investment objectives, to first mention the commitments of taxonomy-aligned investments in the dashboard to make these more prominent.

The Platform notes that the new European Commission proposal on amending the PRIIPs KID is inconsistent with the SFDR disclosure and sustainability preferences in requiring the expected Greenhouse Gas emissions as a new prominent disclosure element besides the taxonomy commitment. While the Platform appreciates the limited space in the PRIIPs KID, it believes that such disclosures should be consistent in order to avoid investors' confusion (e.g., using only elements from the templates or just including a link to the website disclosure).

The new version of the dashboard is also simplified and therefore easier to understand, given that it only shows the information for the relevant product and reduces the amount of legalistic language. In order to improve usability, the Platform recommends:

- that the ESAs provide some examples of how the description of the environmental / social promotion or sustainable investments objective could be described with 250 characters limit, for instance for a best-in-class or an exclusion approach. This would also help evaluating whether different approaches fit into the 250-character limit. It might be

particularly difficult for more complex and/or multi-asset strategies, which invest in different types of sustainability approaches.

- that the description of the percentages requires the inclusion of the denominator. The Platform notes that there is no consistent approach when it comes to the denominator, i.e., taxonomy commitments are based on all investments, sustainable investments are often based on the net asset value, etc. It is therefore important to make this transparent in order not to confuse investors. In this respect, the Platform also suggest for the ESAs to consider deleting the additional circles with the percentage of taxonomy-aligned and sustainable investments. In particular, if the denominator is not identical, this would not be consistent. Also, the text already includes the percentage where it, for instance, could be highlighted in bold. Deleting the additional circles would also reduce the number of pictograms and hence improve readability.
- that from a technical point of view, where not relevant, the icons should always show a strikethrough version. The non-applicability would then also be identifiable in a black and white print of the disclosure. |

<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>

The Platform agrees that the current version allows FMPs to include all information that retail investors need in order to understand the sustainability aspects of a product. It also notes that clear understanding does not necessarily correlate with higher number of or more detailed disclosures but rather with a focused, precise and consistent picture of the financial product sustainability aspects. Therefore, the Platform supports the aim to simplify the wording (e.g., the definitions in the left-hand margin should be made shorter).

Beyond this, the template could be further improved based on the principle of consistency as follows:

- **Aligning structure with new dashboard:** For investors, it would be easier to navigate through the template (and the website, see answer to question 35) if these followed the structure of the new dashboard. This would, e.g., allow to provide the description on the characteristics / sustainable investment objective and the strategy together. More specifically, the questions could be tailored along the overall dashboard structure. In line with question 35, it would also allow to use the dashboard elements as extendable on click, improving the navigation through the template. This means that the general description of the environmental and / or social characteristics would then be the heading questions regarding strategy, environment and social characteristics, and potentially benchmarks. The questions on sustainable and taxonomy-aligned investments would include the



commitments including sub-commitments, if any; the question on PAI would include the information on PAI consideration including in the reporting information on each PAI indicator and potentially their comparison to a benchmark, where relevant; while the GHG question would include the new information regarding emissions and reduction plans.

- **Making it more concise in accordance with the dashboard:** The Platform would also see a merit in making the template more concise through the new dashboard structure. For instance, information on a sustainable investment commitment is currently spread through the Template, e.g., commitments are included in a sub-question of the first section as well as the asset allocation section and the taxonomy section. Hence, the Platform suggest that the ESAs assess whether these elements could be brought together under the heading of sustainable investment share. Idem as regards the description of environmental and social characteristics, the binding elements.
- **Aligning wording with pre-contractual language:** The Platform notes that the questions mix elements of a description of what the product is bound to do with elements of what it could look like. The Platform suggests aligning the wording accordingly. It should be clearly identifiable for the investor whether it is described what the product is committed to, or what could happen in practice. As one example, the question: “Does the product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?” indicates that the FMP knows from the outset whether the product will include any taxonomy-aligned nuclear or gas activities, which is not identifiable from the outset. For the understanding of the investor, it is important to know whether the commitment to invest in taxonomy-aligned activities could comprise nuclear and gas activities, or whether the commitment only relates to activities without nuclear and gas. Hence the question should rather be worded accordingly. The Platform believes that all questions should be phrased in such a way that they relate to binding elements including commitments, thresholds or else. The exact investments including the exact taxonomy share have to be shown in the reporting.
- **Potential further simplifications:** Given that any taxonomy commitment is an investment threshold, the Platform questions whether the sub-commitment of transitional and enabling activities in the pre-contractual disclosure is of practical relevance. While the Platform sees the merit in including a breakdown in the reporting document, it should be assessed whether the question can be deleted in the pre-contractual disclosure. The Platform notes, though, that this would require changes to the Taxonomy Regulation. Further, it could be evaluated whether in the pre-contractual disclosure the graph on taxonomy alignment could be discontinued or at least reduced to the overall graph including sovereign bonds. Given that some products do not provide for a specific quota of sovereigns and the amount of sovereign bonds in a given portfolio is subject to market impact, as well as changes in the portfolio, the additional information of the second graph is limited. Therefore, FMPs, for example, show the same graph in such cases or leave out the second graph altogether with an explanation. In the reporting, the breakdown can of course be shown.

The Platform encourages the ESAs, for example with the help of NCAs, to review market practice regarding the use of the templates. This can facilitate identifying further potential misunderstandings of the questions as well as eliminating potential repetitions. The Platform notes that this could be done with the current revision with the aim of avoiding a third cycle of template versions which can (i) confuse recipients and (ii) leads to implementation efforts and costs for the market. Such revision could also include the wording of the questions in order to

ensure that wording is in line with pre-contractual disclosure (or in case of the reporting with reporting disclosure, i.e., based on actual information as of reporting date).

Please also refer to questions 25 and 24 in relation to the disclosure of GHG emission targets.

<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>

The Platform notes that there are different approaches in the market and by NCAs regarding sub-commitments of sustainable investments. For instance, some NCAs require a minimum of a sub-commitment regarding environmental and social split for Art. 9 SFDR and in some cases for Art. 8 SFDR product. This includes the expectation to commit to a specific percentage of sub-split that is closer to half of the overall percentage than to zero.

*Example: A fund commits to an overall sustainable investment of 20% and the NCA requests a social or environmental sub-commitment that should be closer to 10% than to 0%.*

The Platform notes that any commitment including sub-commitments has the following effects that should be considered:

- A sub-commitment between social and environmental might address specific requests from investors. Some investors might have preferences regarding investments that specifically address social or specifically address environmental issues.
- There is no uniform methodology on how sustainable investments are measured, hence also any mandatory sub-split is not comparable between different product providers. This is also based on the fact that data used to measure sustainable investments is not necessarily comparable.
- A sub-commitment is an investment threshold that binds the portfolio manager in the day-to-day investment decisions and should be monitored on a daily basis. In adverse market conditions such commitment needs to be particularly managed, for instance a sub-commitment on environmental side might have impacts on energy prices.
- Due to the aforementioned impacts on portfolio decisions, a mandatory sub-commitment could lead the FMP to reduce the overall sustainable investment commitment in order to avoid situations where, due to market conditions, available investments in required sub-commitments might be scarce. The Platform notes that this might be detrimental to the overall goal of the Sustainable Finance Framework, i.e. encouraging FMPs to provide financing for sustainable projects through, e.g., sustainable investments.

The Platform also notes that a requirement of minimum sub-commitments is closer to a product standard than in line with the overall approach of SFDR as transparency regulation.

In the reporting any disclosure regarding a split between environmental and social can be displayed, thereby allowing investors to be informed of the sustainability objectives that the product contributes to. The disclosure should only require containing information where products commit to minimum investments in categories. Otherwise, the information might include non-relevant details for the financial product, which could be confusing for the investor.

Also as referred to in question 31: The Platform agrees that the current version allows FMPs to include all information needed for retail investors to understand the sustainability aspects of a product. It also notes that clear understanding does not necessarily correlate with a higher number of or more detailed disclosures but rather with a focused, precise and consistent picture of the financial product sustainability aspects. Therefore, the Platform supports the aim to simplify the wording (for example, the definitions in the left-hand margin should be made shorter).

Beyond this, the template could be further improved based on the principle of consistency as follows:

- **Aligning the structure with new dashboard:** For investors, it would be easier to navigate through the template (and the website, see answer to question 35) if these followed the structure of the new dashboard. This would, e.g., allow to provide the description on the characteristics / sustainable investment objective and the strategy together. More specifically, the questions could be tailored along the overall dashboard structure. In line with question 35, it would also allow to use the dashboard elements as extendable on click, improving the navigation through the template. This means that the general description of the environmental and / or social characteristics would then be the heading questions regarding strategy, environmental and social characteristics and potentially benchmarks. The questions on sustainable and taxonomy-aligned investments would include the commitments including sub-commitments, if any; the question on PAI would include the information on PAI consideration including in the reporting information on each PAI indicator and potentially their comparison to a benchmark, where relevant; and the GHG question would include the new information regarding emissions and reduction plans.
- **Improving conciseness in accordance with dashboard:** The Platform would also see a merit in making the template more concise through the new dashboard structure. For instance, information on a sustainable investment commitment is currently spread through the Template, e.g., commitments are included in a sub-question of the first section, as well as the asset allocation section and the taxonomy section. Hence, the Platform suggests that the ESAs assess whether these elements could be brought together under the heading of sustainable investment share. Idem as regards the description of environmental and social characteristics, and the binding elements.
- **Aligning wording with pre-contractual language:** The Platform notes that the questions combine elements of a description of what the product is bound to do with elements of what it could look like. The Platform suggests aligning the wording accordingly. It should be clearly identifiable for the investor, whether it is described what the product is committed to, or what could happen in practice. As one example, the question “Does the product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?” indicates that the FMP knows from the outset whether the product will include any taxonomy-aligned nuclear or gas activities, which is not identifiable from the outset. For the

understanding of the investor, it is important to know whether the commitment to invest in taxonomy-aligned activities could comprise nuclear and gas activities, or whether the commitment only relates to activities without nuclear and gas. Hence, the question should be worded accordingly. The Platform believes that all questions should be phrased in such a way that they relate to binding elements including commitments, thresholds or else. The exact investments including the exact taxonomy share have to be shown in the reporting.

- **Potential further simplifications:** Given that any taxonomy commitment is an investment threshold, the Platform questions whether the sub-commitment of transitional and enabling activities in the pre-contractual disclosure is of practical relevance. While the Platform sees the merit in including a breakdown in the reporting document, it should be assessed whether the question can be deleted in the pre-contractual disclosure. The Platform notes, though, that this would require changes to the Taxonomy Regulation. Further, it could be evaluated whether in the pre-contractual disclosure the graph on taxonomy alignment could be discontinued or at least reduced to the overall graph including sovereign bonds. Given that some products do not provide for a specific quota of sovereigns and the amount of sovereign bonds in a given portfolio is subject to market impact as well as changes in the portfolio, the additional information of the second graph is limited. Therefore, FMPs, for example, show the same graph in such cases or leave out the second graph altogether with an explanation. In the reporting, the breakdown can of course be shown.

The Platform encourages the ESAs, for example with the help of NCAs, to review market practice regarding the use of the templates. This can facilitate identifying further potential misunderstandings of the questions as well as eliminating potential repetitions. The Platform notes that this could be done with the current revision with the aim of avoiding a third cycle of template versions which can (i) confuse recipients and (ii) leads to implementation efforts and costs for the market. Such revision could also include the wording of the questions in order to ensure that the wording is in line with pre-contractual disclosure (or in case of the reporting with reporting disclosure, i.e. based on actual information as of reporting date).

Please also refer to questions 25 and 24 in relation to the disclosure of GHG emission targets |

<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. The Platform fully agrees with the proposal of removing the tree. The dashboard identifies the important information; the asset allocation tree would not provide additional information in this respect. The Platform also notes that the allocation tree made a usability point apparent, i.e. the use of different denominators in the percentages to be provided. For instance, the percentage according to which the product's investments adhere to environmental / social characteristics, the committed sustainable investment percentage and the committed taxonomy aligned percentage are not necessarily based on the same denominator. |



<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>

The Platform generally supports consistency in the use of colours in the templates. From the practical point of view, two points need to be considered:

- For the disclosure of very small percentages in the breakdowns, different shades of green are hardly identifiable. It might be preferable to use different colours and not only green.
- For the usability, the ESAs and/or the EU Commission should make the icons available as GIFs. Where FMPs do not use external providers for creation of the disclosure, they have experienced difficulties in including the icons just based on the data format in which they are available in the Official Journal. |

<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>

Yes. The Platform agrees with this approach. The Platform supports a layered disclosure, where the consumer can click on the dashboard icons to open the main questions (i.e. those accompanied by an icon) and can then click on the main questions to open the associated section. Improved readability and simplicity are beneficial for consumers and improve readability of the disclosure.

The Platform notes that the templates are part of a prospectus, which as a legal document might not be the end investors' first source. The Platform therefore sees a merit in including also the dashboard on the product's website. The ESAs could even foresee that – similar to the suggestion for the templates – the website disclosure be structured along the lines of the dashboard. This would also allow to minimise differences in the questions and information (beyond those foreseen in Art. 10 SFDR) for the benefit of the investor. The Platform believes that an alignment between the pre-contractual disclosure and the website disclosures would be beneficial for investors in navigating through the information. |

<ESMA\_QUESTION\_SFDR\_35>

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

<ESMA\_QUESTION\_SFDR\_36>

Yes, the former Platform and the TEG have continuously advocated for allowing FMPs to estimate Taxonomy-alignment and PAIs performance when the exact required information was not available. The Platform, like its predecessors, calls for the EC to develop a set of criteria that could frame the methodologies for the use of modelled data, estimates and proxies. It equally calls for the development of guidelines on criteria for such methods wherever possible, to ensure that such estimations are not conducive to the risk of greenwashing. FMPs might appreciate such guidelines together with the provision of specific proxies wherever possible, based on international standards or commonly reported indicators.

The Platform notes that:

1. with regards to the Taxonomy, the exercise ought to be done in conjunction with the review of Article 8 Delegated Act which will look, among other items, at the use of estimates under Article 8 DA disclosures.
2. with regards to the PAIs, the exercise should start once the ESRS are adopted.
3. guidelines could include specific guidelines (including potential proxies) for each one of the indicators.

The Platform believes that such an exercise merits thorough analysis, consultation (including with data providers), and study, not least on an individual indicator basis. The Platform therefore recommends to the EC to develop the criteria and guidelines in conjunction with the review of Article 8 in such a manner that the recommendations can be applied for Article 5, 6 and 8 in the case of the Taxonomy and for PAIs in a consistent manner to ESRS and minimum safeguards of the Taxonomy. This will allow the EC and ESAs to conduct a broad consultation on the issue.

In the meantime, the Platform suggests following the detailed recommendations on how to estimate Taxonomy-alignment – including the steps to follow –, at the time defined by the “equivalent information” concept stipulated in Article 15(b) of the 6<sup>th</sup> April 2022 Delegated Regulation provided in the [former Platform’s data and usability report](#) (section 2.3 Equivalent information and Estimates, pages 34 - 48) and mentioned in the Consultation.

The Platform placed the precautionary and consistency principles at the core of its recommendations. The Platform believes that the precautionary principle ought to be respected at all times and across the board: to err on the side of the environment, this is, preserving environmental integrity when a choice ought to be made. -

The Platform is not keen on the use of “extrapolation”. This is when PAIs are calculated based only on the portion of holdings for which you have data and extrapolate – based on the (questionable) assumption that the outcome is representative of all your holdings. Extrapolation can be done over all holdings or only eligible holdings. The Platform therefore reiterates its recommendation to add a coverage ratio disclosure.

The principle of consistency should also be sought where and whenever possible.

The Platform agrees with the ESAs on their suggestion to align the wording of the Recital (21) of Regulation (EU) 2020/852 and use “estimates” only.

By estimates we also refer to estimations on alignment or compliance through information gathered.

The Platform reminds the ESAs that there might still be data gaps which, even on a best effort basis and with the best of intentions, could not be estimated and would make any estimation misleading. There will be plenty of examples when the information cannot be requested or even if requested, is not provided by companies. The Platform recommends that the ESAs require to disclose those data gaps that cannot be filled respecting the principle of precaution.

<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>

Yes, the Platform recalls its proposal to include a short list of always significant harmful social and environmental activities as “always principally adverse” in the absence of a Taxonomy addressing always significant harmful environmental and social activities (or until such Taxonomy exits). The Platform notes that below suggestions with respect to PAIs on product level would require a reform of the SFDR (Level 1).

The PAIs already include exposure to fossil fuels, controversial weapons, and now the recommendation to also include tobacco. If the PAIs were to be expanded, the Platform believes that the inclusion of “always principally adverse” or ASH activities might help fight reduce negative impacts. The Platform would highlight the importance of clear disclosure on ASH activities in a financial product that discloses as an Article 8 SFDR Product.

The Platform recommends then setting very low maximum tolerance thresholds for the “always principal adverse” indicators. Regarding oil and gas, FMPs could, for instance, set tolerance levels based on capex for their transition funds (if the Platform suggestions on how to capture the exposure to fossil fuels is taken into account) and on revenues for green funds.

The risk of applying DNSH as a screening filter for revenues is that it will translate to an exclusion of most companies that conduct transitional activities, even if a proportion of the activities is aligned with the Taxonomy (e.g., cement manufacturer or steel maker).

A preferable option would be the application of DNSH as screening criteria to capex because, while companies that generate some revenues from Significant Harm might still be seriously committed to decarbonise, a company that invests its capex in harmful activities cannot do so (except for a minimum % of capex that might be inevitable to maintain operations while transitioning). This means that a tolerance level on % of capex allocated to activities that do not meet DNSH could be applied.

The Platform recommended in its report on the 29 March 2022 that the European Commission define those activities that cannot be improved to avoid significant harm and will therefore

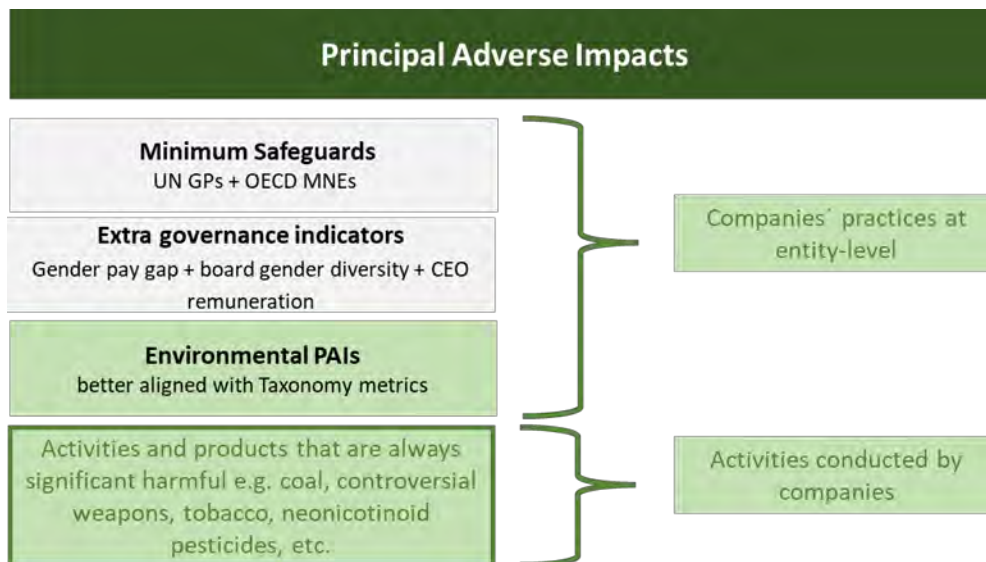
remain always significantly harmful. Such activities should be prioritised for Taxonomy-recognised transition investment as part of a decommissioning plan with a just transition effort. Such a classification was named the “always principally adverse” Taxonomy. If extended to other environmental objectives, it would include activities for which there is no technological solution, and they cause significant harm such as neonicotinoids. These are the real stranded assets. A filter that will identify and exclude stranded assets might prove to be the most effective not least from a risk management perspective.

When applying the concept to social objectives, activities such as controversial weapons or tobacco might be found as they always cause significant harm, and no solution is feasible. Until a Taxonomy addressing always principally adverse activities is developed, the Platform recommends the expansion of PAIs to a handful of indicators that capture those activities that always cause significant harm and for which no solution is feasible. FMPs can then set minimum tolerance levels to screen them.

Within this recommendation, the Platform is mindful of the interconnectivity between CSRD and SFDR PAI, and any newly considered PAI should be part of the mandatory CSRD disclosure to prevent data-access issues.

The Platform highlights the importance of the distinction between those PAIs that capture environmental or social performance and are linked to companies’ practices when conducting an activity, and those PAIs that reflect whether a company is involved in a certain activity, e.g., fossil fuels or controversial weapons.

Figure 42 of the Data and Usability Report of the former Platform: Proposal on the Treatment of Harm and Minimum Safeguards



When asking end-investors about the different PAIs (and performance levels or ranges of performance or as screening criteria), the same distinction should be made.



PAIs can also be used to ask which activities or sectors they do not want to invest in, such as in fossil fuels, nuclear, controversial weapons. To that extent, the Platform recommends that the MiFID requirements clarify that the sustainability preference addressed with consideration of PAIs does not necessarily cater for the need of those investors that express their desire not to invest in certain activities. The Platform has recommended the possibility of expanding the PAIs to incorporate more activities that are always significant harmful in the absence, and until a Taxonomy that addresses always principally adverse activities exists. These should include as a minimum: fossil fuels (following the BMR regulation), controversial weapons, tobacco. The Platform recommends the consideration of other activities such as neonicotinoids.

FMPs can set minimum tolerance levels for these activities e.g., less than 5 or 10% of revenues, but it is important that no capex investments are allowed. These can vary depending on the activity and availability of data, but guidances that provides a common understanding of acceptable thresholds for these PAIs is needed.

Firms and financial advisors should provide a list of these activities and ask clients, which of these activities they do not wish to invest in. When offering financial products, firms and advisors ought to show the maximum thresholds for these activities allowed in each product.

<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>

The Platform sees a merit in clarifying calculation of the proportion of sustainable investments. The Platform takes note of the recently issued Q&A of the EU Commission, that the level of sustainable investment can be measured at the level of a company (e.g. when an instrument does not specify use of proceeds) and not only at the activity level, while recognising that the contribution to an environmental or social objective is made through economic activities. As outlined in the answer to question 17, this should be adjusted in order to have an aligned understanding of sustainable investments. The Platform notes that it can only be changed through a revision of the SFDR Level 1. In general, the objective should continue to be unique to the nature of the product, whereas harm should be consistently defined on an entity and product level.

Besides this, there is still a merit in setting out specific rules on the calculation of the proportion of sustainable investments in order to achieve as much comparability across sustainable investment disclosures. The ESAs could, for example, include a standardised disclosure on

- whether the sustainable investment is measured on activity or on company level.
- the denominator including the question of whether it is based on all investments, on the net asset value or a different denominator, and
- whether cash and all or only some derivatives are included.

<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>

Yes. The Platform agrees. As periodic disclosure for products with investment options usually exceeds 60 pages, it is not easy for consumers to navigate through these pages. Where it needs to be provided also in printed form, printing the underlying information is not environmentally friendly. The Platform therefore supports the use of hyperlinks in the periodic disclosure from the perspective of consumer usability, feasibility for the FMP in managing the number of documents, and from a sustainability perspective. |

<ESMA\_QUESTION\_SFDR\_39>

**Q40 : Do you agree with the proposed website disclosures for financial products with investment options?**

<ESMA\_QUESTION\_SFDR\_40>

The Platform generally agrees with the proposed website disclosures for financial products with investment options. As outlined in question 35, the Platform would see a merit in structuring the website disclosure in line with the dashboard. This would allow the investor to easily recognise and navigate through the information in pre-contractual disclosures and would facilitate reporting as well as website disclosure.

In general, website disclosure contains some inconsistencies with pre-contractual disclosure. For instance,

- The sentence under “no sustainable investment objective” should be aligned with the sentence in the dashboard. For Article 9 products, the Section could also begin with the statement in the dashboard.
- The explanation under “no sustainable investment objective” and “no significant harm to the sustainable investment objective” is part of the section “what is the asset allocation” in the pre-contractual disclosure.
- The sequencing of the information is different, e.g. investment strategy on the website is before and in the template after the GHG emission information. We suggest using exactly the same sequencing as in the pre-contractual template.
- Headings are different, e.g. the information on asset allocation in the pre-contractual disclosure should be part of the website section headed “proportion of investments”. The heading does not easily allow for that recognition.

Besides the use of the dashboard to structure the disclosure, the pre-contractual and the website disclosure should be aligned as much as possible. |

<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>

- [N/A]

<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>

The Platform is fully supportive of a machine-readable format of all information disclosed. This should include at minimum (i) indexation of all headlines and sub-headlines, (ii) identification of all relevant entities via legal entity identifiers and with entity legal form, (iii) continuous accessibility via all open search engines and from all IP addresses globally and (iv) identical formats across all use cases. The Platform recommends using iXBRL format (XBRL machine readable format), with in-line human readable display for transparency. The Platform notes that FMPs not using external providers for the drafting of the SFDR pre-contractual and reporting disclosure face challenges with respect to the icons, especially in local language. The Platform recommends the ESAs take such technical problems into account.

<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>

The Platform notes that changes to calculation methods lead to implementation efforts including changes in the systems. The changes might also lead to a decrease of comparability.



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<ESMA\_QUESTION\_SFDR\_43>