

The background of the page is a complex abstract design. It features large, overlapping geometric shapes in shades of green and blue. A faint line graph with several data points is visible in the upper right quadrant. In the lower left, there are several thin, parallel lines that curve and then point towards the right. At the bottom right, there are diagonal stripes in blue and yellow. The text is contained within a dark green rectangular box that is semi-transparent, allowing the background elements to be seen through it.

**Platform Briefing on
SFDR and summary
of its response to
the Joint ESAs
Consultation on
SFDR RTS**

4 July 2023

Briefing Platform

Response to the Joint ESAs Consultation on SFDR RTS

EU Platform on Sustainable Finance

4 July 2023

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The considerations below are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Supervisory Authorities (ESAs). As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs which may differ from the contents of this report.

Background

On 12 April 2023 the European Supervisory Authorities (ESAs) published the draft review of Sustainable Finance Disclosure Regulation (SFDR) Delegated Regulation (EU) 2022/1288 (SFDR RTS) regarding PAI and financial product disclosures which included a consultation of 43 specific questions.

The Platform has responded to the consultation in the official format which can be found on the [ESAs website](#). The Platform has prepared this brief to facilitate the European Commission's coming work on SFDR including the assessment scheduled for Q4 2023.

This brief summarises the Platform's vision on the SFDR, the recommendations made to the European Commission and the ESAs as well as the principles that have governed its thinking and suggestions.

The Platform's principles for reporting requirements

The Platform has established five principles to govern and frame its thinking on disclosure requirements. The Platform believes that the principles should apply when considering an indicator such as a potential Principal Adverse Impact (PAI). The Platform has consequently analysed the proposed indicators and, more broadly, the questions in this consultation through the lenses of these five principles:

1. The Principle of Relevance:

One main objective of Financial Market Participants' (FMPs) reporting is to provide meaningful information to investors so that those investors that have a sustainability preference or seek environmental and/or social returns can make informed investment decisions. Another key objective is to assess the robustness of the sustainability credentials of the financial product and the impact of the financial product on sustainability. The disclosure can also help FMPs with their own strategic and management decisions. The ultimate goal is to mobilise and direct additional finance towards sustainable activities and investments.

This principle aims to ensure that any reporting requirement brings about real value, is meaningful and follows a robust methodology or approach. Requirements should be focused on the supply of the most relevant information for the purpose of measuring sustainability and impact, and for the benefit of investors in green and sustainable activities.

With regard to specific indicators, the principle of relevance dictates that each indicator ought to be meaningful and capture the adverse impact well, and that the underlying proposed method to calculate it is robust and accurate.

2. The Principle of Consistency:

The SFDR does not operate in a regulatory vacuum. It is intrinsically related to the Corporate Sustainability Reporting Directive (CSRD), the Taxonomy and Benchmarks Regulations. It might also be affected by other pieces of regulation which include rules regarding disclosure or duties around sustainability such as the AIFMD, UCITS-Directive, MiFID and EU GBS. The success of the entire regulatory package will be determined by how interconnected, consistent, aligned, and

complementary the different regulatory pieces are in practice. A success of the regulatory package will allow to align or diminish relevance of requirements on national level, thereby facilitating the capital markets union.

Reporting should be anchored as much as possible in European sustainability reporting standards (ESRS) and other existing practices when appropriate – accounting and sustainability. The focus should be on the end goal, thus requiring information that is necessary and material rather than simply “good to have”.

In relation to the selection of indicators, the principle of consistency calls for each indicator or the underlying methodology to be consistent or conceptually 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 Paris-aligned and Climate Transition Benchmarks (PABs and CTBs).

3. The Principle of Proportionality:

The disclosure 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.

The SFDR RTS aim at providing the necessary information to investors so that they can make informed investment decisions when investing in ESG or sustainability-related financial products.

However, FMPs might find difficult even to estimate the PAIs for certain corporates and asset classes. Reporting charges should avoid or minimise unintended consequences like creating barriers or increasing the cost of financing for those that need it most, such as SMEs and investments in developing countries, notably development finance.

Implementing the detailed sustainable finance regulatory framework is perceived as challenging in particular for smaller FMPs, since data for the different indicators over different asset classes and portfolios has to be collected, assessed, processed. The comply or explain mechanism of Art. 4 SFDR provides some relief, but the PAI indicators are of significant relevance for products that address sustainability preferences and / or those where the FMP considers PAIs according to Art. 7 SFDR often classified as Art. 8 or 9 under SFDR. Hence, disclosure burden for smaller FMPs should also be considered.

4. Principle of Applicability:

Indicators ought to be easily estimated or a proxy should be available as part of an international reporting standard and allow for comparability wherever possible. This should include also non-EU and/or non-/not-yet CSRD investments (e.g. alternative asset classes, SMEs, developing countries). The new indicators should be applied once ESRS reporting is available.

Careful consideration should be given when using EU-specific criteria or references that cannot easily translate into an international standard or be estimated. It should also consider the different contexts in which it might be applied. However, enabling its use should not come at the expense of reducing the ecological ambition set by the EU.

The importance of applying the principle of proportionality for disclosures regarding investments made in developing and least-developed countries or in certain contexts was mentioned above.

5. The Principle of Precaution:

No disclosure should overestimate positive, nor underestimate negative information. This principle is considered overarching in order to protect the environmental integrity.

The precautionary approach shall be applied whenever the interpretation of the regulatory requirements or the data available to assess compliance is discretionary. Several aspects of the SFDR and Taxonomy legislations are qualitative rather than quantitative and hence can be interpreted with discretion. Even with respect to clearly defined quantitative thresholds, the data available to FMPs or their service providers may have limitations requiring assumptions to be made and are hence discretionary.

The guidance of the interpretation of discretion based on these precautionary principles can be summarised as “if in doubt, err on the side of the planet instead of the side of the company”.¹ This means, in the case of the Taxonomy for example, that activities which are not strictly meeting the Technical Screening Criteria (TSC) of the EU Taxonomy should not be classified and reported as aligned or potentially aligned with the EU Taxonomy.

¹ A precedent for such interpretation in European Commission sustainable finance legislation has been set by the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks. In Article 13 1a(i) and 1b(ii) the legislation clarifies that precautionary principles shall be applied when estimating greenhouse gas emissions. In Article 13 2a(i) and 2b(ii), the legislation clarifies that precautionary principles shall be applied when estimating if a company does “significantly harm [on] one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council”. As such, Article 13 2a(i) and 2b(ii) directly relate to the Taxonomy Regulation itself and offer a welcome precedent.

Platform's proposal on further work

The Platform stresses the need for conducting thorough analysis and further work with respect to SMEs, investments in developing countries as well as derivatives for the broader requirements of SFDR and the Taxonomy.

The Platform warmly welcomes the European Commission's five measures on enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework as well as the recommendation on transition finance.

The Platform believes that more work on estimates and more broadly on how to apply not only the indicators but the broader requirements of SFDR and the Taxonomy ought to be done for the following cases in order to continue enhancing the implementation of the EU sustainable finance package:

1. Investments in developing countries (other than in large multinational companies) and the need to give special treatment to development finance. The Platform is continuing the work started by its predecessor on how to apply the Taxonomy to development finance and investments in developing countries other than in large corporates. The EC established a high-level expert group (HLEG) on scaling up sustainable finance in low- and middle- income countries to identify the challenges and opportunities that sustainable finance presents in low and middle- income countries. The outcomes of the work from both groups needs to be considered in the application and a future revision of SFDR.

2. SMEs. FMPs should be able to use PAIs for investments in SMEs based on the future simplified reporting requirements that EFRAG is developing for SMEs.

3. Derivatives. Discussions regarding the treatment of derivatives in PAI indicators, Taxonomy and Sustainable Investment share calculation reveal the complexity of this issue. This is inter alia based on the fact that derivatives can be used for different purposes (e.g. hedging, increase of leverage, speculation) and that their potential impact on sustainability indicators is not identical with the financial impact, i.e. existing methods there cannot necessarily be used. The Platform emphasises that conducting further analysis built on the ESAs' considerations in the consultation paper should aim 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).

The Platform aims to contribute to such work.

The Platform believes that guidance on estimates should include specific recommendations for each PAI indicator – including how to estimate or use potential proxies for non-CSRD undertakings and 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.

The Platform's vision on SFDR

Evolution of Sustainable Investments and DNSH

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

1. 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 3 of the Taxonomy Regulation and respect Article 18 of the Taxonomy Regulation with regard to minimum safeguards.

2. 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 Taxonomy Regulation. This means that the Sustainable Investment will be defined by an indicator (s) that captures reduction of a PAI or positive contribution to the PAI, for example, emission reductions or 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 regard 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. Until such time, the Taxonomy objectives should be used in order to identify activities or companies that contribute to an environmental objective.
- 1.2. The development of general DNSH for all economic activities that neither significantly contribute nor impact any of the environmental objectives (Low Environmental Impact Activities (LenvI) – also known as Not-Significant Impact Activities - as defined by the former

Platform in its [report on the extended environmental 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 Impact (LenvI) activities does not apply to these activities, which by definition will not pass the DNSH of the 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 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.
3. With regards to DNSH of SFDR:
 - 3.1. Aligning social and governance PAIs with minimum safeguards of the Taxonomy in line with the recommendations made by the former Platform in its [data and usability](#) report
 - 3.2. 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 recommends, in order to align both regimes, to replace the sentence “with respect to sound management structures, employee relations, remuneration of staff and tax compliance” by “with minimum safeguards” which include European Commission good governance practices and labour rights recognised in 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-aligned 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 define 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 product development based on the improvement of performance indicators with potentially a benchmark reference. These (SI- 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 '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 recommends the EC to provide guidance on PAIs including on estimates and proxies, and on establishing tolerance levels for non-CSRD undertakings, but the latter should be purely indicative.

The Platform underlines the fact that in the case of SI entity-level there are no mandatory tolerance levels established. FMPs should establish them according to their investment strategies and policies and beliefs. The development of voluntary benchmarks such as CTBs/PABs on climate mitigation can help FMPs develop their funds based on specific indicators related to one environmental objective.

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

In its report on Data and Usability, the previous Platform recommended that a clear distinction is made between environmental 'do no significant harm' in reference to the Taxonomy and 'do no significant harm' of SFDR, which is captured through Principle Adverse Impacts.

The Platform believes that the distinction should be made with respect to the application at activity (DNSH of TR) or at entity-level (environmental PAIs).

The distinction between an activity-based (Taxonomy) and an entity-based (a sustainability factor with one or more indicators) approach as described will facilitate the understanding by end investors of their ESG preferences options.

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 suggests that any expansion of the PAIs prioritises the inclusion of always principally adverse activities in line with market practice.

The previous Platform in its report on the environmental transition Taxonomy (see [Platform on Sustainable Finance’s report on environmental transition taxonomy \(europa.eu\)](#)) recommended 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 coined 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.

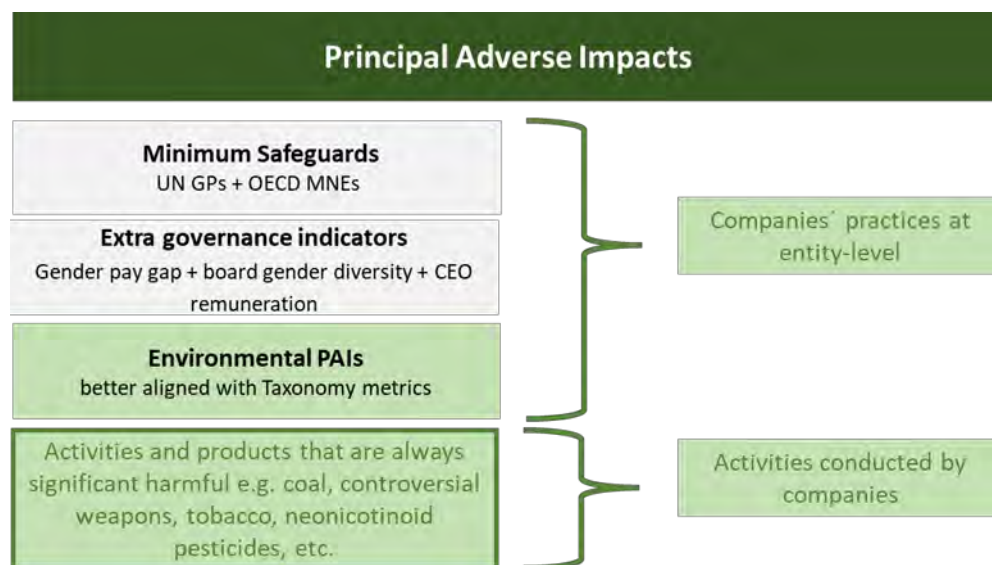
When applying the concept to social objectives, activities such as controversial weapons or tobacco might be found as they always cause significant harm, and no solution is feasible. Until a Taxonomy addressing always significantly harmful activities is developed or in its absence, the Platform recommends 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 tend to apply a similar concept across their ESG investments and, in many cases, across the board. FMPs can then set minimum tolerance levels to screen them or use the ones already established at entity-level.

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).

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. If there was a desire to extend the PAIs, the inclusion of such activities should be prioritised over mandatory performance-based indicators.

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, tobacco. To that extent, the Platform recommends that the MiFID requirements clarify that the sustainability preference addressed with consideration of PAIs does necessarily cater for the need of those investors that express their desire not to invest in certain activities.

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. 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% or X% of revenues, but it is important that limited to no capex investments are allowed. These can vary depending on the activity and availability of data, but indicative guidance aimed at providing a common understanding of acceptable thresholds for these PAIs are needed.

Evolution of PAI disclosure

The Platform believes that for products disclosing under Article 8 SFDR, the PAIs should be disclosed for the entire product – for all consistent investments. PAI disclosure should not be optional for such products, nor should it be possible to consider PAIs under Article 7 SFDR for only part of the product.

The reasons are twofold:

1. 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 to make an informed decision.
2. 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 PAI indicators if they have considered PAIs. The above allows that the rest of the product might contain investments that do not respect PAIs in a significant manner and practically can offset any benefits. It also limits investors' choices and prevents the establishment of a level playing field.

Evolution of disclosure on taxonomy-alignment and GHG emissions

The Platform believes that in the future the Taxonomy should be embedded into the narrative of any financial product – to show how much existing (turnover) or future (capex) investment is aligned.

The Platform believes that minimum ESG reporting requirements – being GHG emissions and the Taxonomy a case in point - should be mandated in the longer term across all financial products, including those that are not classified as Article 8 or 9 (often referred to as Article 6 under SFDR).

The Platform in its [data and usability report](#) recommended the Commission to consider applying ESG reporting requirements for non-environmentally/socially sustainable financial products. Minimum requirements should include reporting taxonomy-alignment and GHG emissions.

Such a reporting requirement that is mandated across all financial products would help to highlight any Article 8 or 9 products' out-performance on Taxonomy metrics relative to products referred to as Article 6 under SFDR. It will also help FMPs to gradually decarbonise their portfolios.

Summary of the Platform's key feedback points

The Platform welcomes the work undertaken by the ESAs and the proposals made with the aim to enhance the effectiveness of the SFDR RTS.

The Platform appreciates that ESAs used the (draft) disclosure requirements under the CSRD as a basis for defining new social PAI indicators. Disclosure requirements under ESRS and SFDR RTS ought to be fully consistent.

The Platform agrees with the ESAs' general assessment that SFDR is a disclosure-based regulation. This stance has been reaffirmed in April 2023 in the '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'.

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 to a net zero target.

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. The Platform recommends using the new dashboard in order to structure the overall disclosure on the pre-contractual commitments, periodic reporting and on the website in a consistent way.

The Platform greatly appreciates the fluid dialogue between the ESAs and the Platform, and the consideration given to the previous work done - particularly in relation to the following recommendations made in the [data and usability report](#) published in October 2022:

- The replacement of UN Global Compact with the UN Guiding Principles on business and human rights in line with the minimum safeguards of the Taxonomy Regulation.
- The proposed inclusion of tobacco as a PAI indicator to align DNSH of SFDR and BMR.
- 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 (as the European Commission has clarified in the Commission Staff Working Document [Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework](#))
- Overall, the proposals made to lift the otherwise double DNSH and governance check to which taxonomy-alignment investments are subject in SFDR Article 8 and 9 products.
- The consideration of the Platform's proposal for "equivalent information" and the use of estimates. The Platform agrees with the ESAs in their suggestion to align the wording of the Recital (21) of Regulation (EU) 2020/852 and use "estimates" only.

The Platform makes **the following further recommendations** in addition to those directly linked to its vision on the future of SFDR made above:

1. The Platform strongly encourages the EC to ensure greater consistency between **ESRS, PAIs, BMRs and the Taxonomy Regulation**.
 - Social and governance indicators within SFDR RTS should be aligned with the minimum safeguards of the Taxonomy Regulation. The Platform, in order to align both regimes, recommends replacing the sentence in Art. 2 (17) SFDR “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 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 Platform recommends aligning the timeline for introducing new PAI indicators with CSRD reporting. Any indicator that is introduced prior to the availability of CSRD reporting data should be optional.
 - The Platform has made recommendations on the proposed and existing PAI indicators based on the principles of relevance, consistency, proportionality, applicability and precaution. (See annex 1)
 - The Platform believes the PAI indicators should specify whether there is an expectation of including value chain information 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 the same (e.g. PAI 10 and PAI 11).
 - Such disclosure should also be consistent in the forthcoming Delegated Regulation of the CSRD and the SFDR RTS.

2. The Platform supports the ESAs’ recommendation of **providing more specific disclosures on how PAI indicators are taken into account for DNSH**.
 - The previous Platform asked for more disclosures, including the tolerance levels set, in its report on data and usability. The Platform believes that the ESAs should require asset managers to disclose quantitative thresholds in real units, percentages or other as appropriate. FMPs should though 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 has a preference for absolute thresholds in real units rather than percentages, e.g. CO2e thresholds for the following indicators: 1, 2, 3, 6, 8, 9, 14, 19, 20 of the mandatory indicators. In case FMPs set thresholds on a percentage level (e.g. excluding the worst X%) they could convert such thresholds in real units on the reporting date while also including the percentages.
 - The Platform believes that there is potential to improve the calculations of some indicators in order to facilitate their relevance. (See table in Annex 1)

3. The Platform agrees with **the introduction of GHG emission target disclosures** but makes some tangible proposals to improve understanding and execution:

- There is a difference between having GHG emission reduction targets as the Sustainable Investment objective of a financial product and having a reduction target as part of a broader investment strategy that includes other Sustainable Investment objectives or other E or S or G characteristics, that is, in addition to those. Arguably FMPs should aim to establish GHG emission reduction targets for all their funds as part of their own decarbonisation plan.
- The Platform recommends the EC and ESAs to encourage FMPs that even when their GHG emission reduction target is not the prime objective of their financial product to benchmark their financial product with the relevant CTB or PAB. It would be useful to contrast financial product targets with relevant EU CTBs or PABs pathways.
- Those products that do not track a climate benchmark and for which an EU CTBs or PABs does not exist should provide the following information:
 - details of the trajectory, scenario used at fund or sectoral level and the methodology used.
 - specify 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.
- The Platform recommends the EC to develop a set of requirements under which emission reduction strategies currently not able to be contrasted against a EU CTB or a PAB due to the absence of existing benchmarks (i.e. infrastructure private equity) could qualify for Article 9. The Platform highlights the need for further analysis and discussion. The analysis ought to consider the specificities for different asset classes e.g. real estate.
- The Platform agrees that emission reduction targets should be disclosed generally for all investments. 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 and further analysis is required.
- The Platform generally agrees with the proposal of using PCAF except for the phasing-in of scope 3 emissions. The Platform 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 Benchmarks Regulation phase-in to be respected and prioritised for consistency reasons.
- 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
- When a product has emission reduction targets as their investment objective, a link to the benchmark disclosures where the methodology is explained should suffice. When the product is not replicating or linked to a specific benchmark (i.e. active fund or absolute return fund), then specific disclosures ought to be required.
- The Platform stresses the need for voluntary carbon credits to 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.

- 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 CO₂e emissions and transition plan for climate change mitigation. However, it is important to 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). 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 etc-, the investment objective and the asset class. A descriptive explanation on how it fits with the Scope 3 CO₂e emissions in the FMP's transition plan seems more appropriate and easier for end investors to understand.
4. The Platform welcomes the proposals on displaying the precontractual and periodic disclosures in an extendable manner electronically, the templates and the dashboard (including the removal of the tree). In addition, 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, given that taxonomy-aligned investments provide for a more stringent standard than sustainable investments or PAI consideration.
 - The Platform recommends using the new dashboard in order to structure the overall disclosure on the pre-contractual commitments, periodic reporting and on the website in a consistent way. If the dashboard's elements are used as a heading, this allows investors in all disclosures to navigate and makes it easier for the investor to identify the areas with the specific information.
5. The Platform has identified a handful of notions and areas for which **further guidance is recommended** (for further detail, read the Platform's response to the ESAs consultation).
- There is a need to clarify the notion of 'take PAI indicators into account' in DNSH principles to dissipate doubts and avoid the application of heterogeneous DNSH methodologies which prevents comparability between financial products and FMPs.
 - For derivatives the Platform strongly recommends assessing treatment of derivatives for taxonomy-alignment share, Sustainable Investment share as well as PAI in detail.
 - The need for ongoing research and guidance on how to calculate emissions and emissions reduction for certain asset classes and proposes a phase-in approach for these assets.
 - The Platform believes that **the use of estimates** merits further thorough analysis, consultation (including with data providers), and study, including on an individual indicator basis. The Platform recommends the EC to develop the criteria and guidelines in

conjunction with the review of Article 8 of the Taxonomy Disclosures Delegated Act in 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 under the “equivalent information” concept stipulated in Article 15 (b) of the 6th 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.

6. The Platform would like to **recall the following recommendations** made by its predecessor in its data and usability report:
 - The Platform recommends keeping the reporting of the breakdown on transitional and enabling activities for periodic disclosures but removing it from pre-contractual disclosures to foster the use of the Taxonomy.
 - The Platform encourage the European Commission to:
 - eliminate justification for the use of capex/opex by deleting Article 15 (3a); or
 - ask for an explanation of why the KPI was chosen by FMPs irrespective of the choice by replacing “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, or whether, due to the features of the financial product, the financial market participant has decided that a more representative calculation is given when that degree is measured by capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product” to “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product”.
 - The Platform recommends that the European Commission eliminates the requirement for FMPs to calculate taxonomy-alignment of their portfolios using opex in line with financial institutions entity-level disclosures, given that the information will not be readily available (they cannot include in the calculation any financial undertaking) and adds little value to end-investors.

Lastly, the Platform underlines 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. 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 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 of at least those PAIs that are critical to all sectors including GHG emissions.
- 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.

Annex I – Technical recommendations regarding PAIs

Indicators		PSF Comment
Environmental Indicators		
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	<p>The Platform suggests splitting the % of revenue and capex by coal & other solid fossil fuels, oil, and gas. Thresholds:</p> <ul style="list-style-type: none"> - 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 to be tougher than PAB threshold as capex is much more fungible than revenue and is a forward-looking KPI.
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	<p>The Platform suggests reflecting on specific NACE Codes. NACE sections A to H and L include:</p> <ul style="list-style-type: none"> • manufacture of bicycles • manufacture and operation of renewable energy technologies • manufacture of healthcare equipment, life science diagnostics, etc. • manufacture of doors, windows, lights that could be eco-labelled • manufacture of ZEVs • manufacture of recycling equipment • waste management including CCUS and recycling services etc. <p>All of these elements could qualify as Taxonomy-aligned (or not, be taxonomy eligible in the case of healthcare)</p>
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	<p>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> <p>Option A: mitigation measures are fully excluded from the definition, given that they do not ensure no significant harm to biodiversity.</p>

	companies negatively affect those areas	<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 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.</p> <p>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.
Indicators applicable to investments in sovereigns and supranationals		
19. Sovereign intensity	GHG intensity of investee countries as a ratio of investee country's GDP	<p>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.</p> <p>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.</p>

20. Investee countries subject to social violations	Number of investee countries subject to social violations, as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	This 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.
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Additional Environmental Indicators

2. Emissions of air pollutants	Tonnes of air pollutants 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, 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 reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	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 instead of Paris Agreement, => 'climate change mitigation actions compatible with limiting global warming to 1.5°C'. 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).
6. Water usage and recycling	2. Percentage of water recycled and reused by investee companies	The Platform proposes to make this indicator based on m ³ of reused (or recycled) water coming from other user(s) / m ³ of total water consumption (%). Counting internal recycling or reusing flows would not help to quantify the environmental impact.

		<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 the 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 the 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 practices or policies	Share of investments in investee companies without sustainable land/agriculture practices or policies	<p>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.</p> <p>The Platform further recommends the inclusion of forestry and other land uses in the PAI.</p>
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	The Platform recommends including non-recycled waste in the non-recyclable fraction of sold products.

	companies per million EUR invested	
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.

Social Indicators

11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	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
12. Gender pay gap between female and male employees	Average gender pay gap between female and male employees of investee companies	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).
13. Management and supervisory board gender diversity	Average ratio of female to male management and supervisory board members in investee companies, expressed	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."

	as a percentage of all board members	
15. Exposure to controversial weapon	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	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.

Additional Social Indicators

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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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.

Additionally, the formulae for several indicators (emissions to water, emissions of air pollutants, emissions of ozone depleting substances) are defined on the basis of the total mass of pollutants released instead than in terms of potential environmental impact. The list of characterisation factors for these indicators should be published and reviewed periodically (e.g., list of characterization factors to calculate Ozone Depletion Potential: [Annex C: Controlled substances | Ozone Secretariat \(unep.org\)](#)) to allow the calculation of the potential impact.

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.

- 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 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.

Annex II - Data availability

The Platform has checked the coverage of all mandatory PAIs given the fact that not all corporations are likely to report each PAI (in the exact EU definition). SFDR's Level 2 already has an established procedure for addressing missing data challenges resulting from a lack of corporate reporting. As per Commission Delegated Regulation 2022/1288, 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 for a wide variety of approaches to 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, financial market participants have to ensure adherence to the precautionary principle, especially in relation to information on 'do no significant harm' aspects, as per Commission Delegated Regulation 2019/2088 Recital 17.

As of today, missing data challenges have not yet been fully addressed by the vendor community and hence available data coverage may be low for some KPIs. That said, as shown by the differentiation between % reported and % estimated in Table 1, data providers are developing estimation approaches. Hence, data availability challenges are likely to gradually vanish over time thanks to improved methodologies for estimation and greater and better reporting from companies across different jurisdictions as reporting rules on sustainability aspects are implemented.

When examining data availability from data vendors, three of the least reported PAIs data points correspond to Biodiversity, Emissions to Water and Gender Pay Gap as we can observe in Table 1. It is worth therefore investigating the current state of available data coverage of the Biodiversity, Emissions to Water and Gender Pay Gap PAIs in more detail for large cap universes such as MSCI World or equivalent.

With respect to biodiversity, data vendors have the ability to map company location and biodiversity controversies to areas of biodiverse sensitivity and thus are able to provide better estimate coverage for PAI 7, as a result of bringing together different data sets. Companies themselves do not yet too frequently report operations in or near biodiverse sensitive areas and the respective impact those operations have on their surroundings. The example data vendor in Table 1 has near 100% available data coverage with this method as do others in the market.

Gender Pay Gap disclosure is only mandated in about ten jurisdictions worldwide including in France, Germany and Spain. French Gender Equality Indices have to be published on employer's website². The UK, Australia and New Zealand have advanced reporting regimes outside the EU. Gender Pay Gap, as mandatory or voluntary disclosed by companies can vary to the methodology prescribed by PAI 12 and sometimes only relates to one geography or one business line and not the full global operations of large listed companies. MSCI ACWI coverage of company self-reported Gender Pay Gap in line with the EU's definition is about 19% by weight of MSCI ACWI and 6% by count according to another data vendor. In absolute numbers, an alternative vendor currently observes over one thousand corporations to report available gender pay gap data by EU definition. Beyond the specific EU definition, another data vendor observes 40% coverage of MSCI ACWI by weight and 18% by count. Similarly, a new vendor finds available gender pay gap data for about 35% of the MSCI World portfolio

² <https://www.ppd.com/who-we-are/company-resources/legal-notice/france-gender-pay-gap-reports/>

weight. Studying 3,787 companies globally, Equileap notes that “22% of companies [by count] globally publish their gender pay gap (up from 17% in 2022 and 15% in 2021)”³.

Emissions to Water is a new data point available through the CDP questionnaire in 2023 but was already reported by some European companies in previous years. CDP saw in 2022 responses from 1,300 companies on water data points (~20% by count of MSCI ACWI) and expects 1,500-2,000 companies responding on the exact Emissions to Water question by July 2023 (~30% by count of MSCI ACWI).

Overall, estimation of all mandatory PAIs including Gender Pay Gap can be eventually achieved when applying the Precautionary Principle. However, doubts remain about the level of accuracy when applying weaker methods such as extrapolation and by when it will be commercially available. Consequently, the Platform recommends coverage ratios to be provided.

Table 1 below provides an overview of the available reported and estimated data for one example data vendor. Table 2 gives examples of observed regional breakdowns between EU and non-EU reported data of a further data vendor. The three Worked Examples supplied by another data vendor discuss the strengths and weaknesses of approaches to addressing missing data challenges. Please note that the Platform has previously warned about the risks of extrapolation. If done, it needs to be limited to only some indicators and cases where extrapolations are based on more accurate data about performance regarding an economic activity, country of operation and size (or similarly along these lines).

The Platform acknowledges the difficulties encountered by FMPs given how poor data availability is particularly for some PAI (and especially for non-EU), and how complex the estimation of performance can be in some cases. Data providers are though improving their data points thanks to their increasingly better methodologies on estimation together with increasingly better disclosures across the world due to regulation in many cases. The Platform expects both reported and estimated data availability to increase further in the near future.

The Platform believes that guidance on estimates should include specific recommendations for each PAI indicator – including how to estimate or potential proxies for non-CSR undertakings and guidance on the establishment of tolerance levels. The Platform will continue its work in this area.

³ https://equileap.com/wp-content/uploads/2023/03/Equileap_Global_Report_2023.pdf

Table 1: Coverage of Mandatory PAIs by one Example Data Vendor

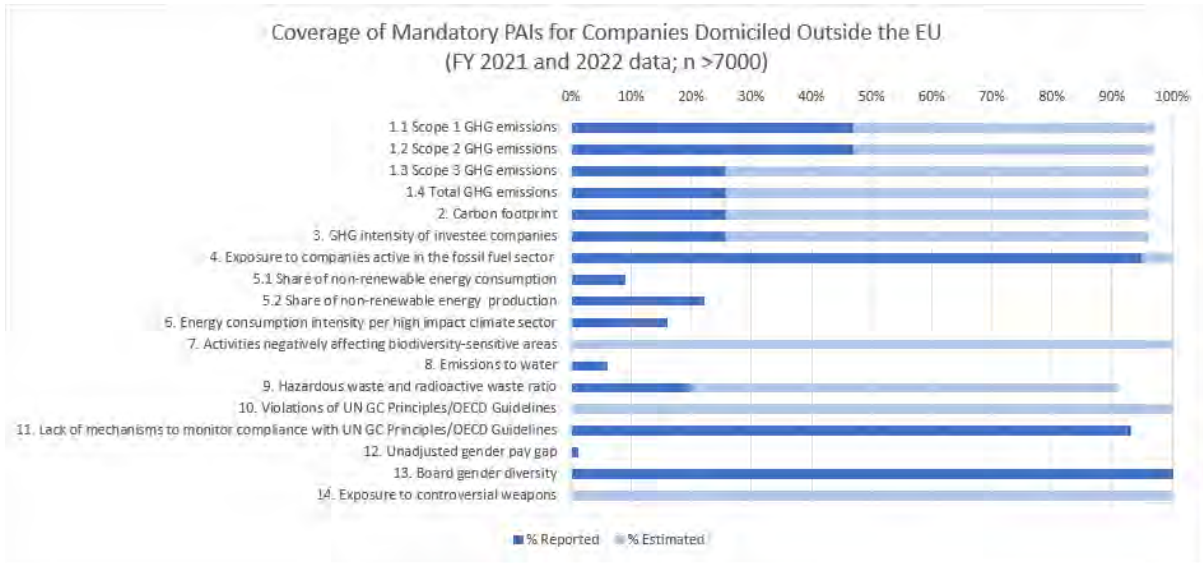
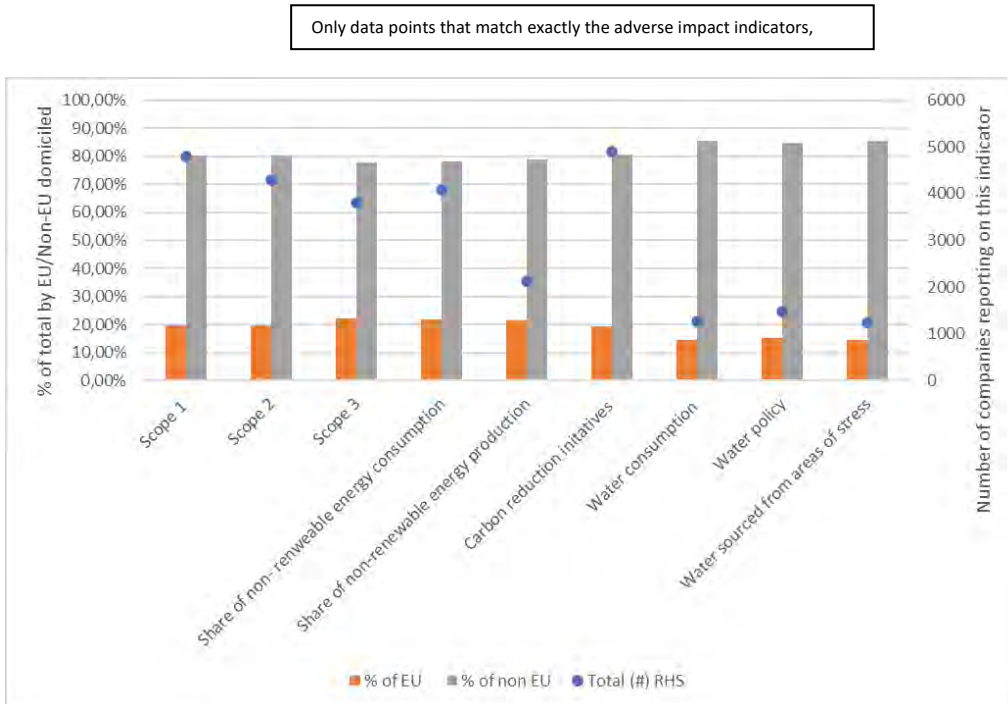


Table 2: Adverse impact indicators reported by EU vs. non-EU companies by a further Example Data Provider. Breakdown on Left Hand Side (LHS) and total # of firms reported on Right Hand Side (RHS) axis.



Worked Example 1 by another Data Vendor: Unadjusted Gender Pay Gap

SFDR Entity Level Reporting

Asset/investment*	Weight	Value of investment €millions	Unadjusted Gender Pay Gap (reported)	Unadjusted Gender Pay Gap (estimated)
Corporate A	20%	€1m	80%	N/A
Corporate B	20%	€1m	Not Disclosed	No estimation possible
Sovereign C	20%	€1m	N/A	N/A
Sovereign D	20%	€1m	N/A	N/A
Cash	20%	€1m	N/A	N/A

<p><u>Only use reported data:</u> Use the reported data you have to calculate the PAI in relation to all investments and complement it with coverage information in the disclosure. PAI 12: 80% Coverage: 20%</p>	<p><u>Extrapolation:</u> Calculate the PAI 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 → For holdings with data, (average) unadjusted gender pay gap is 80%, hence FMP assumes this value for all holdings. PAI 1: 80% (Highly inaccurate) Coverage: 100%</p>	<p><u>Fill gaps with estimates:</u> Use estimates (e.g. sector averages) or “worst case” assumptions to fill the data gaps and calculate the PAI based on that (potentially complemented by a coverage disclosure indicating the share of reported vs. estimated data) → There are no reliable methodologies to estimate the unadjusted gender pay gap; this approach cannot be applied to this PAI</p>
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Worked Example 2 by another Data Vendor: Exposure to Controversial Weapons

SFDR Entity Level Reporting

Asset/investment*	Weight	Value of investment €millions	Involvement in Controversial Weapons (reported by company)	Involvement in Controversial Weapons (estimated from third party)	Involvement in Controversial Weapons (precautionary principle)
Corporate A	20%	€1m	NO	N/A	N/A
Corporate B	20%	€1m	Not Disclosed	YES	YES
Corporate C	20%	€1m	Not Disclosed	NO	YES
Corporate D	20%	€1m	Not Disclosed	No estimate available	NO
Cash	20%	€1m	N/A	N/A	N/A

<p><u>Only use reported data:</u> Use the reported data you have to calculate the PAI in relation to all investments and complement it with coverage information in the disclosure. Potential to include a flag from media/NGO sources that indicate the company is involved in controversial weapons (more reliable than company reporting alone for this PAI) PAI 14: 0% Coverage: 20%</p>	<p><u>Extrapolation:</u> Calculate the PAI 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 → For holdings with data, (average) involvement is “NO”, hence FMP assumes this value for all holdings. PAI 14: 0% Coverage: 100%</p>	<p><u>Fill gaps with estimates:</u> Use estimates (e.g. sector averages) or “worst case” assumptions to fill the data gaps and calculate the PAI based on that (potentially complemented by a coverage disclosure indicating the share of reported vs. estimated data) → Precautionary principle: assume involvement for all non-reporting PAI eligible holdings where reasonable and based on product line/activities involved and other variables PAI 14: 20% (using third party source; most accurate) Share of estimated data: 20% Coverage: 60% PAI 14: 60% (using precautionary principle)</p>
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Worked Example 3 by another Data Vendor: No of Convictions for Violation of Anti-Corruption and Anti-Bribery Laws

SFDR Entity Level Reporting

Asset/investment*	Weight	Value of investment €millions	No of Convictions (reported)	No of Convictions (estimated)
Corporate A	20%	€1m	2	N/A
Corporate B	20%	€1m	Not Disclosed	0
Corporate C	20%	€1m	N/A	N/A
Sovereign D	20%	€1m	N/A	N/A
Cash	20%	€1m	N/A	N/A

<p><u>Only use reported data:</u> Use the reported data you have to calculate the PAI in relation to</p>	<p><u>Extrapolation:</u> Calculate the PAI based only on the portion of holdings for which</p>	<p><u>Fill gaps with estimates:</u> Use estimates (e.g. sector averages) or “worst case”</p>
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<p>all investments and complement it with coverage information in the disclosure. Potential to include information from media/NGO sources that indicate the company has been convicted (more reliable than company reporting alone for this PAI) PAI 17: 2 Coverage: 20%</p>	<p>you have data and extrapolate – based on the (questionable) assumption that the outcome is representative of all your holdings → For holdings with data, (average) no of convictions is 2, hence FMP assumes this value for all holdings. PAI 17: 10 (Highly Inaccurate) Coverage: 100%</p>	<p>assumptions to fill the data gaps and calculate the PAI based on that (potentially complemented by a coverage disclosure indicating the share of reported vs. estimated data) → Through research of third-party sources, no conviction could be identified and hence it is estimated that Company B has not been convicted PAI 17: 2 Coverage: 40% Share of estimated data: 20%</p>
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Annex III - Members, Observers and Rapporteurs of the Platform on Sustainable Finance

a. Chair

Organisation	Name
Comisión Nacional del Mercado de Valores (CNMV)	Helena Viñes Fiestas

a. Rapporteur(s)

Organisation / Subgroup	Name
UNEP FI / SG 1	Elodie Feller
AXA / SG 1	Clémence Humeau
EPA Network / TWG	Astrid Matthey
Orgalim / TWG	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ) / SG 3	Karl-Oskar Olming
European Investment Bank (EIB) / SG 3	Bertrand Magné

b. Members

Organisation	Name
Agent Green	Theodor F. Cojoianu
Allianz SE	Jörg Ladwein
Association 2 Degrees Investing Initiative	Hélène Lanier
AXA	Clémence Humeau
BusinessEurope	Erik Berggren
CDP Worldwide (Europe) gemeinnützige GmbH	Hélène Procoudine-Gorsky
Climate Bonds Initiative (CBI)	Sean Kidney
EPIA SolarPower Europe	Nicole Della Vedova
Eurochambres	Jan Greitens
Eurometaux	Mukund Bhagwat

Organisation	Name
European Alliance for Sustainable Finance in waste management and recycling	Daniel Houska
European Banking Federation aisbl	Hans Biemans
International Sustainable Finance Centre z.	Linda Zeilina
Natural Resources Institute Finland	Esa-Jussi Viitala
Orgalim	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ)	Karl-Oskar Olming
SMEunited	Gerhard Huemer
Sustainalytics	Hans-Ulrich Beck
Water Europe	Gonzalo Delacámara
Type A	Agnieszka Slomka-Golebiowska
Type A	Andreas Hoepner
Type A	Bernabé Alonso Farinas
Type A	Camille Leca
Type A	Linda Romanovska
Type A	Ottorino Morresi
Type B	Marie Baumgarts

c. Directly appointed members

Organisation	Name
European Banking Authority (EBA)	Ali Erbilgic
European Environment Agency (EEA)	Beate Hollweg
European Investment Bank (EIB)	Eila Kreivi
European Investment Fund (EIF)	Peter Coveliers
European Insurance and Occupational Pensions Authority (EIOPA)	Pamela Schuermans
European Securities and Markets Authority (ESMA)	Angeliki Vogiatzi
EU Agency for Fundamental Rights (FRA)	Adrianna Bochenek

d. Observers

Organisation	Name
European Bank for Reconstruction and Development (EBRD)	Maya Hennerkes
European Central Bank (ECB)	Fabio Tamburrini
European Financial Reporting Advisory Group (EFRAG)	Kerstin Lopatta
European Network of the Heads of Environment Protection Agencies (EPA Network)	Natalie Glas
European Stability Mechanism (ESM)	Carlos Martins
Organisation for Economic Co-operation and Development (OECD)	Raphael Jachnik
Principles for Responsible Investment (PRI)	Elise Attal
United Nations Environment Programme Finance Initiative (UNEP FI)	Elodie Feller
Bloomberg L.P.	Nadia Humphreys
Business and Science Poland	Dawid Bastiat-Jarosz
Cassa Depositi e Prestiti SpA	Gaia Ghirardi
CEFIC	Alison O’Riordan
European Trade Union Confederation (ETUC)	Marco Cilento
SGI Europe	Filippo Brandolini

Other contributors to this report

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Allianz SE	Julia Backmann