IRSG-20-20
OPSG-20-23
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General information about respondent

Name of the company / organisation	EIOPA Insurance and Reinsurance Stakeholder Group and EIOPA Occupational Pensions Stakeholder Group
Activity	Insurance and Pension
Are you representing an association?	☐
Country/Region	Europe

Introduction

Please make your introductory comments below, if any:

The purpose and rationale for new ESG related disclosures is highly welcome and the aim to fasten the EU development in different ways to more sustainable path is critical and very important. In order to achieve this goal it is also key to find the right steps. Therefore these few aspects needs to be taken carefully into account.

We share the overall goal of making investment more transparent and facilitate informed decisions by retail clients. Therefore, we support standardisation, however, at the same time we see a need of flexible approach and adequate implementation timeline. In the interest of clarity and cost reduction (primarily IT), the transition has to allow companies to align in a progressive way to aslo avoid a box-ticking approach. As a fall back option, we would suggest limiting the number of mandatory indicators to 5 or 10, for instance.

An incremental approach toward this goal is recommended to achieve a real transparency and not more confusion (overload/duplication) for customers and allow technical feasibility for issuers/asset owner/asset managers. Whilst we support and sympathise with the spirit of this proposal, the practicability and current capability to meet them needs to be given further consideration. All disclosures should be technically feasible and adequately consider existing issues with ESG data quality and availability.

Much of the Annex 1 details are not yet possible on a fund by fund basis as global corporate disclosure is itself not pervasive enough. In other words, there will be a huge number of null responses.

The Commission needs to tie the application of this into the review of the effectiveness of the non-financial reporting directive, as well as the shareholder rights directive and choreograph a longer term and more phased approach accordingly. The RTS proposal is not consistent with the level of corporate disclosure regarding the sustainability indicators in the adverse impact template, so would need to wait for the NFRD revisions to bed in before becoming meaningful

We are also concerned that it plays into the hands of the data providers and ratings agencies who have achieved oligopolistic pricing power, which could materially impact fees and hence customer costs. This is an important issue as is the lack of transparency and comparability between ESG ratings (if they are to be used as indicators by firms). Also, these additional disclosures and costs will potentially mean that sustainable products become more expensive for product manufacturers and for larger firms who do not have the “explain” option within the comply or explain regime. If these are either passed on to the customer, or lead to product fees being higher for sustainable products which could affect long term performance and undermine the growth of sustainable product options.

We would also question whether there is client demand for data at this scale. The disclosures are very technical, so whilst they are likely to help in the avoidance of greenwashing, in terms of how useful they

will be for customers, particularly retail customers, it is likely to be more confusing. Also, at a firm level, the aggregation of portfolios will mean that the indicators are not necessarily reflective of the firm's sustainability credentials.

The consumer angle is important and should be the main focus of the work. Not all financial companies have shareholders or other important stakeholders which would require ESG related disclosures, taking for example the mutual insurers. But consumers are important for all players in the financial industry and therefore that should be the main focus to weight the different new requirements for ESG disclosures. Information provided under SFDR needs to be understandable and as simple as possible. This is important for decisions making when buying new products and for building trust between customers and product manufacturers. Then there might be additional needs when it comes to shareholders or new investors but this should not be a mandatory requirement for every and all financial companies.
When setting these new requirements for ESG reporting, it is crucial to have a holistic understanding of the abilities the wide range of companies, communities and investment structures have on reporting any of their activities on ESG related measures. If the underlying sector, to where the financial sector investments are directed, is not able to provide this new ESG information, then the financial sector does not have that ability either. Also if it will be required that the financial sector provides very detailed information but needs to have own proxies in creating it then a major risk will be the credibility of such disclosures. And when not credible, it might even ruin the ultimate goal set in the first place.

The entity-level disclosures should better consider materiality of adverse impacts and the current issues with the availability of ESG data, while providing more clarity with respect to the definitions and the scope of the disclosures.

The adverse impacts may paint a negative picture, when some firms are likely to be prioritising transition and impact. Investing in high emitting companies and using stewardship to encourage them to set meaningful and measurable pathways to net zero may be one of the most impactful approaches that an asset owner or asset manager can take, but would likely lead to significant negative impacts in the short term. Trajectories and transition plans may be more important than “moment in time” indicators.

The Level 1 regulation (article 4(2)) asks for disclosure of information on policies to identify and prioritise adverse impacts, and the actions taken and engagement policies. The RTS seem to focus on the disclosure of the indicators, not the policies for identifying, prioritising and mitigating the impacts. The proposed approach focuses on the actions of underlying investee companies but it does not sufficiently consider the actions of the financial market participants.

The indicators should be designed to be consistent with the approach of the taxonomy regulation to avoid the risk of a two-tier approach developing. A principles-based disclosure against the objectives of the taxonomy, for example, might work better at firm level, with greater detail at product level. It is worth bearing in mind importance of data credibility.

As regards the disclosures for the two types of sustainable product, it would be useful for firms (and national competent authorities) to have more guidance on which type of product should sit in which category. It is also not clear how these extensive sustainability disclosures would fit within the space constraints of a PRIIP KID or UCITS KIID, and how sustainability risks are not going to be over-emphasised as against other risks of a product.

In summary, we are 100% behind the spirit of enhanced transparency and improved sharing of information on investment impact. We need something much more practicable, longer term and more focussed on financial market participants' own investment impact via engagement, rather than simply that of the underlying companies at a point in time. In that respect, we must keep in mind that fund managers are not in full control of engagement outcomes and eventually it is the company's management that takes ultimate decision, especially in companies with very dispersed ownership.This should be less about how any one company performs at a moment of time, and more about how it improves and supports transition.

There is a risk that the RTS become too prescriptive and result in overly complex consumer information. The use of mandatory pre-contractual and periodic templates in particular should be avoided to allow for a degree of flexibility in implementation at national level and across various product types. The RTS should focus only on what information needs to be disclosed rather than being too prescriptive on the form of these disclosures in order to avoid a repeat of the problems we are seeing now with PRIIPs.

We are fully aware of steps undertaken by the European Commission. However we would like to stress that transition period is crucial in this regard. As first step, some the members suggest to publish the already existing ESG investment policies and criteria, and metrics of implementations (i.e. how many issuers have been excluded, on what criteria, engagement and voting activities, etc). Standardised indica-tors on adverse impacts should remain voluntary for a transitional period, until non-financial reporting standards are sufficiently defined to allow financial market participants to have access to ESG information to comply with the RTS.

The indicators in the final RTS corresponding to Chapter II and Annex I should eventually be part of the Non Financial Disclosure framework and should be audited, to make sure investors' and retail customers' view is based on solid and reliable data.

Questions from the ESAs are highlighted in **bold**

- **: Do you agree with the approach proposed in Chapter II and Annex I – where the indicators in Table 1 always lead to principal adverse impacts irrespective of the value of the metrics, re- quiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an "opt-in" re- gime for disclosure??**

When setting these new requirements for ESG reporting its crucial to have a holistic understanding of the abilities the wide range of companies, communities and investment structures have on reporting any of their activities on ESG related measures. If the underlying sector, to where the financial sector invest-ments are directed, is not able to provide this new ESG information, then the financial sector does not have that ability either. Also if it will be required that the financial sector provides very detailed information but needs to have own proxies in creating it then a major risk will be the credibility of such disclosures. And when not credible, it might even ruin the ultimate goal set in the first place.

The consumer angle is important and should be the main focus of the work. Not all financial companies have shareholders or other important stakeholders which would require ESG related disclosures, taking for example the mutual insurers. But consumers are important for all players in the financial industry and therefore that should be the main focus to weight the different new requirements for ESG disclosures. Needs to be understandable or even simple, important for decisions making when buying new products and binding for the company selling the product so that trust can emerge. Then there might be additional needs when it comes to shareholders or new investors but this should not be a mandatory requirement for every and all financial companies.

Members support the EU sustainability objectives and welcome the ESAs work on ESG disclosures as a further step towards increased transparency in sustainable investing - members acknowledge that the financial industry has an important role to play in this. It is important that the ESAs work reflects both market reality and the parallel policy developments on sustainable finance, including the revision of the NFRD and the development of the Taxonomy for sustainable economic activities. It is therefore important to make a close link to the taxonomy in order to be able to efficiently use it to define sustainable finance.

We welcome the EU COM objective to make the economy more sustainable. However, it should be noted that this process needs to be coherent with ongoing policy developments on sustainable finance and market reality. In this respect, some of the members find the approach taken in the draft RTS and in the proposed level of standardization is premature and requires a detail of disclosures that is not consistent with available market information. In addition, it risks putting an extreme pressure on financial market participants, without delivering sufficient benefits for users of this information. While they are fully aware of the role of disclosures, they'd like to encourage the ESAs to adopt a more flexible approach - at least until

related legislation has been finalized (e.g. Taxonomy Regulation, Review of the Non-Financial Reporting Directive (NFRD)) and to better take into account the following implementation challenges:

- **Clarity of definitions**: I believe that the ESAs should elaborate on the concept of adverse impact, before proposing a long list of mandatory indicators to measure it. Transparency of adverse impacts at entity level requires a common understanding of what needs to be measured if financial market partici- pants are expected to identify and report on principal adverse impacts (PAI).
- **Materiality**: proposed PAI disclosures should better take into account materiality based on severity and likelihood of the impacts. The draft RTS link the concept of adverse sustainability impacts to a risk di- mension. However, the draft RTS appear to prioritize standardization over a risk-based approach. An assessment of the principal adverse impacts (PAI) should take into account the likelihood and the sever- ity of a risk materializing, which is strongly dependent on entity-specific portfolios. The assumption that all investment processes lead to principal adverse impacts is not justified. In practice, while standardi- zation is relevant to the presentation and harmonization of indicators, not all proposed indicators may be relevant for a given entity or portfolio (e.g. a deforestation policy is not necessarily needed for a tech company and a workplace accident prevention policy is not key for the financial industry). In addition, financial market players are better placed to assess what impacts are principal. The need for standardisation should not come at the expense of a risk-based approach as not all investments are likely to be relevant with regard to adverse impacts. Therefore, they are supportive of the approach proposed under article 6(d) to consider adverse impact qualifying as principal. They find that this is most appropriate to account for materiality based on severity and frequency of occurrences in a given investment portfolio, as recognised by the ESAs in recital 5.
- **Information and data**: all indicators should be technically feasible and adequately consider existing issues with ESG data quality and availability. Currently ESG data is not readily available or robust at the level of investee companies to allow meaningful quantitative disclosures as prescribed in the draft RTS. While guidance is helpful for financial market participants, the proposals of the draft RTS on quantitative indicators are premature with respect to the level of requested standardisation, without being justified by sufficient benefits for users of this information. Ensuring the correct sequencing is of the outmost importance to ensure all the elements are in place. Therefore, I believe that the ESAs should consider a transitional approach for the disclosure of quantitative indicators, in line with the availability of neces- sary ESG data by investee companies. In addition, I note that disclosures based on qualitative indicators could be even more meaningful than quantitative indicators, especially when data coverage for the lat- ter is insufficient. All indicators should be technically feasible and adequately consider existing issues with ESG data quality and availability. Therefore, while we appreciate guidance on presentation of exist- ing adverse sustainability impacts, proposed indicators should not be mandatory at this stage unless ESG data necessary to produce indicators is available in a standardized electronical format that facili- tates access and minimizes the cost for investors and other users of the information. At present, such ESG-related data (and even less so for adverse impacts) is not readily available or sufficiently reliable for most indicators at the level of investee companies to be disclosed with the level of precision pro- posed in the draft RTS. Also, information received by investee companies can be of poor quality, while that provided by ESG data providers is often inconsistent. This issue is exacerbated by the global nature of investment portfolios. To assure that required data on adverse impacts is readily available and suffi- ciently reliable, comparable and standardized, it needs to be consistent with the to be reported data in the context of the review of the NFRD. In this context we would clearly ask for a centralized, open ac- cess, free of charge EU data register.
- **Scope:**
  Proper consideration of all asset classes is key to deliver a meaningful picture of PAI. I therefore would invite the ESAs to explain how to consider these asset classes and test their proposed approach with a real portfolio. In view of the wide range of asset classes in investment portfolios, I

believe that more guidance is needed on how various asset classes should be considered to identify and report on the PAI. Specifically, the ESAs approach appears to focus on equity and corporate bonds, but it does not seem to give the right consideration to other asset classes such as real estate, sovereign bonds or derivatives, which can represent a big portfolio proportion in an insurer's portfolio. The RTS suggests that financial market participants should report PAI for all their investments. When the investment is outsourced, it needs to be clear that the investment company should provide necessary information for aggregation at entity level by the financial market participant. In this respect, the ESAs should consider adequate timing for financial market participants to receive necessary PAI infor- mation for their indirect investment.

In line with the above, proposed mandatory PAI indicators need to be consistent with the availability of ESG data to comply with proposed disclosures. Therefore, I believe the requirements of the RTS should be linked with the scope of the revised NFRD, which is currently considered by policymakers as the main tool for ESG disclosures by investee companies. Consistency will also ensure investors have all the data they need to comply efficiently and consistently with the Regulation.

- **Consistency of legislation:** Proposed legislation should be coherent and consistent with related policy developments. Concretely, the approaches for determining the criteria and indicators of "do not sub- stantially harm" (DNSH) principle of the Taxonomy regulation and the "principal adverse impacts" (PAI) should be largely coherent. For example, if the taxonomy DNSH for mitigation uses greenhouse gas emissions, then the PAI should use greenhouse gas emissions rather than an alternative measure of mitigation. Consistency of legislation: Proposed legislation should be coherent and consistent with relat- ed policy developments, while avoiding contradictions and allowing proposed disclosures to remain suffi- ciently stable over time. In this respect, the link between the Taxonomy Regulation and the RTS on the

  Disclosure Regulation should be better clarified. In practice, the proposed disclosure regime should bet- ter consider upcoming work under the taxonomy framework, i.e. the RTS regarding the "do not signifi- cantly harm" (DNSH) principle. As the DNSH and the "principal adverse impacts" (PAI) pursue the same regulatory objectives, i.e. they are intended to avoid "significant adverse effects" on the environmental objectives of the Taxonomy and on sustainable investments of the SFRD, they should be largely con- sistent and, where relevant, use the same approaches for determining their criteria and indicators. For example, if the taxonomy bases the DNSH for mitigation on greenhouse gas emissions, then the PAI should prefer greenhouse gas emissions to alternative measures of PAI related to mitigation. This would avoid confusion for all information users/providers and it would be more consistent from a data perspec- tive. Similarly, data needed for the requested indicators should also be compatible with the Benchmark Regulation as well as with ESG data under the NFRD.

- **Timing**: The Regulation will apply from 10 March 2021, likely before the related, final Level 2 measures are adopted. I believe that the proposal of the ESAs should better consider the resulting compliance challenges and liability risks for market players, as well as confusion for investors. For example, a phased-in approach could facilitate the implementation of the RTS. The Regulation will apply from 10 March 2021. However, the Regulation is very likely to become applicable before the re- lated, final Level 2 measures are even adopted, thus creating significant compliance chal- lenges and liability risks for market players, as well as confusion for investors. Moreover, the timing of the application of the RTS should consider that the ongoing NFRD review has the objective to better standardize non-financial information. We are concerned about the risk to start reporting on a first list of indicators that will change in the coming years, while the EFRAG will propose new standardized non-financial indicators (in the context of the NFRD review).

- **Benefit for consumers and other users of non-financial information**: Financial illiteracy, com- plexity and information overload are obstacles to good disclosures. I would encourage the ESAs to take due account of the needs and limitations of consumers and other users of ESG information. Financial illiteracy, complexity and information overload are three well-known obstacles for good consumer disclosure. It is key that the ESAs take due account about the needs and limita- tions of consumers and other users of non-financial information.

- **Scope:** In view of the very broad diversification and wide range of asset classes within an insurer's portfolio, it is necessary to clarify which asset classes should be taken into account to identify and re- port on the PAI (incl. clarification on how derivatives should be taken into account). Further, we suggest more flexibility for the general account of insurers, i.e. a minimum investment threshold (such that mi- nor holdings in companies are out of scope, as well as investments into companies which do not need to report along the NFRD e.g. SMEs).

Given the above-mentioned challenges, some members believe that the mandatory indicators in Table 1 should remain voluntary at this stage, to be disclosed depending on materiality considerations. they also note that financial market participants should be allowed to disclose PAI information based on a “reasonable effort principle” and based on the share of their portfolio for which information is available. An alternative could be to set a minimum basis of indicators that can be considered as key and in line with the taxonomy so far.

Some members think that it will be useful for process of the assessment of principal adverse sustainability impacts to consider a number of qualitative indicators in addition to the quantitative indicators. Qualitative indicators are needed to capture impacts that are important and cannot be quantified, especially those regarding social issues and employees, respect for human rights, anti-corruption and anti-bribery matters.There was also a voice that those indicators may lead to principal adverse impacts, but only when applied to products based on a specific company. However there are several products based on indices and in such a case those adverse impacts main remain hidden.

It should strengthen once more that the purpose and rationale for new ESG related disclosures is highly welcomed and the aim to fasten the EU development in different ways to more sustainable path is critical and very important.

- **: Does the approach laid out in Chapter II and Annex I, take sufficiently into account the size, nature, and scale of financial market participants activities and the type of products they make available?**

Some member believes that the RTS should better account for different sizes, nature and scale of financial market participants activities, as well as the required proportionality approach of the SFDR. Specifically, they believe that:

- The ESAs should consider the possibility of differentiating between size, nature, and scale of financial market participants activities to ensure that requirements are proportional and feasible. In fact, ESG disclosures should not become a barrier for small-sized players, nor should they force such players to rely on third party data providers to get access to ESG data.
- Financial market participants should have sufficient flexibility in implementing proposed requirements in line with their specific investment portfolios. A certain degree of discretion could result in more practical and cost-effective disclosures, without reduced information value for consumers.
- Proposed disclosures should consider upcoming work on sustainable finance under the taxonomy framework and the review of the NFRD. This will ensure stability of disclosures and will facilitate imple- mentation, especially for small-sized financial market participants.

Consideration of size, nature, and scale of financial advisors’ activities needs better consideration in the draft RTS. As a large part of insurance distributors are SMEs or individuals, proposals for financial advisers should not just duplicate the requirements for financial market players. In this respect, I agree with article 4 (5) a) of the SFDR and highlight that Article 12 of the RTS does not appear to follow the same proportional ap- proach of the Regulation on this point. Finally, when financial advisors do not have a website, the require- ments should not impose on them to have one in order to publish ESG disclosures.

Other member emphasized that Annex I is a too extensive and daunting list of indicators covering relevant aspects for financial market, but will almost inevitably be too long for some economic activities to be evaluated. A suggestion is to select a core set of indicators, which all activities must look at and a secondary set, which may be used accordingly for each type of economic activities, depending on financial product details and design. The set should be comprehensive and complete, but at the same time minimal and decomposable. For example, ”total carbon emissions”, ”carbon footprint”, ”carbon intensity” involve some complexity regarding investee company's Scope 1, 2 and 3 carbon emission. Also worth adding the consideration around the overall emission consideration against the ones linked to specific projects that maybe specifically relevant for certain assets. Because of the complexity involved, this will be extremely difficult for analysis and deciding, when choosing to invest regarding the preferences for consequences on climate and environment and the investor judgments about relevant possibly and/or uncertain events. A solution can be that complex indicators to be broken down into parts involving a smaller number of indicators.

There was also a voice stressing the point that they are not appropriate to complex products, especially those based on so called “ESG indices”

One member thinks it seems to be too detailed and less reporting should be required. Also those companies that don't have shareholders or even un-listed companies might have less requirement for reporting of this level of details. Those players should be included in the scope as much as SMEs.

- **: If you do not agree with the approach in Chapter II and Annex I, is there another way to en- sure sufficiently comparable disclosure against key indicators?**

Some member notes that the ESAs approach is heavily oriented towards quantitative indicators and believes that standardisation can be achieved also via the use of qualitative information, especially for the social aspects of PAI. Given the reliance of the ESAs approach on quantitative sustainability data, which is unavail- able or inconsistent, related disclosures risk being of poor quality and meaning.

For ESG disclosures to be feasible and comparable, ESG data necessary for compliance with the SFDR should be made available by investee companies and publicly reported in line with the reviewed NFRD, possibly in a standardised and electronic format under a centralised, public EU ESG data register. This would minimise the burden for investors and for companies reporting non-financial information, while providing good compara- bility of information.

The same member acknowledges that the ESAs recognise in Article 7(2) that there are cases when ESG information is not available or cannot be obtained, but I believe that the proposed solution does not adequately respond to the real compliance challenges for financial market participants. Therefore, the member would encourage the ESAs to consider a transitional approach aimed at allowing gradual implementation of comparable and meaningful disclosures by financial market participants.

Specifically, the member would encourage the ESAs to consider the following:

- The adverse impact indicators as defined in Table 1 should remain voluntary for a transitional period and based on “reasonable effort”, until non-financial reporting standards are sufficiently defined (in view of the review of the NFRD).
- PAI disclosures should primarily be based on materiality considerations. Financial market participants should assess the materiality of adverse impact and disclose it based on such assessment. Only at a later stage, on the condition these indicators have been standardised under the revision of the NFRD, a selection of indicators could become mandatory, independently of the results of the materiality assess- ment run by the financial market participant.
- Not all investments are likely to be relevant with regard to adverse impacts. Therefore, the ESAs should allow financial market participants to disclose PAI focusing on the most material holdings.

This approach would allow financial market participants to disclose quantitative PAI indicators when they are meaningful, avoiding that these obligations become a tick the bock exercise and are of limited benefit to users of sustainability-related information.

The other member notes that yet, there are no international accounting standards for ESG data, comparability, verification and audit approaches remain inconsistent. It is echoed by other members, who think there should be a lot more judgement left for the industry to provide reporting that would bring the important aspects out for their key stakeholders. For instance qualitative information might be used more and also insurers could provide scenarios through their ORSA reports and even publish some of the key results. This would allow insurers to make a holistic overview of the ESG factor and their impact.

We are aware of steps undertaken by the European Commission. However we would like to stress that in case of products based on indices there should be a condition stating that so called “ESG index” cannot be called as such if all indicators are not calculated for a bunch of all companies included in that specificindex, with a direct indication, which specific company creates such an adverse impact – e.g. if a “black” or “brown” energy company is not excluded totally from that index, or is not specified directly with exact adverse impacts, such an index cannot be called an “ESG index”.

- **: Do you have any views on the reporting template provided in Table 1 of Annex I?**

Different members express their opinion

- **Summary:** The summary section required under Article 5(1)(d) does not provide additional information in its current form and should be removed. As an alternative, it should be the only piece of information to be disclosed. As it stands, the summary is a duplication of the more detailed information already re- quired to be disclosed.
- **Description of principal adverse sustainability impacts:**
  - The identified 32 proposed mandatory indicators of adverse impacts are not principal for all finan- cial market participants under the meaning of PAI outlined in the SFDR. Instead, financial market participants should identify the most relevant indicators based on materiality assessment and a risk-based prioritisation. The member supports transparent disclosures and fully understand the importance to assess investment portfolio against EC sustainability objectives, but the need for standardisation should not lead to an excessively burdensome approach for market participants, especially without proof of material benefits for information users.
  - The member notes that more clarity is needed regarding what some indicators are trying to cap- ture. Some may not be informative or even relevant at portfolio level, while others will only re- flect the size and/or composition of the investment portfolio, not the PAI.

There was also a remark that if definition of ‘water emissions’ is amount of specific pollutants by weight held within water discharges, it is unlikely that investee companies would be tracking this and be able to provide data. Very few companies are disclosing this level of granularity neither on a aggregate nor facility level. Therefore the ability of an Financial institution being able to disclose this data on a portfolio basis will be extremely limited. Other indicators for consideration: “Exposure to companies without any active mid-term water pollution reduction targets”

Care not to drive divestment from areas of stress! There is a risk associated with the disclosure of data tied to “areas of high water stress” that must be managed - the risk that it may signal a desire to divest from these areas when in fact, these are the areas where investment and development are often greatly needed. Guidance should be provided with signposts to innovation.
This indicator could be further refined as follows: “%/volume of water consumed from areas of high water stress” OR “%/volume of water withdrawn from non-renewable sources”

Other indicators for consideration: “Exposure to high impact companies without any active mid-term water

consumption reduction targets"; "Exposure to companies that have not achieved reductions in water consumption in the past three years". : Note that not all discharge from all industry activities would need to be treated

Table 2:
5. Water usage: Total amount of water consumed and reclaimed, broken down per sector where relevant: Need to define "consumed" and "reclaimed"

6. Water recycled and reused: There is no standard approach to defining recycling and reuse. Also recycling and recuse activities are not appropriate/technical relevant for all activities. Impossible to benchmark.

7. Investing in companies without water management initiatives: This term is very broad and would need to be defined or limited to "without freshwater consumption reduction targets"

- **Description of policies to identify and prioritise principal adverse sustainability impacts:** Some members consider this information as appropriate for publication on the website and appreciate the fact that Article 7(2) accounts for cases when information might not be obtained from investee companies. To make sure that market participants are not pressured to disclose unreliable information, the adoption of a "reasonable efforts" is suggested as a wording for Article 7.
- **Description of actions to address principal adverse sustainability impacts:**
  - The member encourages the ESAs to maintain the wording of the Regulation and to add the fol- lowing wording in Article 8: "*The section referred to in point (d) of Article 4(2) shall contain the following information, where relevant:*".
  - The member also finds that the level of detail for tracking actions taken to reduce adverse impacts is excessive and prone to window-dressing as the effectiveness of some actions may be dif- ficult to measure or subjective. Therefore, I would invite the ESAs to limit disclosures to robust evidence and concrete actions.
- **Engagement policies:** The member considers the information in Article 9 as appropriate for website publication.
- **References to international standards:** The member also agrees with Article 10 on the disclosure of responsible business conduct codes and internationally recognised. However, I note that forward-looking climate scenarios and indicators are under development, therefore it is key to allow financial market participants to consider their relevance for publication.
- **Comprehensibility of the information:** With regard to the customers and other users of information, sustainability-related information should be clear and understandable. Too detailed sustainability indica- tors are not conducive to comprehensibility.

Other members highlight, it could be useful for the assessment of principal adverse sustainability impacts process to consider a number of qualitative indicators in addition to the quantitative indicators. Qualitative indicators are needed to capture impacts that are important and cannot be quantified, especially those regarding social and employee, respect for human rights, anti-corruption and anti-bribery matters.

- **: Do you agree with the indicators? Would you recommend any other indicators? Do you see merit in including forward-looking indicators such as emission reduction pathways, or scope 4 emissions (saving other companies´ GHG emissions)?**

However due to complexity of matter we suggest voluntary nature of these disclosures.

Whilst further quantitative forward-looking metrics could be proposed for climate, similar indicators in other ESG areas would not be equally available. On climate however, one additional indicator could be "exposure to companies without any active, medium-term (e.g. 2025-2035) emissions reduction target covering

relevant value chain emissions". (please see NFRD non-binding guidelines for reporting climate-related information for further details around targets disclosure).The concept of targets could also be applied to other ESG indicators. A historical pathway related climate metric could be "Exposure to companies without Scope 1 & 2 emissions reductions over the last 3 years". This metric could also be further specified by relating it to annual reduction requirements as laid out in the PAB/CTB Benchmark proposals (i.e. 7% annual reduction). Scope 4 emissions savings would not relate to adverse impacts but rather positive impacts.

One member agrees that transparency is key, but believes that the concept of adverse impact needs to be risk-based and is not a pure sustainability assessment of investment portfolios. This is one of the reasons why the Regulation and ongoing policy developments distinguish adverse impacts, sustainability risks and the degree of sustainability assessment.

The member also notes that:

- Indicators of adverse impacts, notwithstanding their importance, should not be necessarily classified as "principal" without prior assessment. In addition, it is not completely clear under which assumptions some of the proposed indicators capture *adverse* impacts.
- Proposed indicators should not by default be quantitative and data-intensive. I believe that qualitative indicators are equally significant and more appropriate given the current issues with ESG data.
- I recommend that the ESAs elaborate on the concept of adverse impact and limit proposed public dis- closures to observable and verifiable facts**.** Therefore, emission reduction pathways, or scope 4 emis- sions should be considered only at later stage.
- Some indicators are not informative or even relevant to report at an aggregate level, but will only reflect the size and/or composition of the investment portfolio. A mandatory list of indicators might lead to unnecessary efforts for financial market participants and irrelevant information for users. Similarly, the indicators should not be misleading or based on weak estimates, as it might happen for scope 3 and 4 emissions indicators.
- The draft RTS should also provide minimum guidance on how bonds issued by central and local gov- ernments and supranational entities or any other asset that is not issued by a corporate should be treated.
- The disclosure requirements must take into account the needs and benefits of the users of non-financial information. Too complex indicators, such as emission reduction pathways or scope 4 emissions, are highly likely to be misunderstood and risk becoming a tick-the-box-exercise.

Therefore, while these indicators are useful, when they do not capture PAI or are not based on robust information, they should remain optional, and should be further investigated in the context of the NFRD review. Similarly, forward-looking indicators on emission reduction pathways or scope 4 emissions should remain subject to an opt-in regime.

Other member highlights that the indicators in annex 1 will need much more specifications before usable for the financial industry. One solution could be to allow different metrics for different type of financial companies (Bank, Asset managers, insurers etc.) to come up with an solution that works. As an example, for life insurers, the indicators in (f), (g) and (i) needs to be a lot different as:
(1) 'investee company's enterprise value' does not mean that much (some life insurers have MCEV but many don't, Solvency II own funds could also be one candidate for this),
(2) in 'current value of investment' it needs to be decided whether unit-linked funds are part of it or not and if they are what that means as the underlying decision of the investment is made by the consumer,
(3) in 'investee company's €M revenue' also whether savings and pension payments are counted as ' revenue or not.

There is also a proposal to: add an indicator to highlight number of layoff (crucial in the next years as a consequence of COVID 19 impact and one of the main 'social' impacts Larry Fink referred to in his letters to CEOs)

Add the overall exposure to some controversial sectors such as: coal, tar sands, armament and weapons that violate fundamental humanitarian principles through their normal use (cluster bombs, anti-personnel landmines, nuclear weapons, biological and chemical weapons), other fossil fuels, nuclear

power, tobacco, etc.

In case of historical comparison up to 10 years: there is a suggestion to start with the goal of having 3years, with the final goal of having a 10-years track record by 2030

With reference to precontractual and periodic templates, there is a suggestion to

- Have yearly updates, periodic updates would be too expensive and not effective for transparency purposes
- Include the following information:
  - In case of negative screening:
    - highlight exposure to controversial sectors
    - highlight 'Morningstahr-like' evaluation of funds
    - refer to sustainability policy/benchmark/indices applied

- **: In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in al- so requesting a) a relative measure of carbon emissions relative to the EU 2030 climate and energy framework target and b) a relative measure of carbon emissions relative to the prevail- ing carbon price?**

One member thinks that producing and disclosing proposed indicators is challenging without non-financial reporting standards in place. The member believes that this should be further investigated in the context of the NFRD review, and the empowerments under Articles 8 and 25 of the draft taxonomy Regulation. Fortu- nately, the EC is currently developing further its development in this space.

Other member's opinion is that some environmental data provides support the disclosure of metrics about portfolio alignment to science-based international climate objectives. Work in the area is evolving rapidly with around a dozen different methodologies currently in the market for measuring company and/or portfo-lio temperatures.

The amended non-binding guidelines to the NFRD for reporting climate-related information also recom-mend corporate disclosures of targets versus EU climate and energy objectives.

Overall, this is a very new, innovative and dynamic area of metric development both for corporates and financial market participants. The requirement to disclose such a metric under the SFRD could support corporate disclosures and standardisation of approaches.

- **: The ESAs saw merit in requiring measurement of both (1) the share of the investments in companies without a particular issue required by the indicator and (2) the share of all compa- nies in the investments without that issue. Do you have any feedback on this proposal?**

One member notices, that it is crucial to name all the specific companies with a particular issue, with exact calculations required. It is worth a consideration whether such an impact could be grouped as one factor for all the companies, or should be specified individually for every one of them separately.

Other member sees that most of the suggested indicators have to be reported on (1) the share of the in-vestments and (2) the share of all companies in the investments. The member believes that the second category is not meaningful and increases the burden to provide data points, already complex and numerous. Therefore, the member would suggest reporting each indicator only based on the first category (i.e. based on the value of the investments and not on the number of companies).

Furthermore, when calculating the share of investments, it must be clear what each indicator truly measures. Financial market participants like insurers usually have a very diversified investment portfolio including many types of assets (government bonds, unlisted equity, bonds, loans, infrastructure, etc). This makes the calculations less straightforward compared to an equity portfolio of listed companies (see re- sponse to question 1).

Having said that, the member strongly believes that non-financial reporting standards are key to be able to precisely measure such share of investments, especially considering the different types of investment instruments used in financial markets. Available ESG data at the level of investee companies are needed for a consistent and robust assessment.

- : **Would you see merit in including more advanced indicators or metrics to allow financial mar- ket participants to capture activities by investee companies to reduce GHG emissions? If yes, how would such advanced metrics capture adverse impacts?**

One member believes that a finalised taxonomy and available ESG data at the level of investee companies would be necessary for a consistent and robust assessment of how these activities contribute to the EU mitigation objectives. Regulatory requirements related to such classification should remain voluntary until all aspects of the taxonomy are sufficiently developed, especially those related to enabling and transitional activities. This will ensure that financial market participants deliver a realistic picture and avoid penalising unfairly some economic activities.

- **: Do you agree with the goal of trying to deliver indicators for social and employee matters, re- spect for human rights, anti-corruption and anti-bribery matters at the same time as the envi- ronmental indicators?**

One member fully welcomes the developments of indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. I believe that sustainability needs to consider all environmental, social and governance (ESG) factors contributing to sustainable investments, as they are implicitly connected. Cognisant of the fact that these data is not available nor is the taxonomy to support it, it could be envisaged to postpone requiring social data for the first reporting waves.

While the member reiterates the challenges for investors to have access to reliable information sources, also acknowledges the urgency to take action on the environmental aspect and to focus on it as a priority as highlighted in the SFDR. Therefore, to facilitate implementation for financial market participants, the mem- ber would suggest that the adverse impacts for social considerations (possibly with the exception of indica- tors for human rights and controversial weapon) remain voluntary for a transitional period.

Should the ESAs insist on developing mandatory “social” indicators in parallel with environmental indica- tors, then the member would recommend proper consideration of qualitative indicators and flexibility for financial market participants based on principal indicators resulting from an internal materiality assess- ment.

Other member thinks should we completely benefit from all the advantages non-financial reporting can offer, these aspects need to be addressed, even at the same time as the environmental indicators. Re- porting on non-financial information positively stimulates sustainability. Once non-financial issues are part of the management report, the commitment of the board to improve the non-financial aspects in theirorganisations will increase. Not only do these indicators help organizations to improve its performance, it is also very important for transparency.

: **Do you agree with the proposal that financial market participants should provide a historical comparison of principal adverse impact disclosures up to ten years? If not, what timespan would you suggest?**

One member notices that art. 6 paragraph 2 is worded in such a way, that even if the financial market participant is able (with not a big problem) to provide a description of adverse impacts covering the previous ten years, it may provide such a description only for the period from 10 March 2021 (letter c). Therefore there should be an additional condition that the condition specified in letter c may be used only when it is impossible to provide a full description or provision such a full description would be too costly and unproportionate.

Other member considers that a period of up to ten years is too long for a historical comparison. A considera- bly shorter period, e.g. of 5 years, would be better suited for data stability and it would be less burdensome for financial market participants. In addition, this will help comparison in terms of data stability and make the requirement less burdensome in terms of records of information. Moreover, given the evolution of meth- odologies and indicators, the ESAs should consider instances when historical comparison is inaccurate or misleading due to changes in data or methodologies (eg change of data providers).

There was also a voice that it could be one indicator regarding the activities and participants who have historically contributed the most to climate change. The problem with the historical data and the time span is that they might be not easy to compare. ESG data — generally speaking — are poorly verified, non-standardized and inconsistent. For the future, ten years can be considered a reasonable historical interval.

: **Are there any ways to discourage potential “window dressing” techniques in the principal ad- verse impact reporting? Should the ESAs consider harmonising the methodology and timing of reporting across the reference period, e.g. on what dates the composition of investments must be taken into account? If not, what alternative would you suggest to curtail window dressing techniques?**

One member thinks that the PAI disclosures must reflect the existing reporting approach of financial market partici- pants. The selection of indicators risks encouraging window dressing if they are not based on observable and verifiable facts. The evaluation of actions taken to reduce adverse impacts can also be subjective. Therefore, it is crucial that a com- mon understanding of adverse impact is reached and that proposed indicators are consistent with ongoing policy work on the EU taxonomy and the review of the NFRD.

The member does not believe that more granular requirements and harmonisation of methodologies will be a suitable solution to these issues. While guidance is useful, flexibility in implementation is key be able to adopt the methodologies and timing most adequate to the specificities and investment profiles of financial market participants. In addition, non-financial reporting standards will be key for reliable disclosures and to fight against green-washing, as they can provide reliable ESG data to be used for PAI indicators, reducing the margin for window dressing.

Regarding the **timing of reporting**, the member would welcome harmonisation of the reporting date of asset holdings. However, the dates for reporting the composition of investments need to be staggered for investors compared to investee companies or investment firms. Depending on when investee companies report the required data on indicators in a given year, necessary data from investee companies could only be taken into account by an investor with a lagging time period ranging from a short timeframe to up to one year. Finally, there should be a separation of financial reporting requirements and ESG reporting to avoid operational overload, allow flexibility in terms of internal processes and reporting timetables. Such separation does not represent an obstacle to align ESG reporting to financial reporting, as even with different timeta- bles, reported information can still refer to the same reference periods covered in financial reporting. In addition, more frequent reporting from financial market participants should be optional.

Other member thinks that the best way to discourage potential “window dressing” techniques in the princi-

pal adverse impact reporting is through regulation, establishing a clear framework and by harmonizing methodology of reporting, even standardize the way the information required are collected and processed. Even if financial reporting aspect appears more robustness than sustainability reporting aspect, reporting non-financial indicators it is relevant to asses if a company is consistent with ESG values and to assess the adverse impact on climate change. For this reason, a harmonised methodology and uniform timing of reporting, complying the same guidelines and accuracy standards of the disclosure of information, are important for corporate sustainability reporting.

Additionally, the public pressure, awareness of asset holders could trigger the conscious efforts of the businesses to have positively impacted on the society, and at the same time to build a strong corporate relationship with the various stakeholders through the tool of ESG factors. Investors can choose to make money in ways that contribute to a healthier, more prosperous, and sustainable community, therefore it is important to educate the large public, the consumers to understand that they also, when they act as investors themselves have a social responsibility.

Other member emphasizes that the risk of window dressing could be reduced by requiring reporting entities to disclose information on a 1-year average basis, i.e. a 1-year average carbon intensity of an investment portfolio.

- **: Do you agree with the approach to have mandatory (1) pre-contractual and (2) periodic tem- plates for financial products?**

One member agrees, but emphasizes that such templates should include a case of index based invest- ments, as described in the answer to question 3. The other member is also supportive, as it is important that these mandatory pre-contractual and periodic templates for financial products to have a standardised content, to make financial products easy to understand and compare by the potential inves- tors/consumers.

Other member disagrees, as the introduction of new templates is not required nor easy to implement, unless their use is optional. The SFDR requires that disclosures of information for insurance products are done according to Article 185(2) of the Solvency II Directive and Article 29(1) of IDD. These disclosures allow for a degree of flexibility and are mostly detailed at national level. Therefore, inflexible requirements under SFDR are not compatible with the general rules of IDD or Solvency II and should not be introduced through these RTS. The following would, for example, be more appropriate for customer disclosures:

- National disclosure format resulting from Solvency II and the minimum harmonisation approach taken in IDD.
- Link to the available information in the PRIIPs KID “Other information” section – note that the KID “What is the product?” section already provides for the possibility to indicate whether a product has sustainability objectives.

The same member underlines, should the ESAs pursue the introduction of templates, a specific consulta- tion with stakeholders and consumer testing would be necessary.

- **: If the ESAs develop such pre-contractual and periodic templates, what elements should the ESAs include and how should they be formatted?**

A member thinks, that **mandatory templates should not be introduced for SFDR disclosures.** In case optional templates are developed, they should contain the minimum data fields to be included, the order in which information should appear, and potentially key definitions. This would ensure a degree of comparability between products while respecting the minimum harmonisation principle of IDD and respecting national specificities in IDD implementation. It is also crucial that any template provided is digital friendly and does not follow the restrictive approach used in PRIIPs. A degree of flexibility allows financial market participants to tailor disclosed information to the type of product of- fered.

- **: If you do not agree with harmonised reporting templates for financial products, please sug- gest what other approach you would propose that would ensure comparability between prod- ucts.**

One member expresses the opinion that rather than producing templates, **the RTS should specify only what information needs to be disclosed without specifying the format of these disclosures**.

- **: Do you agree with the balance of information between pre-contractual and website infor- mation requirements? Apart from the items listed under Questions 25 and 26, is there any- thing you would add or subtract from these proposals?**

According to one of the members **information is generally more accessible on a website**, where tech- nical features (such as layers and menus) make it easier to navigate. In order to avoid duplication of infor- mation, a single disclosure requirement should be created where possible, containing only the information that is absolutely necessary.

In order to reduce the administrative burden with regard to products which incorporate external funds (unit-linked products), I would appreciate a clarification that information requirements on the website can be complied with by providing a link to the relevant information on the website of the fund provider.

Other member underlines that regarding the pre-contractual information, in order to protect inves- tors/consumers, must be clear, not misleading and up to date. As long as the Disclosure Regulation and the draft RTSs give further detail on the proposed form of those disclosures for such sustainability-oriented products, and require that Adverse Impacts Statement must be disclosed on the website of a firm, the most important is not just following the guidelines but the accuracy of the disclosure information on environmental, social, and economic measurements. The RTSs specify that such information is made available in searchable electronic format in Art 2(2) Draft RTSs .If the information are accurate, it will not be difficult to obtain a balance of information between pre-contractual and website informa- tion require- ments.

- **: Do you think the differences between Article 8 and Article 9 products are sufficiently well captured by the proposed provisions? If not, please suggest how the disclosures could be fur- ther distinguished.**

One member notices that **the distinction between “sustainable investment products” and “products that pro- mote environmental or social characteristics” is not clear.** More guidance in Level 2 is needed to determine when a product will qualify for either product category. This will facilitate compliance by financial market participants. Unless more guidance is given, national supervision might end up having substantially different interpretations.

In the absence of such clear definition, it is also difficult to assess which information is necessary to well capture and distin- guish the features of the two categories.

- **: Do the graphical and narrative descriptions of investment proportions capture indirect in- vestments sufficiently?**

One member thinks that the rationale for the requirement to distinguish between direct and indirect holdings and the added value of such information is not clear.

- **: The draft RTS require in Article 15(2) that for Article 8 products graphical representations il- lustrate the proportion of investments screened against the environmental or social character- istics of the financial product. However, as characteristics can widely vary from**

product to product do you think using the same graphical representation for very different types of prod- ucts could be misleading to end-investors? If yes, how should such graphic representation be adapted?

According to one of the members the same graphical representation for very different types of products might end up misleading end-investors, as it does not consider the constraints and the allocation of different products types.

Should the ESAs pursue the requirement of a graphical representation, they should perform a test run of the requirement on a range of actual products in order to identify potential challenges.

Finally, the member appreciate that this graphical representation is not required for multi-option products (MOPs), at wrapper level. According to article 22 and 32, there is a derogation for financial products with underlying investment options, so that article 15 and 24 do not apply to MOPs. Indeed, it is not feasible for the graphic to capture the nature of the overall product where a retail investor can choose between a large number of underlying funds, and a graphic representation at the level of each underlying fund is more workable.

- **: Do you agree with always disclosing exposure to solid fossil-fuel sectors? Are there other sec- tors that should be captured in such a way, such as nuclear energy?**

Some members agree, but one of them emphasizes differentiation between “black” and “brown” sectors. Adding other sectors, as nuclear energy, would be too difficult to state with no doubt, so they could be left aside. Next member underlined that it is important to disclose the exposure to solid fossil-fuel sectors, segregated between black and brown, but also disclosure of oil exposure and to any other energy form that produce heating into the free environment and/or waste including emissions or the release of gas, liquid, and solid radioactive waste.

Other member suggests that sectorial disclosures are developed in line with the taxonomy regulation and based on the classification at activity level as provided by investee companies. Power generation activities that use solid fossil fuels are clearly excluded by the Taxonomy regulation. Guidance on more detailed disclosures should be investigated at a later stage, in the context of the empowerment under Article 25 of the draft taxonomy regulation.

There is also an opinion, that woulwe could foresee a disclosure requirement including exposure to all non-renewable sources of energy and electricity. This must include liquid fossil fuels and, separately, nuclear energy given the adverse impact on waste and social factors of the latter.

- **: Do the product disclosure rules take sufficient account of the differences between products, such as multi-option products or portfolio management products?**

One of the members believes the rules regarding multi-option products (MOPs) should be explained further as there is a lack of clarity on their application. It should be clarified that where a MOP qualifies under Article 8 or 9 of the Regulation, Articles 14-21 and 23-31 of the RTS do not apply, and that MOPs manufacturers would only need to comply with Article 22 and 32 of the RTS. It would also be helpful for the RTS to be explicit that this means that no information on the product “wrapper” would need to be disclosed.

The acknowledgement in Recital 36 that overall disclosures for MOPs will be lengthy is appreciated.

The member appreciates that disclosures that relate to the overall composition of the product are not applicable to products with a large number of underlying options.

Other member agrees, it is important to disclose the exposure to solid fossil-fuel sectors, segregated between black and brown, but also disclosure of oil exposure and to any other energy form that produce heating into the free environment and/or waste including emissions or the release of gas, liquid, and solid

radioactive waste.

- **: While Article 8 SFDR suggests investee companies should have "good governance practices", Article 2(17) SFDR includes specific details for good governance practices for sustainable in- vestment investee companies including "sound management structures, employee relations, remuneration of staff and tax compliance". Should the requirements in the RTS for good gov- ernance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?**

One of the members does not believe that it is appropriate for the specific details included in Article 2(17) to be applied to Article 8 products through the RTS. Good governance practices are analysed in various ways by financial market partici- pants in a manner that is appropriate to the varying nature of investee companies.

The list in Article 2(17) SFDR is not exhaustive and forms only part of the broader definition of a 'sustainable investment'. Applying only part of this definition to Article 8 products is potentially confusing.

- **: What are your views on the preliminary proposals on "do not significantly harm" principle disclosures in line with the new empowerment under the taxonomy regulation, which can be found in Recital (33), Articles 16(2), 25, 34(3), 35(3), 38 and 45 in the draft RTS?**

There are some ambiguities, on one hand, the "do not significantly harm" principle of the taxonomy appears to be a narrow concept related specifically to thresholds on the assessment of the sustainability of economic activities. On the other hand, the adverse impact appears to be a risk-based concept related to how investments affect sustainability factors.

Despite this distinction, there is a strong link between the two concepts and there is value in a degree of alignment that recognises how these two concepts will exist in parallel. I believe that the current drafting should clarify these concepts and provide guidance on the difference between principal adverse impact and the concept of "do not significantly harm".

The concept of „do not significantly harm" exists in the Disclosure Regulation, more as a "precautionary principle" not as a defined concept. "Do not significantly harm" principle disclosures in line with the new Taxonomy Regulation brings more clarity, is a key part of the information to be provided in Product Pre-Contractual, Periodic and Website Disclosure. Disclosure. However, the principle of DNSH is not listed in the Adverse Impacts Statement, and it is still unclear the relation between "adverse impact" and "signifi- cantly harm".

- **: Do you see merit in the ESAs defining widely used ESG investment strategies (such as best-in- class, best-in-universe, exclusions, etc.) and giving financial market participants an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such wide- ly used strategies?**

There are opposite opinions on this issue, one member does not believe that there would be any added value in defining such strategies further, as they could already be defined in pre-contractual information under investment strategies, where additional information can be referenced.

Other member agrees, as for financial market participants who offer products which claim to pursue an environmental, social or sustainable investment strategy or potentially much more broadly those that promote environment or, social characteristics, the environmental or social characteristics or sustainable investment objectives, periodic product disclosure requirements could show the track record of the product in terms of how successful it is in attaining its sustainable characteristics or objectives. Therefore, the ongoing disclosures in periodic reports should be up to date and are not limited to the fundraising period

or other special events.

- **: Do you agree with the approach on the disclosure of financial products' top investments in periodic disclosures as currently set out in Articles 39 and 46 of the draft RTS?**

One of the members agrees, it is extremely important for the products based on indices, especially so called "ESG indices".

But on the other hand this information is available if the delay of publication is aligned with annual reporting of funds. Other member notes that this information should often be provided by investment firms. While the member supports transparency, the member believe that the chosen approach cannot be excessively burdensome, and it needs to balance adequate value for customers and burden for financial market participants.

The ESAs should also elaborate on how to disclose information about sector and location with respect to financial instru- ments such as equity, bonds, covered bonds, derivatives, etc.

- **: For each of the following four elements, please indicate whether you believe it is better to in- clude the item in the pre-contractual or the website disclosures for financial products? Please explain your reasoning.**

1. **an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy - in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);**
2. **a short description of the policy to assess good governance practices of the investee compa- nies - in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);**
3. **a description of the limitations to (1) methodologies and (2) data sources and how such limita- tions do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product - in the draft RTS below it is in the website disclo- sure under Article 34(1)(k) and Article 35(1)(k); and**
4. **a reference to whether data sources are external or internal and in what proportions - not currently reflected in the draft RTS but could complement the pre-contractual disclosures un- der Article 17.**

One of the members does not see the rationale for including the first element (a) (as detailed in Article 17(b) and 26(b)) in the disclosures. In practice, defining the investment universe is part of the investment strategy and is not something identifi- able "prior to the application of the investment strategy".

The other elements (b-d) listed in this question should indeed be provided to consumers, and in fact are already included in various existing mandatory disclosures. Links to this information in the website disclosures should be sufficient. The policies are already readable and are intended to be used by investors, so I see no need for them to be shortened or summarised under this Regulation.

- **: Is it better to include a separate section on information on how the use of derivatives meets each of the environmental or social characteristics or sustainable investment objectives pro- moted by the financial product, as in the below draft RTS under Article 19 and article 28, or would it be better to integrate this section with the graphical and narrative explanation of the investment proportions under Article 15(2) and 24(2)?**

One of the member does not see the added value of a separate section on derivatives. Regarding the numerous information to disclose, a focus on derivatives is not necessary and seems excessive. The use

of derivatives should be covered in the financial market participant's investment and risk policy instead. Focusing on the insurance sector, the usage of derivatives is already covered under the prudent person principle (article 132
(4) of the Solvency II Directive dictates that the use of derivative instruments shall be possible only insofar as they contribute to a reduction of risks or facilitate efficient portfolio management).

However of the member agrees, in case of whether derivatives are used to attain the ESG characteristics or objectives.

- **: Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?**

One of the members believes that the implementation costs of such a sophisticated disclosure system are much higher than estimated in the preliminary impact assessment.

According to the member's opinion, the impact assessments produced by the ESAs do not give due consideration to the range of different financial market participants and financial advisers to which these requirements will apply. For example, the cost benefit analysis envisages small IT costs for making changes to facilitate website disclosures. For small insurers and intermediaries this will not be the case.

Many of the costs related to compliance with SFDR are fixed and unrelated to the size of the financial market participant or adviser. This necessarily means the relative compliance cost for smaller companies will be higher.

Moreover, the risk of overload of precontractual information should be better assessed. The ESG information provided under the SFDR requirements and these RTS comes on top of a significant amount of pre-existing precontractual information. The level of disclosures should be tested on retail investors to assess whether such detailed information is really required and assists in making informed decisions in relation to financial products promoting, environmental and social characteristics and products with a sustainable investment objective.