German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

Response form for the Joint Consultation Paper concerning ESG disclosures

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<ESA_COMMENT_ESG_1>

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, requiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an "opt-in" regime for disclosure?

<ESA_QUESTION_ESG_1>

The approach proposed in Chapter II and Annex I takes into consideration the policy options 1.2 and 2.2 of the Impact assessment for entity level principal adverse impact reporting (Article 4 SFDR).

The 32 adverse sustainability indicators of Table 1 may not be mandatory at this time. The ESG data required to prepare the indicators is currently not available in a standardised format and electronically in a way that facilitates access for FMPs and minimises the costs of obtaining this information. Such a granular approach on indicators for the consideration of PAI would, if at all, only be possible from the point in time when the necessary data is made available by the investee companies as part of their NFRD reporting obligations and only from the point in time when these data is also entered in a central data register. This is particularly important since the review of the NFRD will not be completed in time for the implementation date of the RTS. FMPs and Financial advisers would be faced with a gap between the time when they should publish PAI disclosures and the information required from investee companies in order to fulfil these disclosure obligations under the SFDR. For the same reasons, we are also against the additional opt-in indicators.

Apart from that, the scope of the indicator set should be significantly reduced. Currently, ESG-related data on the proposed indicators is not consistently available at the level of the investee companies or is not sufficiently reliable. The information provided by the companies is not always of good quality and the information provided by ESG data providers can be inconsistent.

While the ESAs acknowledge that there is a lack of ESG data, they still require these data to be collected from FMPs without ensuring their availability in the market. The mere hint that the data situation will improve does not solve the problem for the FMPs, who should collect this data from March 10, 2021.

Alternatively, the RTS - from a proportionality point of view – should allow for the use of some sustainability indicators from the Annex 1 instead of requiring the filling of extensive lists of mandatory indicators that are not relevant in individual cases.

In current time we see lots of new ESG products and also the demand from clients for such products is rising without having rules to over-inform the client. Manufacturers will provide innovative products and demand for ESG data will also lead to higher transparency and ESG requirement levels. Market competition will lead to innovative solutions for ESG and higher, accelerating ESG aspiration levels.

One of the consequences of information overload would be that clients will not accept these kinds of financial products and the product offering will be limited.

Level 2 designs go beyond Level 1 in terms of the complexity of the information. The depth of information does not fit into the existing information environment of investment advice and asset management provided by investment firms. There is no reason to overload the sustainability criteria in this way. Even

though the topic of sustainability is important, the ESG criteria forms only a partial section in the context of product characteristics and must be classified alongside criteria such as duration, risk-return profile, ect., which must be given equal consideration. The ESG criteria are therefore only part of the target market.

Financial illiteracy, complexity and information overload are three well-known obstacles for good consumer disclosure. Consequently, it is very important that the ESAs take due account about the needs and limitations of consumers. We therefore encourage the ESAs to carry out consumer tests before finalising the proposal.

<ESA_QUESTION_ESG_1>

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

<ESA_QUESTION_ESG_2>

In our view, the approach laid out in Chapter II and Annex I does not take sufficiently into account the size, nature, and scale of FMP activities and the type of products which they make available. An active data collection by FMPs does, in no way, take into account the required proportionality approach prescribed in Level 1. The requirements overburden even large FMPs. Administrative burdens need to be fully assessed to ensure feasibility and proportionality.

FMPs should – depending on their individual size, nature and scale – have sufficient flexibility in implementing and dealing with the proposed requirements in line with their specific risk profile of their activities and portfolios.

We do not agree that the mandatory indicators for PAI will always lead to adverse impacts because this depends on the ‘materiality’ or ‘relevancy’ of each business sector. Some of the indicators might not be of importance for some sectors.

In this regards, as explained in Q1, the RTS should - from a proportionality point of view – allow for the use of some sustainability indicators from the Annex 1 instead of requiring the filling of extensive lists of mandatory indicators that are not relevant in individual cases. Also, a materiality analysis will help to identify relevant issues.

Given the very broad diversification and the wide range of asset classes within an asset management portfolio, it should be clear for which asset classes the explanation of material adverse impacts should be considered. In contrast to recital (3), only shares and bonds and within derivative securities only investment products should be taken into account. In view of the broad spectrum of derivatives, we consider it difficult to implement and questionable, or at least in need of explanation, how derivatives outside the investment products section of securitised derivatives should be taken into account.

Regarding derivatives it should be considered that some of those products do not have an investment goal, but are used for hedging purposes, these products cannot contribute to the goal of reallocating investments to sustainable goals. Therefore they should be out of scope.

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<ESA_QUESTION_ESG_2>

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

<ESA_QUESTION_ESG_3>

In particular, small investment firms must have the possibility of avoiding the negative impact by means of exclusion criteria. Systematic impact investing on the basis of indicators involves a very high level of effort, which cannot be handled by smaller institutions. Even highly specialised investment firms are not yet ready to implement these guidelines.

Ideally it would have been more useful to report at product level, in accordance with Article 8 and 9 SFDR- products. We understand that this is not within mandate of the ESAs but perhaps the current proposal can still be linked to Article 7 SFDR without over-stepping the entity-level requirement. This would allow for a more proportional and comparable result particularly for the end-client.

We also believe that an active data collection or the purchase of data from rating agencies might be impractical, it is also extremely costly, time-consuming, ineffective, prone to errors and disproportionate, especially for small and medium size investment firms. Moreover, the results would not be comparable and would therefore miss the objective of the SFDR. The ESG-data required to produce the indicators should therefore be reported by the investee companies that are required to report under the NFRD in a standardised and ready-to-use format. In addition, this data should be supplied by the investee companies to a central, publicly accessible, free of charge EU data register. The European Commission has already proposed such a data register in its consultation paper on the renewed sustainable finance strategy.

<ESA_QUESTION_ESG_3>

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

<ESA_QUESTION_ESG_4>

In general, required information should be aligned with requirements of NFRD, and should consider the sources of data that FMPs have available to meet these requirements (corporations and SMEs unequal public information, benchmarks, etc.). In particular, definition and metrics should be aligned with those included in a potential European non-financial reporting standard, related to Non-financial reporting directive.

The summary section required under Article 5 (1) (d) is a duplication of the more detailed information and provides in our view no added value. Moreover, the question arises as to how the multitude of listed indicators could be presented in a two-page document that is easy to understand and not misleading. It would be helpful to provide only one document which is comprehensible for the client.

The assumption that all 32 indicators plus additional “sub-indicators” are relevant for determining PAI is not justified according to a robust risk-based approach. This approach is viewed as excessively burdensome for FMPs without having sufficient benefits for customers. Furthermore, it is not sufficiently

clear what some of the indicators are trying to capture. Especially, some of the proposed social indicators seem to be biased towards value judgement. Such a detailed set of indicators could therefore be misleading for customers and prone to window dressing. With regard to the client, sustainability-related information should be tailored to a level that a customer can understand and process. In view of the large amount of information that a customer has to process regarding financial products, such an amount of sustainability indicators is not conductive to comprehensibility.

The level of detail required on tracking the effectiveness of actions taken to reduce adverse impacts is excessive and prone to window-dressing. The effectiveness of some actions can be highly subjective and disclosures should therefore be limited to robust evidence and concrete actions.

We do not see any merit in the publication of the responsibilities for the implementation of the policies within organizational strategies and procedures Article 7 (1) (b).

We also propose to delete Article 7 (2), since the proposed information will have no benefit for the end-investor. The regulation ignores the practice that many FMPs already work exclusively with third party ESG data providers, since they are not able to obtain any information directly from every investee company.

We agree with Article 10 on disclosure of responsible business conducts and internationally recognized standards. We would like to take note that disclosure of forward-looking climate scenarios is premature. Therefore, in Art. 10 the last half-sentence ("including the last forward-looking climate scenarios") should be deleted, because this is not covered by the empowerment under Level I.

The basic question is whether this type of information is of interest to the "normal" client. Even if the information can be drawn regularly from the annual report, there is still the danger of over-information, especially considering all the other information that has to be provided (general pre-contractual information, product information documents, Ex-Ante Cost information, Suitability Report). The extent to which clients will be able to compare products better with this information seems questionable. As MiFID review feedback shows, even todays information is too extensive and doesn`t lead to better informed clients. Clients have no interest in reading any additional comprehensive information. Even though sustainability is important, ESG criteria are only one part of investment advice and portfolio management and are to be classified alongside criteria such as duration, risk appetite, etc., which must be given equal consideration. The ESG criteria are therefore only one part of the target market.

Art. 10 sentence 2 should be deleted, as the effort generated by this is disproportionate to the gain in information. Level 2 may not extend Level 1.

Moreover, Art. 12 of the draft RTS specifies the requirements of Art. 4 (5) (a) SFDR. The following information should be included in the adverse sustainability impacts statement of the financial advisor according to the RTS:

- how the information published by FMP in accordance with this Regulation is used;
- whether the financial adviser ranks and selects financial products based on the principal adverse impacts referred to in Table 1 of Annex I and, if so, a description of the ranking and selection methodology used; and
- any criteria or thresholds used to select financial products and advise on them based on those impacts.

The link to Annex I (Art. 12 (b)) should be reconsidered in principle. Financial advisors can also be small and medium-sized investment firms with few employees. Analysing the comprehensive disclosures will involve significant costs and efforts that may go far beyond the capabilities of smaller investment firms. Instead, financial advisors should have the possibility to avoid adverse impact by means of exclusion criteria. The FMPs adverse sustainability impacts statement is to be given on entity level and not on the level of a financial product. We do not understand why a financial advisor has to take into account the PAI of all (!) FMPs, whose financial products they advise on, since the information of the PAI does not allow any conclusions to be drawn about the sustainability of the financial product manufactured by the FMP and distributed by the financial advisor.

Should the ESAs adhere to the proposal, we would like to point out that the implementation of Art. 12 by 10 March 2021 is not possible. FMPs will not publish any pre-contractual information with regard to Article 8 or 9-products required by financial advisors before 10 March 2021, or before 30 June 2022 (PAI). A financial advisor can only consult them from this point in time. If the requirements are adhered to, we advocate the application of Art. 12 RTS from 30 June, 2022. This would be in line with the date when the FMPs will have to publish their adverse sustainability impacts statement for the first time. Otherwise, as an unintended consequence, even financial advisors with very high ambitions regarding sustainability and sustainable products will probably publish the statement of "No consideration of adverse impacts" to avoid any legal risks of being not complaint with the requirements of Art. 12 RTS.

<ESA_QUESTION_ESG_4>

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)?

<ESA_QUESTION_ESG_5>

There is no need for the additional indicators stipulated in Table 1. We suggest that the ESAs elaborate on the concept of PAI and limit proposed disclosures to observable and verifiable facts. Some indicators should not risk being biased or leading to value judgements, for instance "insufficient whistle blower protection", "excessive CEO pay ratio".

Not every indicator is relevant for every industry. However, since a mandatory catalogue cuts off the discretion on the part of the financial market participant, the collection of (for certain industries) irrelevant indicators not only leads to unnecessary efforts, the data obtained also has a limited or even misleading informative value. For example, a deforestation policy may be relevant for a paper manufacturer or an agricultural company, but not for a technology company. Another example is the indicator for scope 3 emissions. Currently, there is no clear, objective data in the market concerning scope 3 emissions. Even investee companies can only estimate these.

The client must distinguish and understand all these different dimensions of sustainability data. The quality of the information should override the limitation of two pages.

<ESA_QUESTION_ESG_5>

In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in also 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 prevailing carbon price?

<ESA_QUESTION_ESG_6>

GBIC sees no need to provide more information. We do not consider more information to be useful but rather confusing.

<ESA_QUESTION_ESG_6>

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 companies in the investments without that issue. Do you have any feedback on this proposal?

<ESA_QUESTION_ESG_7>

Non-financial reporting standards are essential to be able to precisely measure such share of investments, especially considering the different types of investment instruments used in financial markets. We believe that a finalised taxonomy and available ESG data at the level of investee companies would be necessary for a consistent and robust assessment.

<ESA_QUESTION_ESG_7>

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

<ESA_QUESTION_ESG_8>

We believe that a finalised taxonomy and available consistent ESG data at the level of investee companies would be necessary for a consistent and robust assessment of activities by investee companies to reduce GHG emissions. Regulatory requirements related to such classification should therefore remain voluntary until all aspects of the taxonomy are sufficiently developed, especially those related on enabling and transitional activities. This will ensure that FMPs deliver a realistic picture and avoid penalising unfairly some economic activities.

<ESA_QUESTION_ESG_8>

Do you agree with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators?

<ESA_QUESTION_ESG_9>

The sources for reliable information are even more difficult to detect here (e.g. human rights violations: a company will not report on these if it violates them). We suggest that the adverse impacts for social considerations as defined in Table 1 remain voluntary.

<ESA_QUESTION_ESG_9>

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?

<ESA_QUESTION_ESG_10>

Our members honestly feel that it will be impossible to even have this kind of backward-looking information at this stage. The ideal scenario would be to start with 10 March 2021 as a kick-off date and report previous reporting periods as from this date going forward.

<ESA_QUESTION_ESG_10>

Are there any ways to discourage potential "window dressing" techniques in the principal adverse 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?

<ESA_QUESTION_ESG_11>

No, ESAs don't need to harmonise the methodology and timing of reporting across the reference period to discourage potential "window dressing" techniques in the principal adverse impact reporting. The actual risk of window-dressing is if disclosed data on indicators is not based on observable and verifiable facts. Therefore it is essential that proposed indicators and the common understanding of PAI is consistent with disclosed data in non-financial reporting and with the DNSH-concept of the Taxonomy.

Concerning the dates of the composition of investments it must be taken into account that if investee companies report the required data on indicators in one year by 30 June this data can only be taken into account by an investor one year later. Therefore we propose to have staggered implementation / disclosure periods for investors compared with investee companies.

<ESA_QUESTION_ESG_11>

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

<ESA_QUESTION_ESG_12>

The SFDR requires that disclosures of information for financial products are provided in accordance with the respective sectoral rules. These provisions are mostly detailed at a national level. It was the intention of the legislator, that the customer should receive the sectoral information, supplemented in the same format by the sustainability information. Mandatory templates could collide with this objective.

A high level of standardization is fully achieved by the detailed provisions of the RTS with regard to content, order and titles of the information. This level ensures that the client has the opportunity to compare different products.

<ESA_QUESTION_ESG_12>

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

<ESA_QUESTION_ESG_13>

Any further requirements should remain sufficiently abstract in order not to generate incompatibilities which would undoubtedly arise due to the huge variety of different products in the scope of the SFDR. The understanding of the client must prevail.

<ESA_QUESTION_ESG_13>

If you do not agree with harmonised reporting templates for financial products, please suggest what other approach you would propose that would ensure comparability between products.

<ESA_QUESTION_ESG_14>

The provisions of the RTS on the order and the titles of the information ensure its recognisability across the sectors.

<ESA_QUESTION_ESG_14>

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

<ESA_QUESTION_ESG_15>

In the development of pre-contractual and website information, the understanding of the client must prevail. We fundamentally question the mass and level of detail of the information, since this is not in the client's interest. Please note that the investor of a managed portfolio or investment funds product already receives a multitude of documents based on information requirements in other legislation. Therefore, while excessively detailed information should generally be avoided, the pre-contractual information is particularly vulnerable to information overload.

Double information and reporting obligations (especially the pre-contractual product-related information requirements and those on the website) must be avoided.

In order to avoid duplication of information, a single disclosure requirement should be created where possible, containing only the information that is absolutely necessary and helpful for the client. Information which is not necessary and not helpful for the client with regard to the provisions on level 1 should remain optional. This includes the requirement to prepare a summary of the disclosures provided by Article 10 SFDR.

The requirement to use the language of the home Member State of the FMP and a 'language customary in the sphere of international finance' should be replaced.

The national language should suffice or it should be made clear which language(s) are considered 'a language customary in the sphere of international finance'.

In order to reduce the administrative burden with regard to portfolio management products which incorporate external funds, we 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.

<ESA_QUESTION_ESG_15>

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 further distinguished.

<ESA_QUESTION_ESG_16>

The differences between Article 8 and Article 9 products are not well captured. The warning message required by Article 16 (1) and Article 34 (3) is, in our view, misleading and should be removed. It is highly unlikely that the average investor will know the legal meaning of "sustainable investment" as defined by Article 2 (17) SFDR. Neither will he be aware of the exact differentiation between Article 8 and 9 SFDR. As a result, the client may understand the warning as contradictory to the environmental or social characteristics promoted by the Art. 8-product. There is also no need for the warning. The client receives accurate information on the precise sustainability related characteristics of the product in accordance with the provisions of the RTS.

<ESA_QUESTION_ESG_16>

Do the graphical and narrative descriptions of investment proportions capture indirect investments sufficiently?

<ESA_QUESTION_ESG_17>

The RTS are not sufficiently clear with respect to the graphical representation and to the narrative. We do not understand the rationale for the requirement to distinguish between direct and indirect holdings, and wonder what the added value would be for customers.

Bearing in mind the broad spectrum of derivatives, we believe that it is difficult to give a comprehensible graphical and narrative description of investment proportions including indirect investments.

The draft RTS require in Article 15(2) that for Article 8 products graphical representations illustrate the proportion of investments screened against the environmental or social characteristics 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 products could be misleading to end-investors? If yes, how should such graphic representation be adapted?

<ESA_QUESTION_ESG_18>

Graphical representations should be adapted to comparable financial products. However, this comparability should be properly assessed in order to prevent excessive standardization that could lead to extra work load and misunderstanding.

Furthermore, the presentation of the same information in a graphical way and as a narrative leads to duplications which should be avoided in the interest of the investor.

Art. 15 (2) (b) (iii) should be deleted, as this type of information appears excessive. For example, a sector strategy is not self-evident and a sector breakdown is not normally presented in every financial product. It is not clear why this should only be done for sustainable investments. Consequently Art. 24 (2) (b) (iii) should be deleted.

<ESA_QUESTION_ESG_18>

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

<ESA_QUESTION_ESG_19>

We suggest that sectorial disclosures are developed in line with the taxonomy regulation and based on the classification at activity level as provided by investee companies. Guidance on more detailed disclosures should be investigated at a later stage, in the context of the empowerment under Article 25 of the Taxonomy regulation.

<ESA_QUESTION_ESG_19>

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

<ESA_QUESTION_ESG_20>

No. It should be borne in mind that there are investment firms which provide portfolio management and which are holding a lot of individual portfolios. Portfolio management is considered as a financial product under Article 2 (12) SFDR. The SFDR disclosure requirements apply regardless of whether asset management is carried out collectively (e.g. investment funds) or individually (as a managed portfolio).

Necessary information should – where this is possible with regard to the provisions on level 1 – be provided on a pre-contractual basis.

The requirement to publish product-related information on each Art. 8 or 9-financial product on the website is particularly critical or rather impossible for each individual portfolio management.

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The meaning of the disclosure obligations on the website must be questioned since customers already receive extensive pre-contractual information and the periodic reports as part of an individual portfolio management (see, for example, Article 8 and 11 SFDR, Article 14 and 36 RTS). Depending on the investment firm and business model, the number of in-house / sustainable portfolio management mandates can be in the three-digit range. For each of these mandates, extensive and double information (pre-contractual and periodic report) would then have to be made available on the website, which may only be relevant for one single client/mandate. This information should also not be freely accessible because they might contain customer-sensitive data.

The ESAs recognized this problem in principle and commented on the background analysis of the RTS consultation paper that "product-by-product" disclosure can be problematic due to the large number of portfolios being managed by FMP and the compliance with data protection that regulations. However, there is no further proposed solution by the ESAs.

We are therefore committed to ensuring that the RTS takes greater account of the particularities of individual portfolio management.

It is common to offer standardised portfolio management solutions based on model portfolios that suit clients with different risk tolerance profiles. In our view, it would be appropriate in such cases to provide general website disclosures based on the standardised portfolio solution rather than with reference to each individual portfolio managed for a specific client. This could be clarified by the ESAs e.g. by means of a recital. For individual portfolios, the proposed disclosures will be inappropriate.

We also argue against providing website disclosures in a separate password-protected area since this would be no “disclosure”. The ESA should consider that a lot of investment firms do not have such areas, since client information are provided by electronic means or on paper only. Establishing a password protected area would require inappropriate technical implementation.

It should be possible to publish model portfolios for a portfolio management according to Art. 8 or 9 SFDR on the website.

Furthermore, it should be possible to waive the publication of each periodic (monthly/quarterly) report on the website. Investment firms are already obliged under MiFID II to submit a periodic report with regard to portfolio management to each client. They will add the required information on Art. 8- or 9 financial products there if they provide a portfolio management under Article 8 or 9 SFDR. Instead of publishing every periodic report on a website periodically (monthly/quarterly) for each client, that will contain personal data, it should be sufficient to publish a reference on the website which allow the FMP to refer to further information in the periodic report already made available to the clients.

In addition, the cost-benefit analysis provides low IT costs for the planned disclosures on the website. For individual portfolio managers, this will not be the case given the planned requirements.

<ESA_QUESTION_ESG_20>

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 investment investee companies including “sound management structures, employee relations, remuneration of staff and tax compliance”. Should the requirements in the RTS for good

governance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?

<ESA_QUESTION_ESG_21>

It does not appear possible to have two different interpretations of the term of good governance practices within one and the same Regulation. As a consequence, the specifications provided in Article 2(17) SFDR on this point are – indirectly – also relevant with regard to Article 8. It is, therefore, important not to stipulate any further details on the content of good governance practices on level 2 in order not to raise the entry threshold of Article 8 any further.

<ESA_QUESTION_ESG_21>

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?

<ESA_QUESTION_ESG_22>

Further guidelines should be given regarding the "do not significantly harm" principle disclosures. In any case, a simplified approach should be adopted to define this principle in order to ensure the capacity to adapt to the market.

<ESA_QUESTION_ESG_22>

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 FMP an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such widely used strategies?

<ESA_QUESTION_ESG_23>

The best way to disclose information about ESG investment strategies is to comply with the disclosure requirements of SFRD. We do not believe that there would be added value in defining such strategies further, as they can already be defined in pre-contractual information under investment strategies, where additional information can be referenced.

<ESA_QUESTION_ESG_23>

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?

<ESA_QUESTION_ESG_24>

No, we consider the disclosure of the 25 top investments excessive. The disclosure of the top 10 investments should give enough information.

Article 39 (2) effects a higher complexity and in case of a strong variation of the number of investments the reports in the same product won´t be comparable. Therefore Article 39 (2) should be deleted.

With respect to the requirements in Articles 37 (1) (a) and 51 (2) it is not clear how the performance of the sustainability indicators should be calculated and what benefit this information will provide to retail investors. Therefore there should be no requirement to describe the performance of the indicators. At least there should be a clear definition, how the performance of this indicators has to be calculated.

<ESA_QUESTION_ESG_24>

For each of the following four elements, please indicate whether you believe it is better to include 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 companies - 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 limitations 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 disclosure 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 under Article 17.**

<ESA_QUESTION_ESG_25>

Again, it should be borne in mind that there are FMP holding a lot of individual portfolios. Necessary information should – where this is possible with regard to the provisions on level 1 – be provided on a pre-contractual basis.

<ESA_QUESTION_ESG_25>

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 promoted 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)?

<ESA_QUESTION_ESG_26>

As regards the reporting requirements for derivatives, a separate section should be required. There should be no reporting obligation derivatives used for short-term efficient portfolio management (e.g. currency swaps) because no long-term investment decision is made by those products.

<ESA_QUESTION_ESG_26>

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

<ESA_QUESTION_ESG_27>

The impact assessments produced by the ESAs do not give due consideration to the range of different FMP and financial advisers to which these requirements will apply.

Financial advisors and investment firms that provide portfolio management are often small and medium size enterprises consisting of a few employees. Analysing the comprehensive disclosures under the SFDR will entail significant costs and efforts that go well beyond the level of expertise of some smaller investment firms. In addition, the cost benefit analysis envisages small IT costs for making changes to facilitate website disclosures. For small and medium investment firms and portfolio managers this will not be the case.

<ESA_QUESTION_ESG_27>