

Reply form

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

12 April 2023
ESMA34-45-1218

Responding to this paper

The ESAs invite comments on all matters in the Joint Consultation Paper and in particular on the specific questions in this reply form. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives the ESAs should consider.

ESMA will consider all comments received by **4 July 2023**.

Instructions

In order to facilitate analysis of responses to the Joint Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Joint Consultation Paper in this reply form.
- Please do not remove tags of the type <ESMA_QUESTION_SFDR_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP SFDR Review_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA_CP SFDR Review_ABCD.

- Upload the Word reply form containing your responses to ESMA’s website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input - Consultations’.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs' rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725¹. Further information on data protection can be found under the [Legal notice](#) section of the EBA website and under the [Legal notice](#) section of the EIOPA website and under the [Legal notice](#) section of the ESMA website.

¹ Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	Securities Industry and Financial Markets Association
Activity	Other Financial service providers
Are you representing an association?	<input checked="" type="checkbox"/>
Country/Region	International

Questions

Q1 : Do you agree with the newly proposed mandatory social indicators in Annex I, Table I (amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million, exposure to companies involved in the cultivation and production of tobacco, interference with the formation of trade unions or election worker representatives, share of employees earning less than the adequate wage)?

<ESMA_QUESTION_SFDR_1>

The Asset Management Group (AMG) of SIFMA disagree with the additional mandatory social indicators for a number of reasons.

First, there is a significant data challenge that is the result of the lack of a consistent and aligned approach between the various EU sustainable finance disclosure rules, specifically between the SFDR and the Corporate Sustainability Reporting Directive (CSRD). Prior to the introduction of CSRD, there is no general obligation on investee companies to report on the indicators that financial market participants (FMPs) are required to report under SFDR. While in theory the CSRD and European Sustainability Reporting standards (ESRS) should lead to certain EU and international undertakings reporting on more of the data required by asset managers under SFDR, this is not likely to be possible in practice because the proposed new indicators are not currently proposed to be required to be mandatorily reported under the CSRD, so asset managers are unlikely to be able to consistently obtain this data in future. Notably, based on the latest consultation on the first set of the draft ESRS, the European Commission has suggested that companies are able to decide what to report on under the draft ESRS based on materiality, so certain data may not be available even for companies in scope of the CSRD, if they decide this is not material. We would therefore caution against adding additional indicators for which data availability and quality are likely to be low, particularly where these indicators are not required to be reported on a mandatory basis under the CSRD.

We believe it would be more appropriate to allow more time for the current indicators in Annex I to become established and widely published by investee companies before adding new indicators. Furthermore, we note that as at the time of our submission, the first entity level reports on these indicators under Article 4 of SFDR have only recently been published. Time should be taken to review these reports and consider industry wide issues in the reporting that may have emerged before proposing changes to the indicators. There are efforts by investee companies to build reporting frameworks to provide data on PAI indicators, so the addition of further mandatory indicators will erode the efforts of these investee companies.

Second, even when the CSRD is fully implemented, there will be many small EU undertakings and international undertakings that are out of scope of CSRD. Asset managers invest in shares and bonds of companies all around the world, which means that the required data will continue to not be subject to related mandatory reporting obligations for a large proportion of global and non-EU regionally-focused portfolios. There will therefore still be a significant data gap with respect to many companies, one which mandatory reporting under the CSRD will not resolve (given these companies fall outside the scope of the CSRD). Adding further indicators to reporting at this stage (before time has been given for current reporting to become established), would exacerbate this issue and result in low quality of data and reporting by financial market participants (FMPs).

Third, not all the proposed mandatory social indicators must be reported under the ESRS (e.g. amount of accumulated earnings in non-cooperative tax jurisdictions). This data may therefore not be available even for companies in scope for CSRD reporting. Asset managers will face significant challenges in collecting this data, since reporting is not mandatory.

Overall, whilst SIFMA AMG appreciate that in some cases regulation must provide the impetus to increase the availability of data, rather than regulation merely requiring disclosure of data that is already available, the current indicators in Annex I of the SFDR Delegated Regulation are already ambitious, and hence more time should be allowed for data availability to increase before additional indicators are added. Otherwise, reporting risks being misleading and arbitrary, given a lack of data may distort disclosures or limit their usefulness for investors. |

<ESMA_QUESTION_SFDR_1>

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

<ESMA_QUESTION_SFDR_2>

|As with the response for Question 1, SIFMA AMG do not think any mandatory social indicators should be added. |

<ESMA_QUESTION_SFDR_2>

Q3 : Do you agree with the newly proposed opt-in social indicators in Annex I, Table III (excessive use of non-guaranteed-hour employees in investee companies, excessive use of temporary contract employees in investee companies, excessive use of non-employee workers in investee companies, insufficient employment of persons with disabilities in the workforce, lack of grievance/complaints handling mechanism for stakeholders materially affected by the operations of investee companies, lack of grievance/complaints handling mechanism for consumers/ end-users of the investee companies)?

<ESMA_QUESTION_SFDR_3>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_3>

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

<ESMA_QUESTION_SFDR_4>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_4>

Q5 : Do you agree with the changes proposed to the existing mandatory and opt-in social indicators in Annex I, Table I and III (i.e. replacing the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work)? Do you have any additional suggestions for changes to other indicators not considered by the ESAs?

<ESMA_QUESTION_SFDR_5>

|SIFMA AMG generally agree with aligning the SFDR PAI indicators to those in the ESRS. However, SIFMA AMG think the timing of the changes should be delayed. FMPs have built their systems and processes around the existing indicators, and the first reports on these indicators are still in the process of being prepared. Furthermore, it will take some time for CSRD reporting using the ESRS to be implemented, and the ESRS themselves are still under consultation. Given the data challenges FMPs are already facing (see response to Question 1 above), SIFMA AMG think that the existing indicators, as currently drafted, should be retained for now in order to allow the industry to catch up in terms of available data, as well as to think about changing their systems as required. Only once data is widely available under CSRD and time has been given to observe reporting challenges faced by FMPs (for instance, with respect to companies not subject to CSRD), should consideration be given to adjusting the indicators. |

<ESMA_QUESTION_SFDR_5>

Q6 : For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?

<ESMA_QUESTION_SFDR_6>

SIFMA AMG consider that it may be appropriate to apply certain social PAI indicators to the entity in charge of the management of the real estate assets the FMP invested in, but it should be clarified that this is only in relation to the company or property manager hired to manage the real estate assets. The term “management” is potentially ambiguous in the context of real estate assets, as it could for instance refer to a special purpose vehicle that holds and has overall responsibility for the asset, or it could refer to the specific property manager acting on that vehicle’s behalf. Therefore, if social PAI indicators are applied to “management” it should be clarified how management should be determined in these types of multi-party situations. SIFMA AMG are of the view that social PAIs should not be applied to special purpose or other holding vehicles for real estate assets. |

<ESMA_QUESTION_SFDR_6>

Q7 : For real estate assets, do you see any merit in adjusting the definition of PAI indicator 22 of Table 1 in order to align it with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective under the climate change adaptation objective?

<ESMA_QUESTION_SFDR_7>

| TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_7>

Q8 : Do you see any challenges in the interaction between the definition ‘enterprise value’ and ‘current value of investment’ for the calculation of the PAI indicators?

<ESMA_QUESTION_SFDR_8>

SIFMA AMG consider it would be helpful to replace the ‘book value’ requirement with ‘market value’ for the purposes of calculation enterprise value including cash (EVIC) and current value of investment. This is for a number of reasons:

First, general market practice is to calculate EVIC using market value of debt, rather than the book value. This has been an implementation challenge for fixed income investors, since most data feeds

only supply market rather than book value. Accordingly, FMPs that currently rely on data feeds for a large number of holdings are finding it difficult to obtain the data required for calculation. The deviation from standard market practice also increases the implementation cost and burden on FMPs, as they have to manage several PAI indicators using a different valuation methodology to their usual investment approach.

Second, on a more technical point, book value effectively represents the face value of debt. However, when a company is in distress, investors may expect the probability of a loss to be higher, causing the debt to trade well below par. It is unclear why the use of book value would be appropriate in such situations. Conversely, when a company is not in distress and under normal circumstances, the difference between the market value and book value of its debt is not significant. Therefore, SIFMA AMG does not consider that the extra effort required to use book value instead of market value when calculating EVIC to be proportionate to any benefits.

Last, SIFMA AMG note that calculations for equity holdings in the SFDR RTS are based on market value (rather than book value). This could lead to the odd outcome where, if a company is in distress, the share of debt in the EVIC of the company could rise significantly (since equity uses market value while debt uses book value).

<ESMA_QUESTION_SFDR_8>

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

<ESMA_QUESTION_SFDR_9>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_9>

Q10 : Do you have any comments on the further clarifications or technical changes to the current list of indicators? Did you encounter any issues in the calculation of the adverse impact for any of the other existing indicators in Annex I?

<ESMA_QUESTION_SFDR_10>

|As with the response for Question 5, SIFMA AMG do not think the current indicators should be adjusted or any additional indicators added at this time until more time has been allowed for existing reporting to become established |

<ESMA_QUESTION_SFDR_10>

Q11 : Do you agree with the proposal to require the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies?

<ESMA_QUESTION_SFDR_11>

SIFMA AMG would like to clarify there is a difference between using information reported by investee companies and obtaining the information directly from investee companies. The proposed disclosure suggests that the ESAs expect FMPs to collect data from investee companies directly, i.e. through engaging with the investee companies, but this is not how many FMPs manage investments. Many FMPs currently rely on third-party data providers who collate and aggregate data reported by the investee companies. SIFMA AMG consider this to be equivalent to obtaining the data directly from the investee companies, since the data is reported by the investee companies, and the third-party data provider merely provides this on to the FMPs.

SIFMA AMG suggest that instead, FMPs disclose the percentage of data that has been reported by the investee companies and the percentage that has been estimated by the FMP. |

<ESMA_QUESTION_SFDR_11>

Q12 : What is your view on the approach taken in this consultation paper to define ‘all investments’? What are the advantages and drawbacks you identify? Would a change in the approach adopted for the treatment of ‘all investments’ be necessary in your view?

<ESMA_QUESTION_SFDR_12>

SIFMA AMG agree that it would be helpful to define ‘all investments’ as suggested in the consultation paper. Given there are separate indicators for sovereign and real estate investments, it would be helpful to clarify that only the investments relating to these asset classes are required to be included in the denominator for these investments. For instance, for indicators relevant to sovereign holdings, only sovereign investments need to be included in the denominator. This would avoid metric reporting being distorted by irrelevant investments in other asset classes. |

<ESMA_QUESTION_SFDR_12>

Q13 : Do you agree with the ESAs’ proposal to only require the inclusion of information on investee companies’ value chains in the PAI calculations where the investee company reports them? If not, what would you propose as an alternative?

<ESMA_QUESTION_SFDR_13>

SIFMA AMG do not agree with this proposal and consider this could lead to more inconsistency in the PAI indicator data reported since not all companies will report on their value chains. The data of companies that report and companies that do not will be comingled, and may lead to skewed PAI indicator data at the FMP level. Further, companies that report on their value chains may report higher PAI indicator values (i.e. more adverse values). This could lead to a negative incentive for firms to not report their value chains, so their PAI indicator values will appear to be more favourable. It could also disincentivise investment in companies that provided more reporting on their value chain, which would be a perverse outcome. In addition, given the differences in the scope of application of CSRD to different entities (including non-EU entities in comparison to EU ones), there may be unintended consequences for SFDR reporting which would be related more to the reporting that investee companies are subject to, rather than their actual sustainability impacts. |

<ESMA_QUESTION_SFDR_13>

Q14 : Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?

<ESMA_QUESTION_SFDR_14>

SIFMA AMG agree that long net derivative exposures should be included in the PAI indicators. However, SIFMA AMG do not think it would be helpful to further differentiate between physical versus non-physical investments, because in the first place, it may not be possible for FMPs to distinguish between these two types of derivatives. This could also further add to the reporting burden on the FMP as new systems may have to be created in order for them to be able to distinguish the two types of derivatives.

In addition to the proposed treatment of derivatives, SIFMA AMG also think it would be helpful to clarify that derivatives should only be included in PAI calculations to the extent the underlyings are related to the asset classes that must be reported (e.g. investee company, sovereign / supranational, or real estate). Other derivatives such as interest rate or currency derivatives should therefore be excluded from PAI calculations.

Lastly, SIFMA AMG would like to specifically comment on derivatives linked to indices, which SIFMA AMG believe have unique features. These types of derivatives are typically employed to manage market exposure and so encompass multiple issuers (in some cases, in the hundreds). Looking through these index-linked derivatives would therefore require aggregating and rescaling exposures of all the issues within that index. This presents a few challenges related to the availability of data from the issuer. the methodological challenge of looking through, and the rescaling model. All these mean there is currently a lack of quality data for index-linked derivatives. SIFMA AMG think there should be a delay in including index-linked derivatives from PAI calculations, to allow the market to develop the appropriate methodologies and for data to become more widely available. |

<ESMA_QUESTION_SFDR_14>

Q15 : What are your views with regard to the treatment of derivatives in general (Taxonomy-alignment, share of sustainable investments and PAI calculations)? Should the netting provision of Article 17(1)(g) be applied to sustainable investment calculations?

<ESMA_QUESTION_SFDR_15>

SIFMA AMG do not think the SFDR RTS should be overly prescriptive about the approach to netting. While FMPs can net derivatives with investee company securities as underlying, it would not be possible to assess the financing impact of other derivatives or products on the share of sustainable investments without further clarification. |

<ESMA_QUESTION_SFDR_15>

Q16 : Do you see the need to extend the scope of the provisions of point g of paragraph 1 of Article 17 of the SFDR Delegated Regulation to asset classes other than equity and sovereign exposures?

<ESMA_QUESTION_SFDR_16>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_16>

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

<ESMA_QUESTION_SFDR_17>

SIFMA AMG broadly agree with the ESAs' assessment, but also consider that it is more important for the review of the Level 1 rules to be completed before there can be any meaningful discussion of changes to the DNSH framework under the SFDR since these are more appropriately addressed in the Level 1 rules. In this respect, the best approach for now is to maintain status quo. |

<ESMA_QUESTION_SFDR_17>

Q18 : With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.

<ESMA_QUESTION_SFDR_18>

SIFMA AMG do not consider it helpful to make it mandatory for FMPs to disclose the quantitative thresholds FMPs use to take into account the PAI indicators for DNSH purposes.

First, not all PAI indicators can be assessed quantitatively. Certain PAI indicators are more suited to a qualitative assessment, whether due to the nature of the indicator or the lack of data to be able to carry out a quantitative assessment. For example, the gender pay gap indicator is both not widely available (since most jurisdictions do not require such reporting) and may be affected by a number of factors of workforce composition that would not be captured by a simplistic quantitative assessment. Hence, conducting a purely quantitative assessment may be both impossible (due to lack of data) and misleading of whether the investee has a negative impact on fair pay (due to not taking into account qualitative factors). As another example, in relation to board gender diversity, if an FMP sets a particular quantitative threshold, and there is a resignation that means the board gender diversity ratio is temporarily below the FMP's quantitative threshold, a failure to add a qualitative element of assessing the likely or intended replacement for the resignation or the circumstances around dropping below the quantitative may not capture the actual impact on gender diversity of the investee.

Second, this assumes that FMPs only set one threshold and does not allow for flexibility where this might be justified by the circumstances. For instance, with respect to greenhouse gas related metrics, the industry of the investee company may be an important factor in determining what level of greenhouse gas metrics would constitute "significant harm". But requiring a full disclosure of all of these nuances is likely to be extremely complex, and in particular may be confusing to retail investors.

<ESMA_QUESTION_SFDR_18>

Q19 : Do you support the introduction of an optional "safe harbour" for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.

<ESMA_QUESTION_SFDR_19>

SIFMA AMG do not consider it helpful to introduce a 'safe harbour' at this time, as there are relatively few Taxonomy-aligned investments that are currently available. This 'safe harbour' would therefore likely be of limited use. Furthermore, SIFMA AMG are of the view that legislative clarifications of the interaction between Taxonomy-aligned and SFDR sustainable investments should be made with respect to the Level 1 rules. Hence changes on this front with respect to the SFDR Delegated Regulation should wait for the review of the Level 1 rules to be completed.

In addition, SIFMA AMG would like to point out that the latest FAQ on the Taxonomy Regulation published by the European Commission already suggests that there is such a 'safe harbour'. The

FAQs suggest that investment in a Taxonomy-aligned environmentally sustainable-economic activity would automatically qualify as a SFDR “sustainable investment”, since it can be assumed that the investee company meets the social elements of the SFDR’s DNSH test at an entity level, and investments in “environmentally sustainable” activities under the Taxonomy Regulation are a subset of “sustainable investments” under SFDR. |

<ESMA_QUESTION_SFDR_19>

Q20 : Do you agree with the longer term view of the ESAs that if two parallel concepts of sustainability are retained that the Taxonomy TSCs should form the basis of DNSH assessments? Please explain your reasoning.

<ESMA_QUESTION_SFDR_20>

|As above in the response to Question 19, SIFMA AMG consider it would be helpful to first clarify the interaction between Taxonomy-aligned investments and SFDR sustainable investments in the Level 1 rules. |

<ESMA_QUESTION_SFDR_20>

Q21 : Are there other options for the SFDR Delegated Regulation DSH disclosures to reduce the risk of greenwashing and increase comparability?

<ESMA_QUESTION_SFDR_21>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_21>

Q22 : Do you agree that the proposed disclosures strike the right balance between the need for clear, reliable, decision-useful information for investors and the need to keep requirements feasible and proportional for FMPs? Please explain your answers.

<ESMA_QUESTION_SFDR_22>

|SIFMA AMG do not agree with this. The proposed disclosures may disadvantage financial products that promote social characteristics or make sustainable investments with a social objective, since it focuses entirely on emissions reduction. |

<ESMA_QUESTION_SFDR_22>

Q23 : Do you agree with the proposed approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR or would you prefer specific disclosures for such financial products? Do you believe the introduction of GHG emissions reduction target disclosures could lead to confusion between Article 9(3) and other Article 9 and 8 financial products? Please explain your answer.

<ESMA_QUESTION_SFDR_23>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_23>

Q24 : The ESAs have introduced a distinction between a product-level commitment to achieve a reduction in financed emissions (through a strategy that possibly relies only on divestments and reallocations) and a commitment to achieve a reduction in investees' emissions (through investment in companies that has adopted and duly executes a convincing transition plan or through active ownership). Do you find this distinction useful for investors and actionable for FMPs? Please explain your answer.

<ESMA_QUESTION_SFDR_24>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_24>

Q25 : Do you find it useful to have a disclosure on the degree of Paris-Alignment of the Article 9 product's target(s)? Do you think that existing methodologies can provide sufficiently robust assessments of that aspect? If yes, please specify which methodology (or methodologies) would be relevant for that purpose and what are their most critical features? Please explain your answer.

<ESMA_QUESTION_SFDR_25>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_25>

Q26 : Do you agree with the proposed approach to require that the target is calculated for all investments of the financial product? Please explain your answer.

<ESMA_QUESTION_SFDR_26>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_26>

Q27 : Do you agree with the proposed approach to require that, at product level, Financed GHG emissions reduction targets be set and disclosed based on the GHG accounting and reporting standard to be referenced in the forthcoming Delegated Act (DA) of the CSRD? Should the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF be required as the only standard to be used for the disclosures, or should any other standard be considered? Please justify your answer and provide the name of alternative standards you would suggest, if any.

<ESMA_QUESTION_SFDR_27>

SIFMA AMG strongly oppose the ESAs proposal to mandate the use of a single financed GHG emissions metric for target setting for financial products with decarbonization strategies.

Imposing a single mandatory standard for GHG emissions reduction targets and restricting the use of other commonly accepted approaches goes beyond the remit of the ESAs to enhance disclosure and reporting transparency of existing strategies. Such a restriction would alter the Level I Article 8 text which is neutral in terms of product design and which does not opine on the manner in which financial products disclosing under Article 8 may set GHG emissions reduction targets or in the metrics used.

SIFMA AMG believe this proposal will arbitrarily stifle commonly accepted market standards and disincentivize financial products validly seeking to finance the transition to a net zero economy:

- Imposing a single standard using financed GHG emissions targets is currently at odds with the decarbonization goals of investors in financial products which offer decarbonization approaches and target setting using different strategies and metrics. The Net Zero Asset Owners Alliance expresses a “slight preference” for EVIC-based intensity metrics for sub-portfolio target setting, but revenue-based intensity metrics, including Weighted Average Carbon Intensity, are clearly noted as acceptable alternatives. This fact is also evident from the variety of intermediate member targets published by the Net Zero Asset Owners Alliance itself.
- Additionally, industry best practice guidance from multiple sources supports the use of bottom-up assessment of net-zero alignment as a primary implementation measure for both asset owners and asset managers.
- If this methodology is not permitted, investors could be de-facto required to overweight industries with inherently low carbon emissions and underweight industries – even hard-to-abate ones – with higher carbon emissions, despite the rigor of their work in progress toward a forward-looking plan to reduce emissions.

Such a mandate will impose yet another costly and onerous requirement for financial market participants to source and utilize potentially flawed and inconsistent data.

- PCAF acknowledges that “specific elements of EVIC might not be readily available because data providers are still working to align their data with this definition”. SIFMA AMG have not seen this convergence or consistency.
- The PCAF methodology for Financed GHG emissions may be an appropriate tool for decarbonization reporting where such data is available, but it is not an appropriate tool for target setting. It requires FMPs to incorporate an EVIC-based calculation which contains market volatility and corporate capital structure elements which are beyond the control of FMPs to predict and indirectly related to the operations (and therefore emissions) of the investee company. While other challenges around EVIC, such as the impact of inflation, have been acknowledged and a remedy has been suggested by the EU TEG (with its own operational complexities), SIFMA AMG do not believe a reasonable solution has been suggested for the volatility and capital structure challenges.
- While the revenue-based calculation (weighted average carbon intensity) also has volatility for some commodity-based sectors, it is typically based on the macro cycle, making it explainable and able to be anticipated by investors. This is different from the market volatility and corporate structure considerations, which can be far more idiosyncratic in nature (and therefore difficult to anticipate how they will influence a portfolio-level metric).

As a compromise, SIFMA AMG would support a requirement to disclose whether the financial product employs the use of financed GHG emissions using the PCAF standard (making this an optional requirement in target setting), and including this metric as a reporting requirement for financial products. By allowing financial products to indicate that while they do have a decarbonization strategy and targets, they do not adhere to the PCAF standard endorsed by the ESAs, this would achieve the stated goals of enhancing disclosure and improving reporting transparency of existing strategies. |

<ESMA_QUESTION_SFDR_27>

Q28 : Do you agree with the approach taken to removals and the use of carbon credits and the alignment the ESAs have sought to achieve with the EFRAG Draft ERS E1? Please explain your answer.

<ESMA_QUESTION_SFDR_28>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_28>

Q29 : Do you find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participants entity-level

targets and transition plan for climate change mitigation? What could be the benefits of and challenges to making such disclosures available? Please explain your answer.

<ESMA_QUESTION_SFDR_29>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_29>

Q30 : What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?

<ESMA_QUESTION_SFDR_30>

|SIFMA AMG do not consider that the inclusion of a dashboard to be, on balance, a helpful inclusion for consumers. While a simplified view may be helpful for giving investors a quick overview of the product, it may also detract investors from reading the rest of the disclosure, particularly the definitions and methodologies behind the product characteristics.

Taking a step back, SIFMA AMG note that the SFDR is not a labelling but a disclosure regime, encouraging FMPs to provide more detailed information about ESG investments. However, there are no prescriptive standards or definitions of what these are, e.g. SFDR sustainable investments are defined by each FMP rather than based on a common framework in contrast to the Taxonomy. Therefore, it would be important for investors to read the disclosure in its entirety to ensure they fully understand the definitions and methodologies used. SIFMA AMG consider that the proposed dashboards will likely detract investors from reading the full disclosure, and could therefore lead to investments being made in financial products without a genuine understanding of their approach to sustainability.

Further, SIFMA AMG consider there is a risk that the proposed dashboard could be misleading and even lead to greenwashing since the headline numbers (e.g. proportion of sustainable investments) is tied to the definitions and methodologies behind them. Most of the items in the proposed dashboard are not well-defined, and the more prominent these are, the more incentives there may be for the FMP to make the headline figures look better even if it is not supported by the quality or robustness of supporting methodologies (which may not read by the investors). |

<ESMA_QUESTION_SFDR_30>

Q31 : Do you agree that the current version of the templates capture all the information needed for retail investors to understand the characteristics of the products? Do you have views on how to further simplify the language in the dashboard, or other sections of the templates, to make it more understandable to retail investors?

<ESMA_QUESTION_SFDR_31>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_31>

Q32 : Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?

<ESMA_QUESTION_SFDR_32>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_32>

Q33 : Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?

<ESMA_QUESTION_SFDR_33>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_33>

Q34 : Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?

<ESMA_QUESTION_SFDR_34>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_34>

Q35 : Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?

<ESMA_QUESTION_SFDR_35>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_35>

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

<ESMA_QUESTION_SFDR_36>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_36>

Q37 : Do you perceive the need for a more specific definition of the concept of “key environmental metrics” to prevent greenwashing? If so, how could those metrics be defined?

<ESMA_QUESTION_SFDR_37>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_37>

Q38 : Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.

<ESMA_QUESTION_SFDR_38>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_38>

Q39 : Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?

<ESMA_QUESTION_SFDR_39>

[TYPE YOUR TEXT HERE]

<ESMA_QUESTION_SFDR_39>

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

<ESMA_QUESTION_SFDR_40>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_40>

Q41 : What are your views on the proposal to require that any investment option with sustainability-related features that qualifies the financial product with investment options as a financial product that promotes environmental and/or social characteristics or as a financial product that has sustainable investment as its objective, should disclose the financial product templates, with the exception of those investment options that are financial instruments according to Annex I of Directive 2014/65/EU and are not units in collective investment undertakings? Should those investment options be covered in some other way?

<ESMA_QUESTION_SFDR_41>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_41>

Q42 : What are the criteria the ESAs should consider when defining which information should be disclosed in a machine-readable format? Do you have any views at this stage as to which machine-readable format should be used? What challenges do you anticipate preparing and/or consuming such information in a machine-readable format?

<ESMA_QUESTION_SFDR_42>

|TYPE YOUR TEXT HERE |

<ESMA_QUESTION_SFDR_42>

Q43 : Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?

<ESMA_QUESTION_SFDR_43>

With regard to Policy option 3.1, SIFMA AMG consider it more helpful for the review of the Level 1 rules to be completed before making any adjustments to the DNSH framework. This is because, as mentioned above in response to Question 17, these issues need to be addressed at that level rather than in the SFDR RTS. Amending the SFDR RTS now when there may be further changes in the future due to amendment of the Level 1 rules will merely add to market disruption and implementation costs for FMPs as they have to deal with a quick succession of changes.

With regard to Policy option 3.2, see SIFMA AMG's response to Question 18 above. SIFMA AMG do not consider quantitative thresholds to be suitable for all PAI indicators, and also note the potential concern of information overload for investors. |

<ESMA_QUESTION_SFDR_43>