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ESAs Survey on templates for Environmental and/or Social financial products under SFDR

Fields marked with * are mandatory.



JOINT COMMITTEE OF THE EUROPEAN
SUPERVISORY AUTHORITIES

Introduction

The European Supervisory Authorities (ESAs) welcome comments on this survey setting out the details of the **presentation of the information** to be disclosed pursuant to Article 8(3), Article 9(5) and Article 11(4) of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services (SFDR). This information concerns pre-contractual and periodic disclosures to be included in existing disclosures provided for under EU sectoral legislation and provided by, for example, AIFMs, UCITS management companies, insurance undertakings, IORPs or PEPP providers. The ESAs propose to standardise the disclosures by requiring the use of specific templates, recognising the need for standardisation of disclosures to promote comparability of different financial products in different Member States with respect to ESG information, in line with Recital 9 of the SFDR.

The colour of the font and of the template's background, as well as type of font to be used are not prescribed in the templates. These should be adapted by the financial market participants to fit the formatting of the underlying document to which the templates are integrated (prospectus, annual report, pre-enrolment disclosure for prospective pension scheme members, etc).

The final content of the templates is subject to the outcome of concurrent consumer testing exercise and the final report of the ESAs on the draft RTS under SFDR.

The consultation package includes:

- Three preliminary, **illustrative mock-ups** of pre-contractual and periodic disclosure templates of products promoting Environmental and/or Social (E/S) characteristics (under Article 8 and Article 11 of the SFDR). The templates for the disclosure of products with a sustainable investment objective (Article 9) are very similar to those for the products promoting E/S characteristics and have not been included in the on-line survey. **N.B. These mock-ups are purely illustrative for the purposes of gathering feedback on the presentation of information. The pre-contractual mock-up is presented in two variations: with and without icons, to gather feedback on the use of the icons. Please note that some of the sections of the templates (notably on "benchmarks", are not applicable for all products when not relevant - as defined in the draft RTS).**
- An on-line survey

The ESAs particularly invite comments on presentational aspects of the mock-ups as the content of the mock-ups already reflects the current text of the draft RTS which were addressed in the recent public consultation on the on content, methodologies and presentation of disclosures under the SFDR that ran from 23 April until 1 September 2020.

Comments are most helpful if they:

- contain a clear rationale; and describe any alternatives the ESAs should consider.
- When describing alternative approaches, the ESAs encourage stakeholders to consider how the approach would achieve the key objectives of the SFDR regarding product disclosures, namely to prevent “greenwashing” and reduce information asymmetries for end investors.

Submission of responses

The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments must be sent using the EUSurvey by **16 October 2020**.

Contributions not provided in the EUSurvey tool for comments, or after the deadline will not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A confidential response may be requested from us in accordance with ESAs rules on public 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 ESAs 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) 2018/17253. 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.

About you

*Language of my contribution

English

*I am giving my contribution as

Company/business organisation

*First name

Kate

*Surname

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kate.fowler@hermes-investment.com

*Organisation name

255 character(s) maximum

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Organisation size*Transparency register number***255 character(s) maximum*

Check if your organisation is on the transparency register (<http://ec.europa.eu/transparencyregister/public/homePage.do?redir=false&locale=en>). It's a voluntary database for organisations seeking to influence EU decision-making.

***Country of origin**

Please add your country of origin, or that of your organisation.

***Publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

 Anonymous

Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.

 Public

Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

I agree with the personal data protection provisions (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

Survey - introduction

The illustrative mock-ups relate to disclosure documents for a fictitious exchange traded fund (ETF).

Most ETFs are index funds. This means that they usually replicate the index by holding the same securities in the same proportions as a certain stock market index. This product replicates a fictitious index, called TRXI World Fossil Fuel Free Index, which replicates the total market index TRXI World Index, but excludes from it companies that own solid fossil fuel reserves.

The three documents that you can download are illustrative mock-ups of ESG information from the following underlying documents:

- Prospectus of the ETF – which provides information before buying the product
- Annual report of the ETF – which provides information on the product for the last 12 months

The mock-ups are named as follows:

- Mock-up 1: pre-contractual disclosure for a product promoting Environmental or/and Social characteristics (with icons)
- Mock-up 2: pre-contractual disclosure for a product promoting Environmental or/and Social characteristics (without icons)
- Mock-up 3: periodic disclosure for a product promoting Environmental or/and Social characteristics (with icons)

Before answering the questions, please click on these three links to download the three illustrative mock-ups (PDF):

[Illustrative_mock-up_1_Pre-contractual_with_icons.pdf](#)

[Illustrative_mock-up_2_Pre-contractual_without_icons.pdf](#)

[Illustrative_mock-up_3_Periodic_with_icons.pdf](#)

Questions

***Q1. How useful is the highly standardised presentation of the information in this format?**

between 1 and 1 choices

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Please explain:

Some level of standardization will ensure comparability of products, which is of benefit to clients. It will also make it easier both for financial market participants (FMPs) to develop the documents and for regulators to approve them. However, we strongly believe that this can be achieved through standardizing the information to be included within each document (which is largely covered by the Level 1 text and can be further clarified through the Level 2 standards) rather than mandating a particular template. FMPs should be given the flexibility to structure the disclosures and reporting in the way that is most informative and useful to end investors and the regulators depending on the content. This will keep such disclosures concise and focused on material information. It will also make the documents more engaging if FMPs are given flexibility in how they can most effectively communicate the required information rather than risking the disclosures being seen as a disclaimer. Currently, firms can use these documents as marketing tools and compete on the quality of their communication. We see this as beneficial for clients through driving higher standards.

If the templates are maintained, which we strongly discourage, then flexibility regarding what is covered in each section and which parts are emphasized to allow adaptation to the nature of the product and encourage innovation would be highly beneficial. The current level of prescription in the templates means that similar information may have to be repeated in different sections - for example the description of ESG characteristics may contain information also included in the description of the strategy in pre-contractual disclosures. We urge further streamlining of the templates to keep the disclosures as concise as possible. More examples of filled-in templates would also be welcome, so that FMPs can better understand how other types of product might use the templates and where there is some flexibility.

While we strongly advise against the use of templates, we have answered the subsequent questions of the consultation with our suggestions on how to adapt the templates to more closely align with their aims if this approach is maintained.









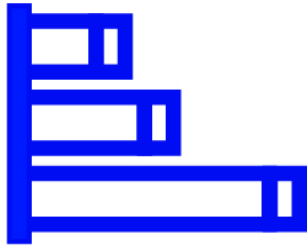
***Q2.** More specifically, how useful is the presentation of the information with the use of **icons** as visual aids (in mock-up 1 and 3)?

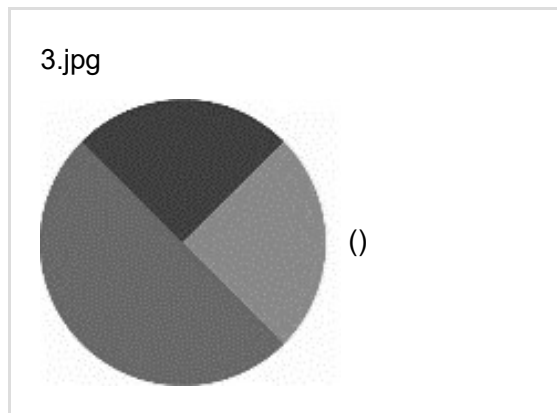
The pictures below show examples of the icons used in the templates.

between 1 and 1 choices

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Examples of the icons used in mock-up 1 and 3

<p>1.jpg</p>  <p>()</p>	<p>2.jpg</p>  <p>()</p>	<p>4.jpg</p>  <p>()</p>
<p>5.jpg</p>  <p>()</p>	<p>6.jpg</p>  <p>()</p>	<p>ESG_additional_icons_hands-01.jpg</p>  <p>()</p>
<p>ESG_additional_icons_pie_chart-01.jpg</p>  <p>()</p>	<p>ESG_additional_icons_clock-01.jpg</p>  <p>()</p>	<p>ESG_additional_icons_bar_chart-01.jpg</p>  <p>()</p>



Please explain:

We do not see any value-add in the icons and given that these pre-contractual disclosures will already add significant length to the documents we advise removing this feature. They risk distracting from the key information included in the documents.

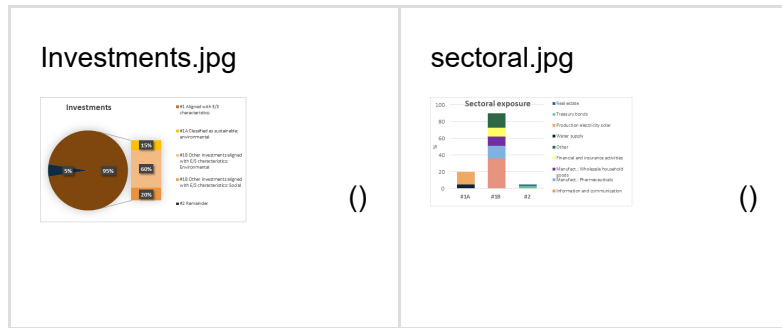
***Q3.** More specifically, how useful is the presentation of the information with the use of **graphs** as visual aids?

The graphs below are examples of the graphs used in the templates.

between 1 and 1 choices

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Examples of the graphs used



Please explain:

The simple breakdown between #1 and #2 could be useful. However, breaking down #1 further into #1A and #1B is confusing, regardless of the design of the graphic. Please see our answers to Questions 5 and 6 on the challenges of such breakdowns and the most appropriate location for these graphics.

*Q4. More specifically, how useful is the presentation of the information with the use of **explanatory notes**, in the column at the right side of the document, which are presented on a grey background)?

The picture below shows an example of one of the explanatory notes used in the templates.

between 1 and 1 choices

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

*The category **#1 Aligned with E/S characteristics** includes any investment that is aligned with the characteristic:*

*- The **Subcategory #1A***

covers investments that are qualified as sustainable. A sustainable investment means an investment in an economic activity that contributes to an environmental objective, measured for example by key resource efficiency indicators such as CO2 emissions, or the use of water, or an investment that contributes to a social objective, such as tackling inequality or that fosters social cohesion.

*- The **sub-category #1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that **do not** meet the criteria of 'sustainable investment'.*

Please explain:

We agree with the use of explanatory notes and advise that FMPs should have the flexibility to set the content of these notes themselves so that they can include the most relevant information for the specific product.

***Q5.** Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products? For example, with regards the distinction between the sub-categories of investments, namely between #1A and #1B?

The pictures below show examples of the use of #1A and #1B sub-categories in the templates.

between 1 and 1 choices

- Yes
 No
 Other

Illustrations of the distinction between sub-categories



The category **#1 Aligned with E/S characteristics** includes any investment that is aligned with the characteristic:

- The **Subcategory #1A** covers investments that are qualified as sustainable. A sustainable investment means an investment in an economic activity that contributes to an environmental objective, measured for example by key resource efficiency indicators such as CO2 emissions, or the use of water, or an investment that contributes to a social objective, such as tackling inequality or that fosters social cohesion.

- The **sub-category #1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that **do not** meet the criteria of 'sustainable investment'.

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Please explain:

In general, as per our answer to Question 1, we feel that the highly prescriptive templates do not support effective communication to clients and therefore advise standardising the information that is to be included, but allowing FMPs to determine the best way to present this information in order to ensure it is engaging and clear in relation to sustainability aspects. For example, for concentrated products with a thematic focus, calculating the exclusions as a proportion of the entire investable universe would not provide an accurate indication of the product's environmental or social focus. Equally, for some asset classes the extent of the investable universe is very challenging to capture given the range of instruments available to the strategy. FMPs should be able to focus on the most material information for the specific product in disclosures and reporting.

The templates do not give ample opportunity to articulate the value of engagement. We believe engagement adds value not only to investors but also to society as a whole in the way it encourages improvement in company and industry standards.

In terms of specifics, if the mandatory templates are maintained, the distinction between #1A and the two types of #1B may be confusing. Firstly, there is the issue of how to distinguish between #1B with environmental characteristics and #1B with social characteristics, when many investments may have both.

Secondly, Taxonomy disclosures will also require a breakdown in the same documents of Taxonomy-compliant and other investments, as well as a breakdown of which environmental objectives the investments contribute to. This information may also be presented in a visual format, and the adding the proposed graphics into the mix could cause confusion as they are not based on the Taxonomy framework.

Furthermore, the requirement to disclose the proportion of investments in Article 8 products that meet sustainable investment criteria will require all investments to be assessed against these criteria - despite this not being an objective of the product and potentially causing confusion with Article 9 products for end investors - as well as against the Taxonomy criteria for products with environmental characteristics. We agree that investments of both Article 8 and Article 9 products should not be required to be Taxonomy-compliant, however we don't see value in adding an additional framework to assess Article 8 investments against as is currently the approach in the draft RTS and accompanying templates. The requirements at the moment for Article 8 products in particular to disclose their contribution to sustainable investment objectives - given that this is not an objective of the product - seem to complicate the framework in use. We suggest removing the graphical representation of how much of the product is 'sustainable investments' for Article 8 products and the false distinction between investments with environmental and investments with social characteristics, as it risks misleading end investors about the objectives of the product, As noted in our answer to Question 3, at most we recommend maintaining the breakdown between #1 and #2.

Q6. Do you have any other suggestions or comments to improve the presentation of these disclosure documents?

As per our answer to Question 1, we strongly urge removing mandatory templates for disclosure and instead standardising the information that is to be included. The templates are likely to be challenging to navigate for retail clients, and do not allow FMPs flexibility to present the information in the most appropriate way for the specific product. As the templates stand, a lot of the information will be very repetitive and it may be difficult to navigate through the disclosures, particularly for retail investors.

Regardless of whether the templates are maintained or not, we would advise moving any dynamic elements in the pre-contractual disclosures - particularly the breakdown of investments that are aligned with E/S characteristics (assuming they are maintained in the final version, though we discourage this in our answer to Question 5), and the description of which sustainability objectives the investments contribute to - to the website disclosures. Such information could quickly become out of date due to portfolio turnover, which is not helpful for users of these documents. For periodic reporting, it could remain in the documentation.

In terms of more specific aspects of the documents, the answer in the example filled-in periodic reporting template relating to how the financial product performed compared with the reference and broad market benchmarks does not seem to fit the question. The wording of the question implies that it is referring to specific performance factors, whether financial or environmental/social. We request clarifying this in the final version if templates are maintained.

We are supportive of the inclusion of the top investments in periodic disclosures. Standard good practice is the top 10 investments, which we suggest is adopted in the RTS. We do not see that disclosing a longer list of holdings would add significant benefit, and so may unnecessarily extend the length of disclosures for end investors.

There also appear to be some inconsistencies with the RTS, for example in the language used in section titles. If templates are maintained, we advise that any templates and the final RTS use consistent language.

Clarification on the application and publication of such disclosure and reporting requirements to segregated mandates - which some have interpreted as falling within scope of the requirements under portfolio management services - would be greatly appreciated given confidentiality obligations.

Q7. When the templates are presented via **digital media, can you foresee any particular challenges? Can you suggest how these particular challenges could be overcome while retaining the core aspects of the standardised template format?**

No, we do not foresee any particular challenges with a digital format aside from the concerns listed above with the templates themselves. Using digital media for disclosures, whether based on a template or otherwise, may offer an opportunity to make the documents more interactive, with links to further information.

Useful links

Consultation Paper Draft RTS (<https://www.esma.europa.eu/press-news/consultations/joint-esa-consultation-esg-disclosures>) (<https://www.esma.europa.eu/press-news/consultations/joint-esa-consultation-esg-disclosures>)

Background Documents

Mock-up_1_Pre-contractual_with_icons

Mock-up_2_Pre-contractual_without_icons

Mock-up_3_Periodic_with_icons

Contact

Contact Form (</eusurvey/runner/contactform/ESGtemplatesSFDR>)
