

2021-05-12

Swedish Investment Fund Association's reply to ESA's consultation paper concerning taxonomy-related sustainability disclosures (JC 2021 22)

Introductory remarks

SIFA is supportive of the single rulebook approach proposed in this consultation. However, the timing issue will be very challenging. It appears unlikely that that financial market participants will have sufficient time to implement the new templates (in particular if the official translations are not available until published in the OJ).

Initially there will be a lack of taxonomy data, as non-financial undertakings will not publish information until later in the year. Additionally, there will be a lack of technical screening criteria for most of the environmental objectives in the taxonomy. This means that financial products will run the risk of appearing much less green than they actually are. This aspect will be very difficult, if not impossible, to explain to investors. Taken together, the initial disclosures run the risk of being so inadequate that they may not be appropriate for retail investors.

The calculation of green asset ratio proposed in this consultation raises an important question in relation to the relationship between the SFDR and the TR. It is clear that in the TR *green* should be determined at the level of an economic activity. It seems however that in the SFDR *sustainability* should be determined at the level of an undertaking and that it is either sustainable or not, i.e. it cannot be partially sustainable (for instance there is a reference to making "one or more sustainable investments"). This will inevitably lead to inconsistencies when calculating the green asset ratio under the TR and the level of sustainability under the SFDR. Additionally, the SFDR only makes references to investee companies which could be interpreted as not regarding sovereign green bonds as sustainable under the SFRD. These discrepancies will need to be addressed going forward.

Questions to stakeholders

Q1. Do you have any views regarding the ESAs' proposed approach to amend the existing SFDR RTS instead of drafting a new set of draft RTS?

SIFA believes it is beneficial that the rules are as coherent as possible and are therefore supportive of introducing the changes in the existing RTS, rather than developing a separate RTS.

Q2. Do you have any views on the KPI for the disclosure of the extent to which investments are aligned with the taxonomy, which is based on the share of the taxonomy-aligned turnover, capital expenditure or operational expenditure of all underlying non-financial investee companies? Do you agree with that the same approach should apply to all investments made by a given financial product?

SIFA does not object to the proposed approach. We believe that the same KPI should apply to all investments made by a given financial product. Further clarification would be welcome on the application of the KPIs to debt instruments.

Q3. Do you have any views on the benefits and drawbacks of including specifically operational expenditure of underlying non-financial investee companies as one of the possible ways to calculate the KPI referred to in question 2?

We agree with the disclosure of Op Ex.

Q4. The proposed KPI includes equity and debt instruments issued by financial and non-financial undertakings and real estate assets, do you agree that this could also be extended to derivatives such as contracts for differences?

No, we do not believe that it should be extended to derivatives, this would be overly complex.

Q5. Is the use of “equities” and “debt instruments” sufficiently clear to capture relevant instruments issued by investee companies? If not, how could that be clarified? Are any specific valuation criteria necessary to ensure that the disclosures are comparable?

Yes, this is sufficiently clear.

Q6. Do you have any views about including all investments, including sovereign bonds and other assets that cannot be assessed for taxonomy-alignment, of the financial product in the denominator for the KPI?

We have no objections to this suggestion.

Q7. Do you have any views on the statement of taxonomy compliance of the activities the financial product invests in and whether those statements should be subject to assessment by external or third parties?

SIFA has interpreted the statement mentioned in article 16a.3 a)-c) as a statement provided by the financial market participant, rather than the investee company (supported also by para. 36 of the background analysis). However, clarification that this is indeed the intention would be welcome.

Additionally, clarification is needed regarding the reference to third parties. In the articles reference is made to “an auditor or third party” while in the templates only the term “third party” is used. Could an ESG-information provider be regarded as a third party?

The framework as it stands is too complex and the practical application is too unclear for it to be appropriate to require assurance. At a later stage such requirements could be relevant for investee companies. This issue could possibly be addressed again in a few years' time when the framework has been fully implemented.

Q8. Do you have any views on the proposed periodic disclosures which mirror the proposals for pre-contractual amendments?

No comments.

Q9. Do you have any views on the amended pre-contractual and periodic templates?

As a general comment, we believe there is too much information in the templates. We don't believe this will be useful for retail investors.

It is unclear how taxonomy-alignment for sustainable investments focusing on the last 4 taxonomy objectives should be disclosed. The screening criteria will not be done for these 4 objectives by 2022. This question was raised at the ESA open hearing. We don't believe it is entirely appropriate to disclose to investors that investments in these 4 objectives is not at all taxonomy-aligned. This will be misleading for investors, in particular to retail investors, given the complexity of the issue and inter-links with SFDR. We would suggest that some interim solution is necessary.

In the interest of shortening and simplifying the templates, we don't see the need for the following question in the templates: "Why does the financial product invest in economic activities that are not environmentally sustainable?"

This question seems to be based on article 16a.1.ii and 23a.1.ii "where the financial product invests in economic activities that are not environmentally sustainable economic activities, a clear explanation of the reasons for doing so." (and article 61a.2.c and 67a.2.c "if the financial product invested in economic activities that are not environmentally sustainable economic activities during the reference period, a clear explanation of the reasons for doing so.").

This requirement is introduced based on article 5 and 6 in the taxonomy. However, SIFA is not convinced that such requirement can be derived from the taxonomy. Additionally, SIFA believes that such disclosure risks misleading a retail client that sustainable investments that are not taxonomy-aligned (e.g. the last 4 objectives) are less beneficial than those that are taxonomy-aligned.

Q10. The draft RTS propose unified pre-contractual and periodic templates applicable to all Article 8 and 9 SFDR products (including Article 5 and 6 TR products which are a sub-set of Article 8 and 9 SFDR products). Do you believe it would be preferable to have separate pre-contractual and periodic templates for Article 5-6 TR products, instead of using the same template for all Article 8-9 SFDR products?

SIFA believes that the same template should be used.

Q11. The draft RTS propose in the amended templates to identify whether products making sustainable investments do so according to the EU taxonomy. While this is done to clearly indicate whether Article 5 and 6 TR products (that make sustainable investments with environmental objectives) use the taxonomy, arguably this would have



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the effect of requiring Article 8 and 9 SFDR products making sustainable investments with social objectives to indicate that too. Do you agree with this proposal?

Disclosure of taxonomy-alignment should not be required for products with social sustainability objectives as such objective are not within the scope of the current taxonomy. There is a considerable risk that retail investors do not fully grasp the classification of sustainability objectives in environmental objectives and social objectives. If such disclosure was required, products with social objectives would comparatively appear less sustainable as these products would always need to disclose 0% alignment (as there are no screening criteria), despite it being impossible to achieve a higher level of alignment. Such disclosure is not be relevant until there is a taxonomy for social sustainability objectives.

Q12. Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?

The proposals will entail significant costs, in particular for smaller asset managers. However, we are unable to give an estimate.