

SIFA:s responses to ESAs Survey on templates for Environmental and/or Social financial products under SFDR

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

Our response: Fairly useful

Explanation: Templates should be limited in length and detail and discretion should, where appropriate, be left to financial market participants. Information on the strategy used to promote ESG characteristics or to pursue sustainable investment objectives should be included (i.e. whether products make use of ESG-integration, exclusions, best-in-class strategies, etc.)

SIFA notes that the templates are less standardised than for instance the templates used to meet the Swedish legal requirements on ESG disclosures, as the templates at hand are based on the use of freetext information as opposed to checkboxes etc. Although the freetext approach provides a more comprehensive picture of the products' ESG characteristics, large amounts of text risk being perceived as less accessible and comparable by investors, particularly retail investors.

SIFA also notes that the wording in the templates in some parts deviate from the terminology used in the level 1 rules. It is, for the purpose of legal clarity, of utmost importance that key terms are aligned throughout the legal framework.

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)?

Our response: Useless

Explanation: SIFA advises against the mandatory use of icons in the templates. The icons risk misleading the users of disclosures, moving their attention away from more important information and reducing the space available to report on the products' features. It is also technically difficult for the disclosing entities within our organisation to add the icons into the periodic and pre-contractual information they are producing.

Furthermore, mandatory icons may also potentially clash with accessibility requirements for the visually impaired, reduce documents' readability across different devices, and result in consistency issues with the visual branding of individual firms, which typically defines what icons can be used in reports

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

Our response: Neither useless nor useful

Explanation: In many cases multiple characteristics as well as multiple methods will be used in the same financial product. Mixing different characteristics and methods in the same graphic representation may be challenging and may be difficult for investors to understand. If integration or best in class strategies are used, it may well be that 100 % of the portfolio is screened. This may be misleading and possibly make it difficult for investors to see the difference between article 8 and 9 products. SIFA also notes that graphical representations can be useful to illustrate only some investment strategies and only in specific situations where data categories are limited (i.e. maximum five), but would be highly impractical, difficult to read and potentially misleading in case of certain strategies (e.g. negative exclusions) or when there is an high number of data categories, such as in the case of the sector analysis.

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)?

Our response: Fairly useless

Explanation: SIFA notes that the explanatory notes in the mock-ups contain new definitions and concepts. It is unclear to us if this is an attempt to harmonise definitions or if the information in the columns only serve as examples of what sort of information a disclosing entity may use the explanatory notes-section for. It is SIFA:s opinion that the explanatory notes should follow the same format of explanations/definitions provided in other parts of the Prospectus. To use the explanatory notes for definitions would deviate from the systematics of all other mandatory product information, which would be unfortunate. As stated above, SIFA also stresses the importance of alignment between the terms used in the templates and the definitions pertaining to the level 1 regulation.

If we assume that the intention is to harmonise definitions, the SIFA finds the added definition of "binding elements" particularly problematic. An investment fund does not have a predefined lifetime and consequently the definition of "binding elements" used in the template would prevent any changes to the funds ESG policies.

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 (see the attached pdf)?

Our response: No

Explanation: SIFA believes that the distinction between funds promoting ESG characteristics (article 8) and funds with sustainable investment objectives (article 9) is a regulatory distinction that as such is not comprehensive for investors. Allowing for further explanations in the pre-contractual disclosures may be useful to further guide them, however adding more sub-categories (1A and 1B) is adding even more to the confusion. In case of a fund under article 8 meeting the criteria of sustainable investment this can be further determined without such a distinction (1A and 1B) and would help investors develop a better understanding of the distinction between article 8 and article 9 products.

SIFA also notes the use of the wording "aligned with the characteristic". This wording is inconsistent with level 1 regulations and hence adds legal ambiguity.

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

Our response: To improve clarity and conciseness, SIFA recommends to place a limit to the document's length to maximum two or three pages, instead of six.

With regards to the list of the top 25 investments in mock-up 3, it shall be noted that categorisation based solely on sector and country would not be relevant for all types of funds. It is also unclear how the calculation of the - on average - top 25 investments is to be made.

SIFA also once again stresses the importance of alignment between the wording of the level 1 regulation and the terms used in the templates. The templates use the wording "this product has ESG objective" and "this product has ESG characteristics" to distinguish between article 9 and article 8 products. This is an inconsistency vis-a-vis the wording "product has

sustainable investments as its objective" and "this product promotes...", which risks creating further legal confusion.

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?

Our response: As indicated in our reply to Questions 2 and 3, SIFA believes that a shorter and simpler template, which does not mandate the use of icons and graphical representations, would improve the usability of the templates presented via digital media, to the benefit of users with specific accessibility needs and to improve readability across different digital devices. We also recommend, at least initially, to allow the use of a flexible format such as a searchable PDF for pre-contractual and periodic reports, rather more technical formats.