

The Swedish Investment Fund Associations' reply to the Joint Consultation Paper on the review of SFDR Delegated Regulation regarding PAI and financial product disclosures

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)?

SIFA believes that there is no need to push forward and make changes to the RTS at this point in time since the changes may be outdated once the EU Commission puts forward its proposals to modify the SFDR that can be expected in the course of 2024. A comprehensive assessment of the SFDR level 1 text is expected by Q4 2023, with a public consultation planned for the autumn 2023. The assessment of whether changes and new disclosures should be introduced in the RTS should be done based on the finalized review of the SFDR. A continuously ongoing revision process will not benefit consumers nor the sustainability work of the companies, risks of leading to further confusion and in worst case it will have negative effects on the credibility of the regulation and financial products. Adding further requirements at this time seem premature.

As for the proposal to introduce new PAI indicators, this may be a bit premature because FMPs have barely had time to implement the already existing PAIs. In this context, account should also be taken of the extensive problems of interpretation that exist for the existing PAIs. In such circumstances, adding new PAIs would not be conducive. Instead, the focus should be on remedying the existing interpretation problem. Any new requirements for PAIs should also not be introduced until the reporting of listed companies is in place. There are large implementation problems due to the misalignment between different legislations regarding sustainability transparency. It would be a mistake to repeat that unsatisfactory legislative process. We therefore welcome the fact that the ESAs used the (draft) disclosure requirements under the CSRD as a basis for defining new social PAI indicators. There should be a match between the fund companies' reporting and the underlying listed companies. That is, FMPs should not be required to report on additional disclosures before the investee companies are required to report this information.

SIFA supports the alignment between PAI indicators, and the indicators reported under ESRS. We also support the better coherence between the PAB and CTB standards (both include tobacco exclusions and controversial weapons exclusions) and the SFDR. It would be useful to clarify that PAI "trade unions or election worker representatives" are linked to S1-10 under ESRS and that worker representation is meant to cover workers representative. We would also like to bring the attention of the ESAs to the fact that PAI indicators should be linked to mandatory ESRS indicators. Alternatively, the new indicators could be made voluntary instead of mandatory.

For some of the proposed data points, it is difficult to know what is, for example, minimum wages and to compare these between countries in Europe. Several notions regarding wages co-exist, such as "adequate wage", "minimum wage" or "living wage". Definitions must be clear and linked to ESRS (the new European sustainability reporting standard).

One question that should be asked in this context is who FMP produces the PAI information for. Most investors will not be able to absorb the information because it is far too complex, and those who have a need for the information already have access to it through the FindatEx EET file. It is therefore worth considering whether the costs associated with producing the information for the PAI statements really outweigh the costs ultimately borne by investors. Taking all this into account consideration should be given to whether the PAI indicators have a *raison d'être* at all.

If new PAIs are added, these should at least be conditioned on being reported no earlier than one year after ESRS comes into force to ensure alignment with the companies' reporting. At the same time, it is important to remember that many of the portfolio companies will not report according to CSRD/ESRS, so the problems of data scarcity will still exist.

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

No. As mentioned under Q1, the focus should instead be on solving the interpretation problem that exists for the existing PAIs. In this way, FMPs can focus on improving information to investors.

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)?

As mentioned under Q1, FMPs have barely had time to produce the information required for the existing PAIs. Given the difficulties in obtaining the information required for existing PAIs and the interpretation problems surrounding them, it is currently difficult to reason about new PAIs. Before any further revisions are implemented in the current reporting template it is suggested that a more comprehensive analysis of the PAI report is conducted.

However, there may be some positive details in the proposal. But it requires that the data comes in from the investee companies. Any changes should be postponed until the ESRS is in place.

The proposal needs some more clarification on what to be considered excessive, insufficient, and so on. If it were up to the FMPs to define and develop thresholds (like for Sustainable Investments) there would be no comparability.

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

No.

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?

Given that FMPs barely had time to report PAI information according to the current regulation, it is, in SIFAs opinion, too early to make any changes to the PAI indicators. Instead, the focus should be on drawing conclusions from the PAI information provided and then try to remedy the identified shortcomings. Here the objective of the disclosure must be identified and evaluated.

If changes are done, we support the replacement of the UN Global Compact Principles by the UN Guiding Principles on Business and Human Rights and the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights to foster consistency and alignment where with the EU Taxonomy criteria on minimum safeguards, and with the social ESRS of the CSRD.

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?

As mentioned above, SIFA believes that ESAs should defer changing the level 2 regulation regarding, among other things, the PAI indicators. That said, we think it could be relevant to apply PAI indicators related to social matters to the entity in charge of the management of the real estate assets. However, further clarification is needed so that it is unambiguous when in the property's life cycle these indicators should be applied.

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?

As mentioned above, SIFA believes that this is not the time to introduce any new PAI indicators or to change the existing indicators. If it is not possible to wait for the level 1 review, changes to PAIs should at least not occur until some conclusions have been drawn from the data FMAs have reported for existing PAIs.

SIFA supports greater consistency and alignment where possible between the SFDR PAI indicators and the EU Taxonomy criteria.

Q8. Do you see any challenges in the interaction between the and 'current value of investment' for the calculation of the PAI indicators?

On an overall level it can be said that a major underlying problem that has been identified in all sustainability regulations is that there are many concepts/terms that would benefit from an uniform interpretation. The lack of common interpretations of different concepts/terms may lead to further

confusion and in the worst case it will have negative effects on the credibility of the regulation and financial products. Adding further requirements at this time seem premature.

The interaction between the two parameters requires in its nature a perfect harmonization in regard to point in time. Since absolute indicators such as indicator “1. GHG Emissions” for specific investments are dependent on the relationship between current value of investment and enterprise value, a disconnect in point of time could affect the outcome of the indicator. For example, a corporate action such as a merger could alter the enterprise value of an investment drastically, and if there is not a perfect harmonization of point in time, this could over or understate the principle adverse impact of the specific investment, and if that specific investment constitutes a material part of the total investment portfolio of the reporting entity, the final outcome of that principle adverse impact indicator could be quite misleading.

This is handled by the principle to use year-end enterprise value and the principle presented in the Q&A released by the Joint Committee on the 17th of November 2022 (JC 2022 62), section II Question 7:

“The quarterly impacts should be based on the current value of the investment derived from the valuation the individual investment (e.g., share) price valued at fiscal year-end multiplied by the quantity of investments (e.g., shares) held at the end of each quarter. In such manner the composition of the investments at the end of each quarter is taken into account, but the valuation reflects the fiscal-year end point in time”.

However, this solves the challenge of point in time but in practice it is more or less impossible to obtain a true value due to corporate actions. The change of share price between quarter’s are not only affected by market valuations but corporate actions such as stock splits, reverse splits, mergers, spin-offs, large one-time dividends. Meaning that the nominal shares could be associated with varying levels of adverse impact dependent on the circumstances around the company.

In order to simplify the calculation of Enterprise value, it should be clarified that the corporate debt should be valued in the same way as in the Annual report. This proposed solution needs a fixed conversion date for products denominated in other currencies than EUR to avoid currency effects between quarters. Our proposal is to use year-end conversion rate and apply it to all quarters.

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

The proposal provides for the use of the same periodicity for the calculations. The holdings must be calculated four times a year and it is appropriate that the base, i.e., the values of the portfolio companies, are recalculated with the same frequency. Even if it becomes more complicated, there is a great risk that it will otherwise be wrong.

It should be positive that common calculation methods should be introduced. However, it can be problematic to access the data required to make the calculations.

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?

Before any further revisions are implemented in current reporting templates it is suggested that a more comprehensive analysis of the PAI reports is conducted.

FMPs have had major problems reporting the PAI information required by the current level 2 regulation. The problems have persisted, among other things, in a lack of reliable data and a lack of clarity about what data should be included in the calculations. Despite FMP's efforts, the information obtained through the PAI indicators will not be comparable because the assessment of what is relevant underlying data for each PAI indicator varies from FMP to FMP.

However, SIFA welcomes the proposed clarifications of the list of indicators, in particular the split of Table 1 PAI 5 "Share of non-renewable energy consumption and production" into consumption and production. A clarification on a similar split for PAI 6 "Energy consumption intensity per high impact climate sector" in terms of table layout into NACE Sector A-L with sector names would be welcome. This since the wording in description column reads: "Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector," the logical conclusion would be to report this per high impact climate sector. However, the usefulness of making the change at present is questioned.

Covered and non-covered assets

For the definition and interpretation of "current value of all investments", we would like to distinguish between the metrics calculated as Weighted Averages, Ratio based and per €1M EUR invested and the metrics calculated as "Share of investments ..." where the input metric is binary (either the investee company is active in the fossil sector or not).

In the case of the latter definition of the metrics i.e., "Share of investments ..." we agree with the definition and interpretation of "current value of all investments".

While the formulas for the calculation of Total Carbon Emissions, Carbon Footprint & Carbon Intensity (both Corporate and Sovereign) use the term "Current value of all investments" in the denominator, the generally accepted interpretation in the market has been that this is treated as "Current value of all Covered investments". The rationale behind this has been that by calculating the metric only on the part of the investments for which data is available, and then scaling up the figure to represent the total size of the investments, we are essentially assuming that the un-covered investments, on average, will have the same value as the covered investments. While this will never be entirely accurate, it is likely more accurate than assuming that they have no Carbon Emissions at all.

Calculating a metric such as Carbon Footprint with "Current value of all investments" in the denominator regardless of whether the investment is considered eligible for the metric or whether data is available for the investment or not, would result in dilution of the result, and would be akin to greenwashing.

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?

It would be advantageous to clarify if the purpose of this question is to display the share of information obtained directly from the investee company with focus on the fact that the information was given directly by the investee company and not disclosed in public documents, or if the purpose of the question is to display the share of information that has been estimated or given directly or indirectly by the investee company.

It should be noted that it is often difficult to find out how the data provider received the data. Especially for small managers who cannot make demands. However, if all the managers have this requirement on them, the data providers will most likely deliver the information.

SIFA agrees that this information may be of value to the reader of the PAI statement. However, in terms of layout, it may be beneficial to introduce a new column to clarify the share of information that have been obtained directly from investee companies. As many FMPs rely on third-party data providers, it would also be welcome to clarify whether this ratio should be shown if the information were obtained directly from the investee by FMP or if it was obtained through a third-party data provider.

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?

The benefits of change must be seen in relation to the work required.

The proposal should either introduce a definition or a clarification of what is considered "relevant", otherwise it will only add additional complexity to the interpretation of the regulatory framework.

Given that the underlying purpose of FMPs producing the information is to increase transparency and to enable investors to compare different products with each other, it would be counterproductive to introduce calculations that gives the impression of precision but due to unclear definitions actually reduce comparability.

There are two different approaches.

1. To continue calculating current value of all investments as it is done today, meaning that for example all company investments are included even though they might not be relevant to the specific indicator has its pros and cons. An advantage is that the value of the indicator represents all of the investments and is an indicator of how “harm-intense” the entity or portfolio is.

The main drawback of this method is that the allocation between asset classes and data availability steers the final outcome, rather than the investments themselves, which is probably not what is intended. The argument that this method is more comparable across FMPs since the adverse impact of each €1M investment will display an outcome in the same format is simply incorrect since most indicators are dynamic ratios rather than absolute measures and that asset class allocation (for entities this is probably more an effect of product mix and internal size between these financial products), and data availability will affect the outcome rather than the investments.

Another drawback is that irrelevant investments could “overshadow” and hide how harmful relevant companies actually are. In a philosophical example you could own a couple of really harmful companies in terms of let’s say biodiversity, but their portfolio weights in relation to the investment portfolio of the entire entity or to the other investments within the portfolio is so low due to the size of other portfolios where this is less relevant that these really harmful companies are overshadowed by the allocation to investments where this adverse impact is irrelevant.

2. To calculate current value of all investments only where relevant for the specific indicator, meaning that companies where the indicator is naturally irrelevant are excluded from the calculation of this indicator.

The benefit of this approach is that the indicator only represents the relevant companies and are not affected or overshadowed by the size of other investment where the adverse impact is irrelevant. The indicators will also display outcomes that are more in line with the actual reported figures by the investments since they are not affected by a lot of 0-values and will appear more relevant and reasonable to the reader. Since most indicators are dynamic ratios, this approach will also be more comparable across FMPs than approach one since asset class allocation and data availability is taken out of the equation.

The disadvantages are that it does not represent the entire portfolio and is thus not an indicator for how “harm-intense” the portfolio is, rather how harmful the potentially harmful companies are. In a philosophical example you could own only one company where biodiversity is relevant, and that company is medium harmful. Since there is only one relevant company the total outcome of the entity could appear quite harmful, but “harm-intensity” of the portfolio is very low.

In SIFAs opinion, the second method shows more clearly the negative effects of investments, which is the main purpose of this reporting. It is also more comparable between FMPs and provides a result that is more reasonable and relevant compared to what the actual investments themselves report. However, this approach would require clear definitions of what is considered relevant or not relevant for each of the indicators.

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?

SIFA agrees with this proposal as it allows for alignment with the materiality assessment of the information in the value chain required by the ESRS in the CSRD.

Mandatory reporting should only be considered where there is public and reliable data. It should be clarified what is meant by 'easily accessible'. FMP should not be obliged to buy estimated data.

It is quite unclear how the information could be of any value when it is not complete or comparable. No self-assessment should be required.

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

Today, it is not clear how derivatives on financial indices should be handled. The proposal needs to be clarified to be consistent with other fund rules (UCITS and AIFM frameworks).

SIFA supports the inclusion of the net long exposure of derivatives in both the numerator and denominator of the PAI metrics calculation, given that they are likely to result in an offsetting long position in the market by the counterparty.

We do not support the inclusion of the exposure of all derivatives in the denominator (long, short and regardless of the nature of the underlying investment). A symmetric approach should be taken with regards to both the numerator and denominator when it comes to the treatment of derivatives.

In this context it should be noted that it is difficult to look through a financial index.

In the case of derivatives with underlying financial indices, we believe that their inclusion in PAI calculations should not be mandatory, while derivative instruments with individual shares (or baskets of shares that do not qualify for financial indices) should in principle be included (i.e., converted into a position in the underlying asset). Such a regime would be consistent with how the issuer's exposure is calculated for UCITS, for example, and discourage incentives to underestimate PAI by excluding derivatives in the numerator.

The proposal also contains the following wording: Where FMPs can show that this derivative does not ultimately result in a physical investment in the underlying security by the counterparty – or any other intermediary in the investment chain – the FMP would be allowed to consider that this derivative investment does not result in an adverse impact and should therefore be allowed to exclude it from the numerator.

It is not clear what "exception" means and whether such a possibility should exist. This therefore needs to be clarified. Furthermore, it is debatable whether it is reasonable to introduce requirements for FMPs to know/ask about not only their own trading but also about the counterparty/intermediaries in the investment chain (check the counterparty's hedging, etc.). This risks adding additional complexity/costs and the consequence may be that mainly larger players have resources for such management. As mentioned above, a simpler regime is preferred in which financial indices are excluded, while derivatives to be converted into underlying positions are considered in the calculation of PAIs.

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?

It would be good if the same method were used throughout all the sustainability regulations.

If netting is to be applied, it should be applied consequentially or not at all.

It should be clarified how index derivatives should be handled for taxonomy and sustainable investments.

If a so-called "look through approach" is required, it should be clearly stated. In principle it is reasonable to apply the same regime to derivatives in general as to PAI (see question 14 above and the answer thereto).

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?

All asset classes could be covered, e.g., corporate bonds and commercial papers. There is therefore a need for clarification in this part. If netting is to be applied, it should be applied consequently or not at all.

However, netting between asset classes with different risk and impact profiles will be more questionable.

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

SIFA believes that ESAs should await the European Commission's proposal for changes to the level 1 regulations before any changes are made to the level 2 regulations. In the event that any changes are nevertheless considered before the review of the Level 1 framework is completed, we believe that the Status Quo example should apply until then. We would support addressing the DNSH-related issues in the SFDR level 1 review of the EC with the aim of achieving a convergence and alignment of the definitions in SFDR and EU Taxonomy.

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.

SIFA agrees with the ESAs' assessment of the DNSH framework under SFDR to the point that a taxonomy-based system would be preferred.

We do not agree that there is a need to introduce mandatory thresholds for PAI indicators. PAI Indicators are reliant upon sectorial and geographical context. Imposing mandatory thresholds could lead to unwanted consequences and unintended green washing among harmful companies passing the thresholds. This would add complexity and not be helpful and provide much added value as financial market participants would keep full discretion on the methodology used. However, the PAI indicators can serve as a useful lens in the investment process to avoid significant harm. A mandatory use of PAI indicators for DNSH test, but without mandatory thresholds, is in our view a better solution. In addition to this, to adapt the current Taxonomy DNSH test to cover all company activities and classify the entire investment instead of the activity would be a good and practically feasible solution.

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

The proposal could be a suitable compromise until the European Commission's review of the Level 1 rules is completed.

There is still an issue of the asymmetry between a DNSH done at the issuer level under 2(17) and the no significant harm assessment under the Taxonomy Regulation done at the activity level. The ESAs should clarify the link between the taxonomy aligned activity and a sustainable investment.

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.

At present it can be difficult to reconcile the assessments between the different regulations in general. SIFA therefore agrees that the Taxonomy TSC can be a good starting point for a DNSH assessment.

DNSH-related issues should be addressed in the SFDR level 1 review conducted by the EC. The primary objective would be to align the definitions in both the SFDR and EU Taxonomy. An ideal outcome would involve transitioning towards a unified taxonomy-based system for DNSH. This would reduce the uncertainties surrounding the definition of what is to be considered as sustainable.

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

There is no need to push forward and make changes at level 2 at this point in time since they may be outdated once the EU Commission puts forward its proposals to modify the SFDR that can be expected in the course of 2024.

The development of a brown/red taxonomy could address the challenges when it comes to greenwashing and increasing comparability.

For the time being, the best thing from a greenwashing perspective would probably be not to change the level 2 regulatory framework just before the European Commission begins its review of the level 1 regulatory framework. A constantly changing regulatory framework can entail a significant risk of greenwashing. If ESAs would move forward with proposed changes, a simplification would be welcome. The current disclosure is an overload of information which are not useful for end investor. A standardization of key concepts (exclusions, thresholds, or list of “sustainable “issuers). While the ESAs are claiming that the question would not be an additional burden on FMP, in reality there is an incentive to be able to answer positively so that the ESAs are in fact “pushing” for a certain type of products. However, any changes should be designed to be unaffected by the revision of the Level 1 framework.



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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.

The proposal is much clearer and easier to base investment decisions on. The inclusion of GHG emissions reduction is a welcomed change and in line with end-customer interest.

One problem with the proposal is that the information to be provided it is far too detailed. Given that the field of sustainability is constantly evolving, there is a risk that specific information requirements will be obsolete in the near future. ESAs should therefore consider asking the questions in a more "sustainable" way.

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.

SIFA would prefer a specific disclosure for financial products having GHG emission reduction as their investment objective under Article 9(3) SFDR. The reason for this is that these products differ from other article 9 funds i.e., article 9(1) and 9(2) with the fundamental difference that Sustainable Investments is applicable on the product/fund level and not on single constituent level. This is better and more clearly explained in a specific disclosure for these types of products.

SIFA would also like to stress that adding a hyperlink will probably not add clarity or comparability for any stakeholder, therefore a specific disclosure for Article 9(3) products will add clarity and be helpful for all stakeholders.

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.

SIFA understands the need to break down the data in the way ESAs describe. In the eyes of a typical investor, it is easy to get information on, and to understand if a fund invests in fossil energy or if it invest in big emitters. It is much more complicated to present a fund that invest in companies with big emissions today but have ambitious transition plans. However, the question is whether there really is an advantage to breaking down data in this way in the pre-purchase information.

Active ownership is performed by a lot of fund managers, both large and small. However, since a UCITS-fund cannot hold positions in an investee company that gives them control or significant influence, it is fundamentally questionable to draw up legislation based on "active ownership". It is also a problem to measure the activities and result.

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.

No, there is no reliable data for a mandatory disclosure. The existing “data” is only forward-looking and could at best be called an estimate. Past performance data from a base-year could serve a point, and the addition of a green to brown energy investment ratio could be more appropriate methods to visualize the funds Paris-Alignment.

To show an end customer how the investee companies have pledged and promised something without any follow-up with real data could be considered as greenwashing and should not be included in pre-contractual information.

SIFA believes that there should not be any disclosure requirements on data that is not part of the investee companies mandatory reporting.

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.

Provided that it is clear what ESAs means by ‘all investments’ so that there is no doubt as to which assets should be included, SIFA does not oppose the proposal, if there is an understanding of the difficulty of producing the requested data.

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.

It might be a good idea to require that Financed GHG emissions reduction targets should be set and disclosed. But something that should be kept in mind is that this requirement disqualifies strategies focused on iterative transition (i.e., to buy somewhat brown or inefficient assets and actively transition them and then sell and re-iterate). As this would be a far more efficient strategy to achieve the long-term objectives of the Paris Agreement, flexibility in terms of expectation for such strategies would be needed.

However, given that current level 2 rules have been difficult to implement in FMP's operations due to the fact that other regulations (e.g., the Taxonomy) have not yet been developed, it would be less appropriate to make the level 2 rules dependent on further unfinished regulations.

When investee companies report on CSRD and the effectiveness on SFDR reporting is evaluated the proposal could be a next step.

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 ESRS E1? Please explain your answer.

Yes. As long as the companies exclude the carbon credits as well, it makes sense to align with CSRD.

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.

It is important to realize that not all assets are sustainable initially. However, this does not necessarily mean that investments cannot be part of the transition to a more sustainable future. Investing in an asset that is in transition can be a responsible choice, as long as there is a clear plan to reduce emissions and near-term activities that ensures that the operations move towards increased sustainability. While it is important to invest in companies that are already green, financing the transition will be crucial to achieving the EU's climate goals.

A transition plan on entity-level makes little sense for an end customer. There are numerous aspects of the data reported and they are not comparable which means that the customer power cannot be conducted in a meaningful way. As the customer invests in a specific product with specific characteristics the entity level is to a large part a residual to the specific products characteristics, and the potential gap between the two is not information that can be acted upon.

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?

SIFA welcomes changes aimed at improved simplicity, readability, and usability of the templates. However, given that the proposed changes and simplifications will have a major impact on the industry, no changes should be made until the review of the level 1 regulation is completed. Otherwise, there is an elevated risk that the annexes will have to be revised once more once the review is complete. Any change should be thoroughly tested with end consumers before being made.

It is positive that the box is being revised because it is not entirely clear at present how and what information is to be provided in the box. However, the proposed design of the dashboard entails a risk that investors will only read the contents of the box and not read the other information in the appendices. This is problematic because investors may get the impression that sustainable investment means the same thing for all FMPs. To reduce the risk of investors misinterpreting the concept of sustainable investments, a clarification could be added to the horizontal box describing sustainable investments (next to the dashboard). In addition, until there is a common and more detailed method, the dashboard should include a summary of the method that the FMP is using to determine what is a sustainable investment.

Something else that is striking about the proposed dashboard is that there is an increased focus on environmental characteristics. The question is whether the dashboard and the color choice for it really gives a true and fair view of all types of funds, for instance, a fund that focuses on social commitments.

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?

The annexes could be shortened and simplified by e.g., only asking high-level questions about how FMP implements and works with sustainability. Many of the questions raised in the annexes are at such a level of detail that only a few investors can understand them, and even fewer have a need for the information to assess whether the fund is investing in a desirable way.

Furthermore, consideration should be given to introducing a numbering of the questions in the annexes so that the questions can be easily referenced.

Critical to conduct extensive consumer-testing in all markets, to ensure that the proposals improve consumers' understanding and match their information needs. Full transparency on how the consumer testing is conducted must be provided.

Even with the proposed simplifications SIFA believes that the disclosure information is still too complex to be used in communication with retail investors.

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

Legibility could overall be increased if the questions in the annexes II-V were clarified so that it is clear what FMPs are expected to answer. Furthermore, legibility could be increased if the response length for each question was limited.

SIFA supports the removal of the asset allocation graphs, which are not mathematically correct because the percentages are being calculated in reference to all investments as opposed to the assets included in the previous box.

The following is a more detailed list of suggestions on how to further simplify or enhance the legibility of the current templates.

1. The addition of fossil gas and nuclear energy to the EU Taxonomy triggered the sub-question "Does the product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?" in annex II and III to the main question "What is the minimum proportion of EU Taxonomy investments?" Depending on the purpose of the question the phrasing of the question is a bit misguided as it could be interpreted as a question on if these investments are allowed at all (exclusion strategy) or if the company makes commitments to invest in fossil gas or nuclear energy. As the purpose probably is to inform the reader if the FMP allows itself to account taxonomy aligned fossil gas and nuclear energy activities towards its minimum proportions of taxonomy aligned investment. If that is the case the phrasing "Does the product include fossil gas

and/or nuclear energy related activities that comply with the EU Taxonomy in its minimum proportion of EU Taxonomy investments?” could be more in line with the purpose of the question.

The visualization of the questions under the main question and sub-question on fossil gas and nuclear energy also involves sub-visualizations of levels of taxonomy aligned fossil gas and nuclear energy activities, which indicates that if the FMP answers that the product invests in fossil gas and/or nuclear energy, the FMP needs to set minimum sub-levels of taxonomy alignment for fossil gas and/nuclear energy. It is probably more in line with the purpose of the question not to imply the need for minimum sub-levels and only visualize the total minimum proportion of EU Taxonomy investments.

2. The lack of clarity on the need for PAI indicator reporting according to Annex I is perhaps a SFDR Level 1 problem, but it could be clarified in Annexes IV and V if the Table 1 from Annex 1 is included in the RTS-templates. It would be preferred if the reader can read a products PAI-statement in the periodic reporting instead of in an Annex, or depending on interpretation, not at all. Products should report on all Table 1 indicators and should chose 1 indicator from Table 2 and 1 from Table 3 independent on which Table 2 and Table 3 indicators the entity has chosen. PAI statement on entity level have some value of information regarding sustainability performance but is heavily influenced by the product portfolio and their inter-entity size and for some indicators also by size of the entity. On product level this would be a good way to display the sustainability performance with more context and allow for further comparability between products with similar investment focus.
3. In Annex IV and V, under the question “What were the largest investments of this product?” it is not relevant to disclose this information for derivatives and fund units as the purpose of the question is investment exposure, not domicile of a fund management company or derivative originator.
4. In Annex II & III rephrase the question “Does the product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?” to “Does the product include fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy in its minimum proportion of EU Taxonomy investments?” and remove the implication that sub-levels of fossil gas and/or nuclear energy should be set and visualized.
5. Introduce Table 1 from Annex I into Annexes IV and V to clarify the need for PAI statement on product level to increase comparability between products with similar investment focus.
6. Remove the requirement to disclose country and sector for fund units and derivatives, as this is not applicable to fund units.

Please note that this is not an exhaustive list and that any that any changes should be thoroughly tested with end consumers before being made.

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

No, the investment tree in the asset allocation section is not necessary since the proposed dashboard shows the relevant levels of sustainable and taxonomy-aligned investments. Since levels of promotion of E/S characteristics does not have the same status in the advisory and distribution process under the Sustainability preferences of MiFID II, it is less relevant to display such data.

With the clarification in the Consolidated Q/A, released on the 17th of May 2023 (JC 2023 18), that common stock can be classified as a sustainable investment, there is a natural conflict between reporting taxonomy aligned investments and sustainable investments with taxonomy aligned objectives, where the later can be larger than the former for the same investment.

The removal of the investment tree also reduces the risk of investments, that contribute to both environmental and social objectives, being double counted.

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

SIFA would prefer that this, as today, is optional as long as the content does not differ.

This time, writable attachments must be made available to FMPs, without undue delay, in all Member States' languages and in an accessible format. The symbols to be included in the margins of the annexes must also be available in an accessible format. The introduction of the last versions discriminated FMPs using other languages than English. Such mistakes in the legislative process should be avoided.

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

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

As far as estimates are concerned, they should not be regulated but treated as indicative information. Fund managers should always take responsibility for information provided by the fund and it is therefore not important who actually made the estimates.

If FMPs uses a data provider to source the reported data, that data should be considered “reported” and not “estimated”.

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?

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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.

Increased comparability is best achieved by adjusting the level 1 rules, only then can ESA develop guidance on how to calculate the share.

The definition of “sustainable investments” in SFDR Article 2(17) should be clarified. Only after that, rules on the calculation of the proportion of sustainable investments of financial products are useful as clarity and thus legal certainty on this matter are important for both product providers and investors.

Sustainable investments are not defined today, neither to their characteristic or the quantitative thresholds. Since the sustainability preferences in IDD and Mifid is supposed to be quantified as percentage and gives the impression of precision, investors are misled when taking advice or if they should happen to read the information on their own.

The commissions answer regarding the ESAs question on sustainable investment is not satisfactory and stands in sharp contrast to the specification in the information required in level 2.

SIFA therefore believes that a more harmonized way of classifying sustainable investments is a welcomed improvement. However, it is important that the regulation stays neutral, or somewhat neutral, in terms of the grounds for classifying sustainable investments. Resource-efficiency and operational efficiency can in many cases be as important as revenue-based metrics in terms of classifying sustainable investments, especially for social objectives such as gender equality and social inclusion.

If quantitative thresholds are introduced, they should only be applied to the specific grounds for classifying sustainable investments. This implies that different approaches and grounds for classifying sustainable investments would need to exist to facilitate this.

There is also a still a big difference between data providers and their tendency to classify revenue or impact, which would require an additional approach for relative assessments such as percentiles. Otherwise, this type of standardization can lead to greenwashing as FMPs chooses the data provider with the most generous approach, and might also disqualify activities with naturally low levels of revenue due to for example immaturity of customer markets etc.

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

Yes.

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

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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



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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?

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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?

For this to happen, ESAs must provide fillable and machine-readable templates for the annexes and the templates must be available in the languages of each Member State, at the same time.

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

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