

25th August 2020

Dear Sir/Madam

I am writing to you with regard to the consultation on the draft regulatory technical standards (RTS) for the content, methodologies and presentation of disclosures pursuant to the Sustainable Finance Disclosure Regulation (SFDR).

The Institutional Investors Group on Climate Change (IIGCC) has more than 250 members, mainly pension funds and asset managers, across 15 countries and representing over £33 trillion in assets under management. As the leading investor group on climate change in Europe, the IIGCC strongly supports the efforts of the EU commission to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. Robust, transparent and comparable disclosure of ESG information by financial actors is an important component of that objective. We therefore welcome the aims and objectives of the Commission and European Supervisory Agency's (ESAs) with regard to the SFDR and the RTS.

We have provided information to our members in relation to the forthcoming requirements under the SFDR and the consultation on the RTS. We therefore wanted to take the opportunity to reflect and summarise some of the key concerns that have been raised by our members during this process. We hope the suggestions below can inform the consultation process, ensure that disclosures are robust, provide useful information to consumers, and lead to more effective investor action, as well as being practical to implement. These concerns of our members focus on 5 key issues: data availability; achieving objectives; article 8 and 9 definitions; linkages to the EU taxonomy; and implementation timeframes and expectations.

#### *Data availability*

The RTS lists 32 mandatory indicators for PAI disclosure. Initial analysis by our members indicate that there is less than 50% coverage of mandatory indicators by leading data providers. While the potential expansion of reporting under a revised NFRD may address some of these gaps, there is likely to be a significant challenge for many financial market participants to provide complete, accurate and consistent data for many of these indicators. The task of direct data collection, which is expected under the proposed RTS provisions, will be extremely onerous and potentially costly for many financial market participants, to an extent that is not clearly proportionate to the value of disclosure of some PAI indicators. It may be beneficial to consider whether a subset of indicators that are the most important and where data is more readily available should be disclosed, at least during an initial period.

#### *Achieving objectives of transparency and action in relation to material impacts*

The current proposals treat any adverse impact as material, and do not therefore enable customers to understand relative impact or performance that may be reasonable. The focus on quantifying all

adverse impacts at any level risks obscuring where such impacts should be truly considered 'principal'. The volume of quantified information disclosed may also not result in information that is meaningful or comprehensible to customers of financial products.

The approach to provision of quantified information also does not adequately reflect where investors are taking action to influence the trajectory of these adverse impacts. For example, investors can have a significant impact through company engagement and exercise of ownership rights, as demonstrated by recent net-zero commitments by European oil & gas majors following investor engagement. Allocating capital to high carbon companies is integral to this strategy, as it confers the ownership rights that enabling engagement and voting strategies to be implemented. As currently presented, quantification of the indicators may provide a potentially misleading and inaccurate understanding of the impact of a financial firm or portfolio. Putting greater emphasis on how investors conduct due diligence and how adverse impacts are being addressed through investor action, instead of encouraging a focus on calculating, estimating and reporting the snapshot of quantified impact information would encourage action by investors that lead to positive sustainability outcomes over time.

We would suggest consideration of the balance between quantitative and qualitative information, and whether materiality thresholds would be beneficial.

#### *Article 8 & 9 definitions*

Our members have also raised some concerns regarding the definitions of products that promote environmental or social characteristics (Article 8) and products that have sustainable investment as the objective (Article 9). Further clarity on the definition of such products would be beneficial and consideration of whether reporting against the 32 indicators is relevant in all cases. In particular, Article 8 products potentially capture a very large range of ESG characteristics. It is not clear, for example, whether it is proportionate or relevant to have reporting for all indicators where the aforementioned product characteristics relate to a very limited exclusion policy. This approach may discourage firms from offering certain types of ESG products, rather than encouraging appropriate transparency in which the consumer may have a legitimate interest.

We would also note our ongoing concern regarding the emphasis on benchmarks that meet the criteria of the EU CTB or PAB as relevant for demonstrating sustainability characteristics, as noted in the publication of IIGCC's Net Zero Investment Framework<sup>1</sup>.

In this regard we would propose providing greater clarity on which types of ESG characteristics are relevant and how they should relate to disclosure requirements as well as reviewing the approach to benchmark requirements.

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<sup>1</sup> <https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmdl=3602&refresh=5f3522b4ca1c91597317812>

*Linkages to the EU taxonomy*

IIGCC welcomes the introduction of the EU taxonomy of sustainable economic activities. As noted by the ESAs there are linkages between the concept of principal adverse impacts and 'Do No Significant Harm' (DNSH). Given the divergence in timings between the development and entry into force of the SFDR and the Taxonomy there is a significant risk of conflicting reporting requirements and approaches, leading to lower transparency and clarity for clients and stakeholders. We would encourage the ESAs and EU Commission to review the linkages and revise reporting requirements as relevant to ensure an unintentional dual system is not created.

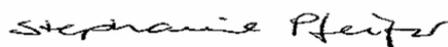
*Implementation timeframes and expectations*

The regulation will take effect from March 2021 with first disclosures from June 2021. Given the RTS are still in development, this provides limited time for financial market participants to collect the data necessary to report. It also means that various regulatory interlinkages, such as those with the Taxonomy regulation, are unlikely to be fully resolved. It would therefore be beneficial to clarify how the ESAs and the Commission will treat the early years of implementation, and ensure that best effort attempts by investors to comply with the legislation are taken into account, and to consider whether a phased approach to implementation would be more appropriate in this instance. For example, this could focus on disclosure of a smaller set of principal adverse impact indicators for which data is more readily available.

We welcome your consideration of these concerns, and we and our members look forward to continuing to engage with you to ensure the final RTS results in proportionate and effective disclosures that support the objective of reorienting capital flows towards sustainable investment and avoid the risk that disclosures provide inaccurate, misleading or non-relevant information or reduce the incentives for investors to actively address the adverse impacts of their investments.

We would welcome the chance to discuss this with you and thank you for your consideration.

On behalf of IIGCC,



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