

Hearing on Joint ESAs CP on SFDR Delegated Regulation

6 June 2023



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Agenda for hearing

- 09:30 – 10:00 Welcoming remarks and overview of CP
- 10:00 – 12:00 Session 1: PAI indicators and PAI framework
- 12:00 – 13:00 Lunch break
- 13:00 – 14:30 Session 2: Simplification of templates & MOP changes
- 14:30 – 14:45 Coffee break
- 14:45 – 16:30 Session 3: DNSH changes & GHG emissions reduction target disclosures
- 16:30 – 16:45 Concluding remarks

Welcoming remarks: Hearing on Joint ESAs CP on SFDR Delegated Regulation

Antonio Barattelli, ESMA



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Overview

Joint ESAs CP on SFDR Delegated Regulation

Pedro Duarte Neves, Chair of Joint Committee Subcommittee on
Consumer Protection and Financial Innovation



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Joint SFDR Consultation Paper – background

The SFDR aims to:

- Enhance comparability of products
- Create level playing field for products/distribution channels
- Reduce information asymmetries
- Tackle “greenwashing”

Joint SFDR Consultation Paper – mandate

On 28 April 2022 Commission mandated ESAs to amend SFDR DR with regard to:

1. Expansion and streamlining of SFDR principal adverse impact (PAI) indicators
2. Financial product disclosure of decarbonisation targets

In addition the ESAs made proposals related to other provisions.

- Publication joint consultation paper on **12 April 2023**
- Public hearing today **6 June 2023**
- Deadline for comment: **4 July 2023**



PAI framework

Expansion of social PAI indicators

Technical revision of PAI framework

Financial products: Templates & disclosures on products with underlying investment options

Simplification of financial product templates

Complemented the provisions for financial products with underlying investment options (includes MOPs)

DNSH review

Enhanced disclosure of DNSH for sustainable investments: transparency on thresholds used

GHG emissions reduction targets

Three levels of GHG emissions reduction target disclosure



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Next steps

- Public hearing today
- Consumer testing in some Member States during consultation period
- Consultation ends 4 July 2023
- Final report estimated submission to Commission: end October 2023



New PAI indicators and changes to PAI framework

Patrik Karlsson, ESMA



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PAI framework - Expansion of social PAI indicators

- Convergence with ESRS where possible

Four new mandatory social PAI indicators, covering:

- Earnings in non-cooperative tax jurisdictions
- Tobacco cultivation and production
- Trade union formation
- Low wages

Six new opt-in social PAI indicators, covering:

- Use of non-guaranteed hours
- Use of temporary contracts
- Use of non-employee workers
- Non-employment of persons with disabilities
- Complaints by affected communities or consumers

New social indicators

	14. Amount of accumulated earnings in non-cooperative tax jurisdictions	Amount of accumulated earnings at the end of the relevant financial year from investee companies where the total consolidated revenue on their balance sheet date for each of the last two consecutive financial years exceeds total of EUR 750M in jurisdictions that appear on the revised EU list of non-cooperative jurisdictions for tax purposes				
	15. Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				
	16. Exposure to companies involved in the cultivation and production of tobacco	Share of investments in investee companies involved in the cultivation and production of tobacco				
	17. Interference in the formation of trade unions	Share of investments in investee companies without				



	or elections of worker representatives	commitments on their non-interference in the formation of trade unions or election of worker representatives				
	18. Share of employees of investee companies earning less than the adequate wage	Average percentage of employees in investee companies earning less than the adequate wage				

Technical revision of PAI framework

- New formulae for most PAI indicators
- New definition of “all investments” from Q&As
- Minor changes to formulation and metrics
- Disclosure of share of information generated directly from entities
- Question regarding approach for denominator: all investments or applicable investments
- Value chain inclusion (where reported under ESRS)
- Derivatives for PAI (using conversion method from UCITS/AIFMD where exposure to security)

New definition of “current value of all investments”

- (4) ‘current value of all investments’ means the value in EUR of the following investments of the financial market participant:
- i. for financial market participants referred to in Article 2(1)(a) of Regulation (EU) 2019/2088, the following balance sheet items: holdings in related undertakings, including participations (item R0090), equities (item R0100), bonds (item R0130), collective investment undertakings (item R0180), derivatives (item R0190), deposits other than cash equivalents (item R0200), other investments (item R0210), assets held for index-linked and unit-linked contracts (item R0220), loans and mortgages (item R0230), deposits to cedants (item R0350) and cash and cash equivalents (item R0410), as defined in Annex I to Commission Implementing Regulation (EU) 2015/2452⁴⁹;
 - ii. for financial market participants referred to in Article 2(1)(b) and (j) of Regulation (EU) 2019/2088, financial instruments and financial contracts (including cash and cash equivalents) held as part of the activity of portfolio management as defined in Article 4(1), point (8), of Directive 2014/65/EU;
 - iii. for financial market participants referred to in Article 2(1)(c) of Regulation (EU) 2019/2088, the following lines from the balance sheet: currency and deposits, debt securities, loans, equity, investment fund shares/units, pension fund reserves, financial derivatives, other accounts receivable/payable, non-financial assets as referred to in Table 1a of Annex I of Regulation (EU) 2018/231 of the European Central Bank⁵⁰ and real estate property as referred to in Table 1 of Chapter 7 of Annex A to Regulation (EU) No 549/2013⁵¹;
 - iv. for financial market participants referred to in Article 2(1)(e), (g), (h) and (i) of Regulation (EU) 2019/2088, all assets under management resulting from both collective and portfolio management activities;

New formulae

(32) ‘investments in companies producing pesticides and other agro-chemicals’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\begin{array}{l} \text{Current value of investment in investee companies the activities of which} \\ \text{fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006}_i \end{array} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(33) ‘land degradation, desertification, soil sealing’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\begin{array}{l} \text{Current value of investment in investee companies the activities of} \\ \text{which cause land degradation, desertification or soil sealing}_i \end{array} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(34) ‘investments in companies without sustainable land-agriculture practices or policies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\begin{array}{l} \text{Current value of investment in investee companies without} \\ \text{sustainable land or agriculture practices or policies}_i \end{array} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(35) ‘investments in companies without sustainable oceans/seas practices or policies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\begin{array}{l} \text{current value of investment in investee companies without} \\ \text{sustainable oceans or seas practices or policies}_i \end{array} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

Q&As

Please submit written questions for
ESAs staff consideration



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LUNCH BREAK

Return: 13:00



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Simplification of templates and MOP changes

Ursula Bordas, EIOPA



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Financial products: changes to templates and MOP provisions

Simplification of financial product templates

- Dashboard
- Language simplified

Financial products with underlying investment options (includes MOPs):

- New website disclosure regime
- Templates to be used also for investment options that are not financial products
- Periodic disclosure cross-referencing

Simplification of financial product templates

- Dashboard – key information replacing current “tick box”
- Asset allocation breakdown removed due to overlap with new dashboard
- Language simplified
- Complex terms replaced

The **EU Taxonomy** defines **environmentally sustainable economic activities according to specific criteria**. Not all environmentally sustainable investments meet the EU Taxonomy criteria.

Article 8 pre-contractual dashboard

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and society.

The EU Taxonomy defines **environmentally sustainable economic activities** according to specific criteria. Not all sustainable investments with an environmental objective meet the EU Taxonomy criteria.

Pre-contractual information: Environmental and/or social characteristics *[delete environmental or social if not applicable]*

This product has some sustainability characteristics, but does not have sustainable investment as its objective

[include the environmental and/or social characteristic(s) promoted by the product and the [X]% of the product's investments that promote those characteristics – 250 character limit with spaces]

[if q%>0 use green icon and text:] Minimum sustainable investments = [q]%
[if q%=0 use grey icon, remove green box on the right and use text:] This product does not commit to making sustainable investments.

[if r%>0 use dark green icon and text:] Minimum EU Taxonomy investments = [r, calculated according to Article 17 of this Regulation]%
[if r%=0 use grey icon, remove dark green box on the right and use text:] This product does not commit to making EU Taxonomy investments.

This product *[does not]* considers the most significant negative impacts of its investments on the environment and society. *[use grey icon where the product does not]*

This product targets a reduction of ___% of greenhouse gas emissions in the atmosphere by ___.*[mention the date of achievement of the target]. [remove this statement and icon where the product does not have a decarbonisation target]*

q%

r%

Other changes to the templates

- Delivery of financial products' pre-contractual and periodic templates electronically
- Colour discretion removed from financial product templates
- Question to stakeholders: how to ensure machine readability of SFDR disclosures

Financial products with investment options (including MOPs)

- New **website disclosure** regime: list of options and summary information
- Templates are to be used for any **investment options, also those that are not financial products**, but not MiFID instruments (except for CIU units) – where such options qualify the financial product with investment options as promoting environmental/social characteristics or having sustainable investment as its objective
- **Periodic disclosure** cross-referencing allowed (previously only allowed for pre-contractual disclosures)

Q&As

Please submit written questions for
ESAs staff consideration



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COFFEE BREAK

Return: 14:45



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DNSH framework / GHG emissions reduction target disclosure / other technical changes

Patrik Karlsson, ESMA



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DNSH review

- Enhanced disclosure of DNSH for sustainable investments: transparency on thresholds used
 - Questions to stakeholders:
 - ✓ Status quo?
 - ✓ Optional safe harbour for environmental DNSH disclosures?
 - ✓ Longer term considerations regarding viability of two DNSH concepts?

DNSH disclosures of thresholds

With regards to sustainable investments, how do they not cause significant harm to any environmental or social objective? *[include a description for the financial product that partially intends to make sustainable investments]*

How are the indicators to assess the most significant negative impacts of the investments on the environment and society taken into account for this assessment? [include an explanation of how the indicators for adverse impacts in Table 1 of Annex I and any relevant indicators in Tables 2 and 3 of Annex I, are taken into account. If the financial product uses thresholds to determine that sustainable investments do not significantly harm any environmental or social objective under the PAI indicators in Annex I of this Regulation, provide a concise explanation of how they were determined and provide a hyperlink to the section on the website where further explanations and the thresholds are disclosed.]

Link where detailed information is provided:

How are the sustainable investments consistent with the relevant international standards? Details: [include an explanation on the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights]

GHG emissions reduction target disclosure

- Three levels:
 - Pre-contractual and periodic template dashboards: simplified
 - Pre-contractual and periodic template: more in-depth
 - Website disclosures: significant detail
- Article 9(3) financial products passively tracking PAB or CTB can use benchmark disclosure
- Requirements:
 - Investments must deliver reductions of financed GHG emissions over time
 - Targets should be disclosed using financed GHG emissions expressed in tonnes of CO₂-equivalent per millions EUR of investments
 - Intermediate targets mandatory
 - Use Partnership for Carbon Accounting Financials (“PCAF”) standards for measurement of baseline and progress
 - GHG removals and carbon credits should be disclosed separately if at all

Dashboard disclosure of GHG emissions reduction target



This product targets a reduction of ___% of greenhouse gas emissions in the atmosphere by ____.*[mention the date of achievement of the target]. [remove this statement and icon where the product does not have a decarbonisation target]*

GHG emission reduction template disclosures (pre-contractual)



Does this product have a greenhouse gas (GHG) emission reduction target?

[Include notes only for financial products that have a GHG emission reduction target]

Greenhouse gases (GHG) are those gases, including carbon dioxide, that are responsible for the “greenhouse effect”. The increased concentration of these gases in the atmosphere is the cause of global warming.

This product is not aiming at limiting global warming to 1.5 degree Celsius.

Yes: *[if the financial product has a GHG emission reduction target in accordance with Article 14a(1) of this Regulation, provide a narrative explanation about the way the target will be achieved, indicating whether the financial product (a) divests from investments with particular GHG emissions levels and invests instead in companies with lower GHG emissions; (b) invests in companies that are expected to deliver GHG emissions reductions over the duration of the investment; (c) engages with investee companies to contribute to their GHG emissions reduction. Indicate which is the share of the investments of the financial product covered by the GHG emission reduction target and when the target is achieved only by a share of investments, indicate the target of that share of investments.]*

No *[if the financial product does not have a GHG emission reduction target in accordance with Article 14a(1) of this Regulation, do not include any subsequent question related to the topic below and proceed to the next section 'What investment strategy does this product follow?']*

- What is the greenhouse gas emission reduction target of the product?** *[Fill in the table below, with information on the baseline GHG emissions, the final and intermediate targets and the corresponding years. The baseline financed GHG emissions and the targets shall be calculated in accordance with Article 14a(2) of this Regulation. Financial market participants shall indicate if the data on the investee companies' GHG removals and storage and/or the purchase of carbon credits are not readily available and include details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions. Financial market participants shall disclose the share of the investments for which the data are available.]*

	<i>[Baseline year]</i>	<i>[Date of expected achievement of intermediate target]</i>	<i>[Add columns for other intermediate targets, where applicable]</i>	<i>[Date of expected achievement of the final target]</i>
GHG emission reduction targets (tCO ₂ -eq/€M)	<i>[GHG emissions in tCO₂-eq/€M, not including]</i>			

[include only for financial products that have a GHG emission reduction target] Information on progress towards the target will be available in the periodic reports [add link to periodic reports where available] and additional details are available here [add link to website].

	<i>carbon removals and storage and credits]</i>			
GHG removals and storage (tCO ₂ -eq/€M) <i>[include row where relevant]</i>				
Carbon credits used by investee companies and/or purchased by the financial market participant (tCO ₂ -eq/€M) <i>[include row where relevant]</i>				

GHG emissions reduction target periodic disclosure

bribery.



How much progress was achieved towards the product greenhouse gases (GHG) emission reduction target?

[only include if the product's pre-contractual disclosures included a GHG emission reduction target in accordance with Article 14a(1) of this Regulation. Fill in the table below with data from the pre-contractual disclosure and with measurements of progress to date, when available. If target(s) have not been met, provide an explanation and specify the actions planned to meet the target.]

Where information on investee companies' progress as regards GHG removals and storage or carbon credits is not readily available, financial market participants shall provide details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions and indicate that such information is not available.]

[include only for financial products that have a GHG emission reduction target]

Greenhouse gases (GHG) are those gases, including carbon dioxide, that are responsible for the "greenhouse effect". The increased concentration of these gases in the atmosphere is the cause of global warming.

This product is not aiming at limiting global warming to 1.5 °C

	<i>[Baseline year]</i>	Progress made <i>[Add a column for previous reporting period with data available]</i>	Progress made <i>[current reporting period]</i>	<i>[Date of expected achievement of intermediate target 1]</i>	<i>[Add columns for other intermediate targets]</i>	<i>[Date of expected achievement of the final target]</i>
GHG emission reduction targets (tCO ₂ -eq/€M)	<i>[Pre-contractual disclosure - Baseline GHG emissions in tCO₂-eq/€M, not including GHG removals and storage and carbon credits]</i>	<i>[disclose progress made towards the GHG emissions reduction targets (tCO₂-eq/€M) and any difference between the</i>	<i>[disclose progress made towards the GHG emissions reduction targets (tCO₂-eq/€M) and any difference between the</i>	<i>[Pre-contractual disclosure – percentage of the GHG emission reduction intermediate target]</i>		<i>[Pre-contractual disclosure – percentage of the GHG emission reduction final target]</i>

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[include only for financial products that have a GHG emission reduction target]
Information to better understand the level of ambition and scope of the target can be found on the website *[add links to "GHG emission reduction target" section of the website].*

		<i>target set for the reporting period and progress made]</i>	<i>target set for the reporting period and progress made]</i>			
GHG removals and storage (tCO ₂ -eq/€M) <i>[include row where relevant]</i>	<i>Baseline GHG emissions</i>	<i>[Progress made in terms of GHG removals used (tCO₂-eq/€M) [include row where relevant]</i>	<i>[Progress made in terms of GHG removals used (tCO₂-eq/€M) [include row where relevant]</i>	<i>[Pre-contractual disclosure]</i>	<i>[Pre-contractual disclosure]</i>	<i>[Pre-contractual disclosure]</i>
Carbon credits used by investee companies and/or purchased by the financial market participant (tCO ₂ -eq/€M) <i>[include row where relevant]</i>	<i>Baseline GHG emissions</i>	<i>[Progress made in terms of carbon credits used by investee companies and/or purchased by the financial market participant (tCO₂-eq/€M) - include row where relevant]</i>	<i>[Progress made in terms of carbon credits used by investee companies and/or purchased by the financial market participant (tCO₂-eq/€M) - include row where relevant]</i>	<i>[Pre-contractual disclosure]</i>	<i>[Pre-contractual disclosure]</i>	<i>[Pre-contractual disclosure]</i>

- **How did the implementation of the investment strategy contribute to the achievement of the target?** *[indicate how the investment strategy was implemented, explain any obstacle encountered and the extent to which it hampered progress towards the target(s). Describe any change made to the investment strategy over the last reporting period.]*

Other technical changes

- Equivalent information:
 - Change “equivalent information” to “estimates” to ensure coherence with Taxonomy and BMR
 - Questions to stakeholders: Platform for Sustainable Finance criteria for “equivalent information” – covering significant contribution, DNSH and minimum safeguards of EU Taxonomy
- Question to stakeholders: Should there be provisions for sustainable investment calculation?

Q&As

**Please submit written questions for
ESAs staff consideration**



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Concluding remarks: Hearing on Joint ESAs CP on SFDR Delegated Regulation

David Cowan, EIOPA



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