



ADVICE TO THE ESAS

SMSG advice on the ESAs' Survey on templates for Environmental and/or Social financial products under SFDR

I. Background

1. On September 21st, the European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) published a survey seeking public feedback on presentational aspects of product templates, pursuant to Article 8(3), Article 9(5) and Article 11(4) of the Regulation on sustainability-related disclosures in the financial services (SFDR). As a group representing different market participants and views, the SMSG decided not to tick the boxes of the survey, but to provide its feedback on the templates in the present advice.

II. Comments on the Templates

2. *Length of the templates.* In the opinion of the SMSG, the **templates are too long** and should be more structured. At between 4 (periodic information) and 6 pages (pre-contractual information) they are too long to expect retail investors to actually read them in their entirety (information overload), especially in view of the fact that this is just an additional piece of information, on top of pre-existing precontractual information which the investors is also still expected to digest. As an example, for a packaged product, a client would generally receive a brochure, a KID and get access to a summary prospectus. Should he/she wish to read everything, he/she would already have about 14 pages to digest (a concise brochure is no less than 4 pages, a KID and a prospectus summary are, as mandated, respectively, 3 and 7 pages maximum). The proposed templates come on top of those documents. The SMSG would much prefer that one information document would provide all essential information for retail investors (see also para 5.2). To deal with the problem of information overload in respect of the current templates, the SMSG advises to review and significantly shorten the following repetitive information from the templates part marked in yellow in the Annex to this advice.
3. *Summary Dashboard.* The SMSG suggests to put **at the top of the document a summary dashboard with key information** to help investors guide their decision-making, with more granular information, which is more important for sophisticated investors or to avoid greenwashing, in the body of the document. In a digital format, the format of the document could be optimised, with the summary dashboard functioning as a **dropdown menu** (and/or using hyperlinks), so that investors can click to find out more information on issues they find most interesting (see also para 10 below).
4. *Level of standardisation.* The SMSG strongly supports the idea to standardise the templates across products and sectors. However, the SMSG is of the opinion that the **level of standardisation should go even further**, including not only the content, structure and design but also fonts and colours, comparable to the standardised PRIIPs KIDs. That would be possible if the templates are issued as an annex to other information (see para 5.1.). When it comes to the actual content to be provided under each of the standardised headings, some members of the SMSG consider that the templates should

nevertheless allow sufficient flexibility to cater for the differences between different types of products (insurance product, investment fund, portfolio, ...). Other group members prefer a very high level of standardisation to enhance comparability.

5. *Templates as part of pre-existing information documents.* The level 1 legislation provides that the information should be integrated into certain pre-existing information requirements, such as the prospectus, the UCITS prospectus, or the MiFID, IORP or IDD information obligations. The SMSG has three comments in this respect.

5.1. *Annex.* First, the nature, scope and format of those information requirements are very different. Therefore, the SMSG advises that the **template should always be provided as an Annex** to the pre-existing information requirements. This would allow a more uniform approach, a higher level of standardisation (including standardisation of fonts and colours that are used in the document), and easier comparison for consumers.

5.2. *Cross-references to other retail investor information.* Second, those templates only relate to the ESG characteristics of the products, which is obviously only one of the elements relevant to investor decision-making. The **SMSG would much prefer that in the relation to retail investors, one KID (PRIIPS KID, PEPP KID, UCITS KIID, summary prospectus) would provide all the relevant information.** This would, however, require a change to the Level 1 texts of the PRIIPs Regulation, UCITS Directive, Prospectus Regulation, PEPP Regulation etc. Nevertheless, within the current regulatory framework, the ESG templates could and should in any event refer to documents where the other retail-investor-friendly information can be found (with a link), and the other information documents should refer to the ESG templates. The SMSG recommends that (i) the ESAs insert a requirement to **include a link in the ESG templates to the other retail-investor friendly information documents** (PRIIPs and PEPP KID, KIID, summary prospectus, ...) and that (ii) the ESAs issue **guidelines to clarify that those other information documents should include at least a link to the ESG templates.**¹

5.3. *Changing information.* Certain information in the templates changes over time (e.g. composition of the product), whereas a number of the information requirements in which they are to be inserted, such as prospectuses, are much more static. Even though this is a Level 1 problem, the SMSG again is of the opinion that the problem can be mitigated by providing the template in an annex to the prospectus, which could then be updated separately.

6. *Use of icons and graphs.* The SMSG **in principle strongly supports the use of graphs and icons** as they can make the document lighter, shorter and easier to understand, and can, more in particular, help making the sustainable features of a product more understandable for the average investor. The SMSG refers to para 43 of its Advice to ESMA on the RTS with regard to the SFDR ([number of the report to be added]): "The SMSG is concerned that, given the wide range of products that could possibly fit under article 8, it is important that there is sufficient disclosure on the degree of sustainability within an article 8 product. For this reason, a graphic representation, as provided for in the draft RTS (article 15), is

¹ This is indeed possible for a number of those documents. See for instance art. 28 (3) c) (xii) PEPP Regulation; art. 7 (4) c) Prospectus Regulation and art. 8 (3) c) (ii) PRIIPs Regulation. The Commission has not yet adopted any implementing measures on the basis of art. 8(4) PRIIPs Regulation, even though (i) the Joint Committee of the ESAs, issued a 'Joint Technical Advice on the procedures used to establish whether a PRIIP targets specific environmental or social objectives pursuant to Article 8(4)' (JC 2017 43, 28 July 2017) and the European Parliament in May 2018 explicitly urged the European Commission to make use of its powers to introduce delegated acts under art. 8(4) of the PRIIPs Regulation as soon as possible and before developing the sustainability taxonomy (see European Parliament, Resolution of 29 May 2018 (2018/2007 (INI) at point 11). Nevertheless, the ESAs could issue guidelines under art. 8 (3) c) (ii) PRIIPs Regulation.

potentially helpful, although it requires a taxonomy on social objectives to be fully effective. In addition, the accompanying narrative needs to be sufficiently simple and straightforward. Also it is important that there is consistency between marketing communication and website information/ precontractual disclosure describing the degree of sustainability of article 8 products, which the ESA's can safeguard in terms of SFDR article 13." The SMSG, however, has a number of comments and suggestions in this respect.

- 6.1. *Certain icons are confusing.* **Certain icons are rather confusing** and do not contribute to a better understanding by investors. The SMSG is of the opinion that certain icons could be made more intuitive to understand and/or made more appealing for consumers, including through the use of colours.
- 6.2. *Icons should be limited in number.* The SMSG advises to use only a **limited number** of icons, which should be tested with retail investors (not just the template as a whole, but also the understandability of each of the icons).
- 6.3. *Graphs should be adapted to the product type.* Even though the SMSG is in principle in favour of a high level of standardisation, alternative graphical representations may be necessary for different product types (insurance products, funds, portfolios, ...).
- 6.4. *Use of colours.* Graphs, icons and labels **do not work well in black and white**. The template should therefore **always be in colour**, both in print and on screen. Moreover, the ESAs should **carefully consider what colours to use**, on the basis of scientific studies in this respect (which colours work best, what colours are best accessible to all). Two examples show the importance of this point:
 - The use of brown in the cake-graph representing "what is the minimum asset allocation planned", whereas all assets represented in the graph would rather be a shade of green in the common ESG understanding, is just one obvious example of a sub-optimal use of colours.
 - Article 8 products can include assets with ESG characteristics, assets with ESG objectives and assets with neither of those. Shades of green could be applied to indicate investments that are considered sustainable (#1A, dark green) or are aligned with E/S characteristics (#1B, light green) (see also para 10 below). It is imperative, however, that the colours used can be easily distinguished from one another. If shades of green would be used, they should be sufficiently different.

The SMSG advises that the ESAs consult a professional graphic designer to give advice on the optimal use of colours and rasterisation, also taking into account accessibility by persons with colour blindness.

Certain of the information requirements, in which the templates are supposed to be inserted, are however typically printed in black and white. Again this would be less problematic if the template was an annex to the pre-existing document, so that only the annex would need to be in colour.

7. *Use of labels.* In the market a lot of ESG labels are being used. The SMSG is of the opinion that those **labels should be part of the template**. However, in order to avoid confusing or misleading information, in the template only the Commission's eco-label or a label from a list of labels which the ESAs support could be used in the disclosure documents. The SMSG therefore advises the **ESAs to create a list of**

labels which they would accept to be used in the templates, with links to where consumers could find more, accessible information. In the long run one uniform ESG label should be developed for the EU.

8. *Use of explanatory notes in the grey column to the right.* The SMSG is of the opinion that the use of explanatory notes is useful, and indeed necessary in relation to many concepts which would otherwise be difficult to understand for retail investors. For longer explanations, the relatively small column is harder to read; in such cases the layout may need to be revised to make it more readable, and / or reference can be made to an ESAs Q&A with more detailed explanation (see next para).
9. *Distinction between 1A and 1B products.* The SMSG is of the opinion that a clearer separation should be made between “investments that qualify as sustainable” (1A) and “investments aligned with the E/S characteristics that do not meet the criteria of sustainable investment” (1B). The current divide into subcategories (1A and 1B) may lead the reader to believe that in the given example 95% of the ETF is invested sustainably while in fact it’s only 15% (or 20% depending on whether you look at the cake graph or the bar graph) that meet the criteria of “sustainable investment”. Instead of creating subcategories it would be **preferable to have clear separate categories to avoid any misperception** by investors. More generally the difference between art. 8 and art. 9 products is often just a fine line, which may be difficult to understand by retail investors. Apart from the explanatory notes, the template could also make reference to a separate Q&A section provided by the ESAs or the Commission, that provides detailed guidance on this distinction. Such a Q&A should be made available in all languages of the EU and on the respective NCAs websites to reach as many retail investors as possible.
10. *Advantages of the use of digital means.* The use of **digital means** can help to streamline the templates and to make them **better accessible to different types of investors**. Moreover, the reader can follow a more intuitive way of accessing the document. The document could for instance be presented as a **short dropdown menu** (which also functions as a summary dashboard), where the reader can click on different items to get access to more detailed information. A digital template is also preferable to allow **easy access to links** to further information.
 - 10.1. *Need for separate standardised template for digital version.* The SMSG advises the ESA to require market participants to make a digital version of the template available. The ESAs should develop a **standardised format of the dropdown menu / summary dashboard of this digital version**.
 - 10.2. *Need for easily printable and print versions.* Nevertheless, the SMSG is of the opinion, that printable information should also be available and should also have a standardised format, to allow long term investors to print the template and keep it for the long term. The templates should moreover be available on paper for investors without access to digital means. There should not be a digital divide.
 - 10.3. *Use of links should not lead to inaccessible information.* Even though we have advised the use of links on several occasions in this advice, the SMSG also wants to **warn against useless links**, which obscure rather than grant access to information. In the section on governance in Mock-up 1, for instance, almost no information is given, but there is a link to a general web-address. The SMSG is of the opinion that the document itself should always provide at least some substantive information (e.g., in the section on governance, a summary comment on the actual ratings of investee companies, rather than a reference), and that the link should refer to the exact place where further information can be found permanently, and not to some general document where investors may face difficulties in finding the information they need.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

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[signed]

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