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| 18 November 2022 |

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| Reply form for the Consultation Paper on Guidelines for the use of ESG or sustainability-related terms in funds’ names |
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| Date: 18 November 2022 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation Paper on Guidelines for the use of ESG or sustainability-related terms in funds’ names published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered);
* do not remove the tags of type <ESMA\_QUESTION\_FUNA\_0> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

**Naming protocol**

In order to facilitate the handling of stakeholders’ responses please save your document using the following format:

ESMA\_CP\_FUNA\_NAMEOFCOMPANY\_REPLYFORM.

e.g. if the respondent were ABCD, the name of the reply form would be:

ESMA\_CP\_FUNA\_ABCD\_REPLYFORM

***Deadline***

Responses must reach us by 20 February 2022.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | Invesco |
| Activity | Investment Services |
| Are you representing an association? |[ ]
| Country/Region | International |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_QUESTION\_FUNA\_0>

Sustainable and ESG investing is increasingly in demand and we have seen a rapid rise on demand for ESG and sustainable products. However, it is clear that the current regulatory framework is not adequately supporting investors in being able to understand the options available and addressing risks of greenwashing.

The conclusions from consumer testing found that retail investors face 4 key barriers when it comes to ESG and sustainable investing:

* A lack of knowledge and confusion about the language used to describe sustainable investing.
* Uncertainty around the impact of sustainable investing on financial performance and risk
* A lack of transparency and trust that sustainable investment products will deliver as promised
* A lack of support from financial advisers in helping them navigate the sustainable investing universe

SFDR and the MiFID/IDD sustainability preferences regime were introduced in an effort to address some of these barriers. However, in our view, the current regime remains confusing and inaccessible to the average retail client. SFDR disclosures are long and complex, which does not facilitate understanding by retail investors while the sustainability preferences regime requires investors to understand and make choices around arcane concepts such as Taxonomy or PAIs, neither of which are meaningful or intuitive to retail investors. In addition, neither of these regimes set clear minimum requirements for ESG products to mitigate the risks of greenwashing.

Therefore, in principle, we support the objective of clarifying expectations across the EU for ESG products. In addition to supporting effective consumer choice, ESG product standards or labels would support the internal market for investment products within the EU, since cross-border funds are currently struggling with the fragmentation of requirements and standards across different jurisdictions, as well as the lack of coherence between different regulatory requirements that apply across different market participants, in particular between SFDR, the EU Taxonomy and MiFID II. Address the current fragmentation for ESG products across the EU internal market, as well as the regulatory confusion that persists across the market, would increase scalability and therefore reduce costs for fund providers and therefore to end investors by enabling ESG funds to be distributed across the EU without having to apply overlapping and conflicting national requirements.

In doing so, however, it is important that any rules are appropriately calibrated to ensure that the standards do not penalise legitimate ESG strategies in the market. Therefore, any new requirements should be designed with the following principles in mind:

1. Support meaningful consumer choice and understanding of the different sustainability approaches available. We’ve set out some thoughts on this in our white paper: [Sustainable investing for retail | Invesco EMEA](https://www.invesco.com/emea/en/insights/sustainable-investing-for-retail.html)
2. Enhance regulatory coherence across SFDR and MiFID, as well as the benchmark regulation, so that products adhering to these new guidelines also meet any other necessary requirement, rather than adding an additional layer of regulation.
3. Any requirements need to be flexible enough to cater to the wide range of approaches, asset classes and geographies that may be included in ESG portfolios and should not discriminate against certain approaches by imposing arbitrary conditions and constraints.
4. Any requirements need to ensure that they are based on clear definitions and that any data necessary to comply is readily available. There should be flexibility given for asset classes and geographies where data availability is known to be problematic, namely private assets and emerging markets.
5. ESG requirements should not be stricter or applied in a way that is at odds with similar requirements for financial criteria, including any calculation methodologies.
6. There should be a level playing field between different product types, and therefore the scope of these rules should ideally be expanded to unit-linked and structured products.

We believe that regulatory coherence is a pre-requisite for firms to be able to innovate and develop new products and services without the risk of accusations of greenwashing as a result of inconsistent or continuously changing regulatory requirements. Given the fundamental review of SFDR currently being undertaken by the European Commission, as well as the remaining uncertainty with regards to key aspects of the SFDR regime, including the definition of “sustainable investment”, we question whether a more fundamental reflections is needed as to how to deliver meaningful disclosure and standards to support investor choice, that cannot be delivered through Level 3 guidelines. We would therefore suggest that ESMA might instead undertake more thoughtful and in-depth work on how to deliver a more consumer-friendly regime that meets retail investors needs and expactions, including through consumer testing, rather than rushing to create a “sticking plaster” for the issues created by the current framework. We would urge ESMA and the European Commission to work together to set out a clear roadmap for how the current regulatory regime is likely to evolve to ensure the proper sequencing of any new measures or changes to existing provisions.

Should the ESAs decide to proceed with these guidelines as an interim measure pending the wider review, we would urge the ESAs to limit unintended consequences that these proposed rules would have by requiring significant changes to products. In the following answers, we have identified specific areas where we believe that ESMA’s proposals require fine tuning.

In particular, it is important that any rules reduce, rather than add, to the regulatory complexity the industry currently faces. Funds currently must adhere to a patchwork of different obligations and we feel that these guidelines could serve to help to foster greater coherence. Below we have shown at a high-level the lack of interoperability between the proposed guidelines and existing regulatory requirements.

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| **To what extent would a product following the proposed guidelines meet existing legal requirements** |
| **SFDR Article 8** | **Partial: product would only be considered as Article 8 if also meeting the good governance requirements when investing in investee companies** |
| **SFDR Article 9** | **Unclear: Article 9 requirement to be exclusively invested in sustainable investments, therefore 50% minimum sustainable investments is not sufficient. However, unclear how 80% minimum investment would be considered consistent with existing guidance on Article 9.**  |
| **MiFID sustainability preferences** | **Partial: proposed product would only comply with option b) sustainable preferences but would exclude options a and c on EU Taxonomy and PAIs.**  |
| **To what extent would a product following the following existing requirements meet the proposed guidelines** |
| **EU Taxonomy** | **No: Proposed guidelines would disincentivise alignment with EU Taxonomy as this is not an option on its own but rather only available where EU Taxonomy is classed as a sustainable investment (which under current legal interpretation requires duplicative DNSH and minimum safeguard/good governance tests).**  |
| **Climate Transition Benchmark** | **No: While product would meet the 80% minimum investment, it would not necessarily meet the 50% sustainable investment requirement and would not meet the minimum exclusions.**  |
| **Paris-Aligned Benchmark** | **No: Product would meet the 80% minimum investment and minimum exclusions criteria but not guaranteed to meet the 50% sustainable investments criteria.**  |

<ESMA\_QUESTION\_FUNA\_0>

1. : Do you agree with the need to introduce quantitative thresholds to assess funds’ names?

<ESMA\_QUESTION\_FUNA\_1>

In principle we agree that quantitative thresholds are helpful to ensure consistency across the market. However, when setting quantitative approaches, these need to be based on common definitions in order to lead to consistent application of the rules, while at the same time ensuring that there remains space for pragmatic application of these rules so that they do not have unintended consequences. We have set out some examples in our subsequent answers some of the proposed criteria lack a common definition and therefore could lead to inconsistent outcomes as well as where the current rigid adherence to quantitative approaches is creating challenges for certain asset classes and investment approaches that we feel go against the spirit of what regulators are trying to achieve.

<ESMA\_QUESTION\_FUNA\_1>

1. : Do you agree with the proposed threshold of 80% of the minimum proportion of investments for the use of any ESG-, or impact-related words in the name of a fund? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_2>

We agree with the objective to ensure that the funds with ESG names primarily invest in assets that meet the ESG characteristics of the product and at least in principle is in line with existing rules for financial objectives. However, we would highlight that 80% is potentially high compared with existing guidance for financial objectives, for example in Luxembourg the primary bucket is defined as 70%, which we feel would be a better level.

However, we would like to ensure that any rules do not discriminate against certain types of products and investment styles and therefore the application of this principle warrants further work. We would highlight several examples that we have come across in relation to our current SFDR disclosures:

1. **Synthetically-replicated passive funds:** for such funds, we believe that it should be made clear that the focus should be on the exposure of the fund, rather than purely investments.
2. **Closed-ended impact funds:** for closed-ended funds primarily invested in private markets, including many impact funds, we have encountered challenges under the current SFDR disclosures since the rules require the disclosure of the minimum proportion of investments to be met at all times based on the net asset value of the fund. However, for these funds, they will typically do an initial fund raising and therefore be sitting a significant amount of cash before deploying the capital. Therefore, we would recommend that the 80% either be calculated on the basis of the total investments (excluding cash) or be applied pragmatically for such funds in the scaling-up phase until they are fully invested.
3. **Income funds:** at the receipt of dividends, income funds may be sitting on high levels of cash until this income is distributed or re-invested. Similarly, many fixed income funds may wish to hold on to higher levels of cash for liquidity reasons, and we feel that setting a minimum threshold that includes cash and hedging could undermine sound risk management practices.

We therefore recommend that the threshold should be calculate as a percentage of investments, minus any cash or hedging instruments. In addition, we believe that closed ended funds should be granted some forebearance during the scaling up period and that the thresholds should apply once fully invested.

In addition, we would welcome further clarity with regards to how to define ESG-related terms and sustainability-related terms. For example, where would terms such as SRI sit, or would sectoral thematics such as solar or hydrogen be considered in scope? While we recognise that a fixed set of terms could be evaded, we feel that a dictionary of indicative and non-exhaustive list terms that would be in scope, as well as any other ESG or sustainability-related terms, would be helpful guidance and clarity.

<ESMA\_QUESTION\_FUNA\_2>

1. : Do you agree to include an additional threshold of at least 50% of minimum proportion of sustainable investments for the use of the word “sustainable” or any other sustainability-related term in the name of the fund? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_3>

In principle, we recognise that the ESG product spectrum is broad and that it would be helpful for end clients to be able to understand the level of ambition and materiality of an ESG strategy, and that naming can play a role here. For example, at Invesco, we have a graduated approach to ESG naming from Responsible, to Sustainable and Impact to help signal to clients the different levels of ambition of the products on offer.

However, we question whether the proposed approach will be helpful to end clients in navigating the market given the myriad of different naming approaches used by firms and the current framing of this rule could lead to unintended consequences.

Firstly, it is unclear what the scope of this obligation is and what ESMA means by “sustainability-related” and how this differs from “ESG-related”. For example, where would terms like “Paris-Aligned” or “green” sit within this universe.

Secondly, creating this hierarchy by reference to “sustainable investments’ is likely to prove problematic. In particular, there is a lack of clarity in the market with regards to what exactly qualifies as a sustainable investment under SFDR and it is clear that approaches vary significantly. We therefore consider that setting a quantitative threshold where the underlying definition is unclear will not lead to a level playing field across products and providers. In particular, this could prove challenging for passive products who are reliant on benchmark providers, who are out of scope of these rules.

As a result of the uncertainty regarding how to define sustainable investments, it is hard to say whether 50% is the right approach. Based on preliminary evidence from SFDR disclosure, we believe that the market standard that seems to be emerging for Article 8 products that commit to sustainable investments is around 10-20%. However, even these levels could be ambitious should the European Commission provide guidance that significantly narrows down the approaches that can be used to define sustainable investments. For example, should the European Commission decide that only a narrow definition using pro-rated revenues for activities contributing to an environmental or social goal, our data suggests that only 137 stocks out of the entire universe of the MSCI ACWI have 50% aligned revenues, or less than 5% of the entire index. This would therefore make a 50% threshold very onerous and lead to significant herding into a small number of eligible investments.

In addition, we question why ESMA is only considering “sustainable investments” considering that “sustainability preferences” under MiFID II is defined as also covering the consideration of PAIs and Taxonomy. Such an approach would create a disconnect with the MiFID sustainability preferences regime by discriminating against other allowable approaches. As per our introductory comments, we would like to see this standard create greater convergence with existing regulation and therefore would like to underscore the need for consistency with the MiFID sustainability preferences regime.

In our view, therefore, funds should have the option of meeting one or a combination of the MiFID sustainability criteria.

<ESMA\_QUESTION\_FUNA\_3>

1. : Do you think that there are alternative ways to construct the threshold mechanism? If yes, please explain your alternative proposal.

<ESMA\_QUESTION\_FUNA\_4>

Please see response above.

<ESMA\_QUESTION\_FUNA\_4>

1. : Do you think that there are other ways than the proposed thresholds to achieve the supervisory aim of ensuring that ESG or sustainability-related names of funds are aligned with their investment characteristics and objectives? If yes, please explain your alternative proposal. If yes, please explain your alternative proposal.

<ESMA\_QUESTION\_FUNA\_5>

Please see response above.

<ESMA\_QUESTION\_FUNA\_5>

1. : Do you agree with the need for minimum safeguards for investment funds with an ESG- or sustainability-related term in their name? Should such safeguards be based on the exclusion criteria such as Commission Delegated Regulation (EU) 2020/1818 Article 12(1)-(2)? If not, explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_6>

We support ESMA’s proposal to include minimum safeguards for ESG products however we believe that the details of the exclusions proposed by ESMA need to be refined and recalibrated.

Firstly, the minimum exclusions under the Paris-Aligned Benchmark were designed to very ambitious climate products and therefore are not suitable for the broad universe of ESG products, including socially focused funds, that will be subject to these guidelines. In addition, the concept of “environmental DNSH” are referred to under point 2 is very vague and therefore would create confusion and opportunities for regulatory arbitrage.

Instead, we would suggest aligning the minimum safeguards with the current market standard, and therefore include Article 12(1)(a)-(d), i.e. tobacco, coal, UNGC violators and controversial weapons.

Secondly, it is important to recall that these exclusions are predicated on the investments being in investee companies. However, ESG products can invest in/have exposure to a range of asset classes, including sovereigns, real estate, derivatives, etc. Therefore, we recommend that ESMA should clarify that the exclusions only apply in the where the investment is in an investee company.

Finally, in keeping with our introductory comment regarding the need to ensure coherence with the broader sustainable finance framework, we would recommend that ESMA also include a requirement on good governance where investments are made through investee companies, in keeping with the SFDR requirements for Article 8 and 9 products.

<ESMA\_QUESTION\_FUNA\_6>

1. : Do you think that, for the purpose of these Guidelines, derivatives should be subject to specific provisions for calculating thresholds?

<ESMA\_QUESTION\_FUNA\_7>

In keeping with our comments above, we believe it is important to differentiate between the different uses of derivatives as well as the different types of derivatives.

Firstly, the rules should differentiate whether the derivatives are used for investment purposes or for hedging or efficiently portfolio management purposes. We believe that only derivative exposures used for investment purposes should be included in the calculation for the minimum proportion of investments but that hedging instruments/EPM should be excluded.

Secondly, consideration should also be given as to the nature of the derivatives and whether they can meaningfully be screened for ESG purposes. For example, equity derivatives can be assessed using a look-through to the underlying as opposed to an interest rate derivative where it is questionable as to how any meaningful ESG analysis could be applied.

Finally, in terms of calculation method, we would consider the calculation method be consistent with existing guidance on calculating leverage for UCITS and AIFMD.

<ESMA\_QUESTION\_FUNA\_7>

1. Would you suggest the use of the notional value or the market value for the purpose of the calculation of the minimum proportion of investment?

<ESMA\_QUESTION\_FUNA\_1>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_FUNA\_1>

1. Are there any other measures you would recommend for derivatives for the calculation of the minimum proportion of investments?

<ESMA\_QUESTION\_FUNA\_2>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_FUNA\_2>

1. : Do you agree that funds designating an index as a reference benchmark should also consider the same requirements for funds’ names as any other fund? If not, explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_8>

We foresee challenges when it comes to applying these requirements to ETFs and other tracking strategies. The market convention for naming ETFs is that they include the name of the benchmark. Since these requirements won’t apply to benchmark providers, ETF providers may find themselves in a difficult situation in that a benchmark provider includes ESG-related terms in the name but the fund provider isn’t allowed to reference this. This would be in particular difficult with regards to the 50% sustainable investments requirement.

We believe that the ESG benchmark requirements need to be reviewed in order to better align them with SFDR and the Taxonomy, since the disclosure requirements applied to benchmark providers differ significantly from these two pieces of regulation. As part of this review, consideration should be given as to whether to introduce minimum requirements for ESG benchmarks that would align with the minimum requirements proposed by ESMA for funds.

However, pending any such review, we believe that it would be disproportionate to require fund managers to police the benchmark market for ESG fund terms and therefore should be able to continue to use the benchmark name, including any ESG-related term that it might contain, in its fund name to maintain clarity in the market.

<ESMA\_QUESTION\_FUNA\_8>

1. : Would you make a distinction between physical and synthetic replication, for example in relation to the collateral held, of an index?

<ESMA\_QUESTION\_FUNA\_9>

We would caution against drawing a strong distinction between physical and synthetic replication, since in practice many physically replicated funds will undertake securities lending and therefore questions regarding any collateral held will be common to both approaches.

At Invesco, we have adopted an approach where we apply minimum safeguards to the collateral basket held to ensure that the collateral basket does not undermine the ESG objective of the fund. Therefore, we consider that applying the minimum safeguards set out above to the collateral basket could be a means to address this issue, but we do not feel that the collateral basket should be required to reflect the broader environmental and social characteristics of the fund.

For funds undertaking securities lending, it would also be important to ensure that securities can be recalled for the purposes of proxy voting, where engagement and stewardship are considered part of the ESG investment strategy.

<ESMA\_QUESTION\_FUNA\_9>

1. : Do you agree of having specific provisions for “impact” or impact-related names in these Guidelines?

<ESMA\_QUESTION\_FUNA\_10>

Yes, in principle we would support specific provisions for the inclusion of “impact” related terms in funds names that is aligned with the GIIN principles for impact, namely that the product invests with the objective of delivering positive and measurable environmental or social impact.

However, we would caution against being overly prescriptive and narrow by mandating the inclusion of “additionality” for the use of impact-related terms. The concept of “additionality” is challenging to apply, hard to evidence and would unduly limit the range of products that can legitimately call themselves impact.

In addition, we would caution against setting quantitative thresholds for sustainable investments or Taxonomy for impact products given the nature of many impact investments and the lack of reliable data. For example we are in the process of launching an impact fund that aims to finance climate adaption projects in frontier markets and have found that our ability to gather data on the PAIs (for the purposes of DNSH) or Taxonomy is incredibly low and therefore any quantitative requirements in this regard could go against the spirit of any impact designation by excluding many impact strategies from this space due to lack of data.

<ESMA\_QUESTION\_FUNA\_10>

1. : Should there be specific provisions for “transition” or transition-related names in these Guidelines? If yes, what should they be?

<ESMA\_QUESTION\_FUNA\_11>

We believe that transition strategies are important in order to support high emitting sectors to decarbonise and therefore we believe that the regulatory framework needs to be supportive of these approaches.

That said, in principle, we would support a framework that is agnostic about the approach taken and can be equally applied to climate, environmental, social and other approaches rather that creating additional layers of regulation that will add, rather than reduce, the confusion in the market and for investors. In addition, we would highlight that there are myriad approaches to transition and defining a clear and unambiguous standard could be challenging.

However, the proposals above pose significantly challenges for “transition” strategies. The minimum safeguards, in particular, could be challenging for transition strategies and this is why we strongly believe that a set of minimum exclusions based on a more limited set of exclusions.

Furthermore, it remains unclear at the current time where transition strategies sit within SFDR and whether transition strategies can be included under Article 9 and can be considered as sustainable investments. Should the European Commission define sustainable investments narrowly and therefore such strategies no longer be considered to fall under Article 9, it could be helpful to introduce provisions regarding transition to ensure that such strategies remain visible to investors.

<ESMA\_QUESTION\_FUNA\_11>

1. : The proposals in this consultation paper relates to investment funds’ names in light of specific sectoral concerns. However, considering the SFDR disclosures apply also to other sectors, do you think that these proposals may have implications for other sectors and, if so, would you see merit in having similar guidance for other financial products?

<ESMA\_QUESTION\_FUNA\_12>

Yes, we believe that it is important that other investment products, including unit-linked and structured products and potentially also pension products, should be subject to similar requirements to ensure a level playing field and that consumers are not confused by differing requirements.

<ESMA\_QUESTION\_FUNA\_12>

1. : Do you agree with having a transitional period of 6 months from the date of the application of the Guidelines for existing funds? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_13>

We would agree with the transitional period of 6 months for existing products but would recommend that this is aligned for new products. Developing new products can take many months and we therefore believe that 3 months is too short for products that may be fairly advanced in their development to comply with and such a short period could therefore have a chilling effect on new product development and innovation.

We would also ask that the ESAs consider other potential changes and seek to align any deadline as much as possible, since multiple changes to the regime in a short period of time can be confusing to investors and burdensome for firms to keep re-filing.

<ESMA\_QUESTION\_FUNA\_13>

1. : Should the naming-related provisions be extended to closed-ended funds which have terminated their subscription period before the application date of the Guidelines? If not, please explain your answer.

<ESMA\_QUESTION\_FUNA\_14>

No, we believe that closed-ended funds that have terminated their subscription period should not be subject to these new requirements. Since the legal basis is to ensure that communications are “fair, clear and not misleading”, any closed fund that has terminated subscriptions would no longer be undertaken any marketing and therefore applying these rules would be tantamount to retrospective application.

<ESMA\_QUESTION\_FUNA\_14>

1. : What is the anticipated impact from the introduction of the proposed Guidelines?

<ESMA\_QUESTION\_FUNA\_15>

An appropriately calibrated regime could help address the current fragmentation for ESG products across the EU internal market. This would increase scalability and therefore reduce costs for fund providers and therefore to end investors by enabling ESG funds to be distributed across the EU without having to apply overlapping and potentially conflicting national requirements.

However, in order to be effective and produced this benefit, it will be important that these new guidelines help to reduce the complexity and regulatory burden on ESG funds rather than adding to by ensuring coherence with existing sustainable finance requirements and ensuring that national regulators align any national rules, for example in France and Germany, with these new guidelines and not apply additional goldplating at national level.

In addition, it is important that the rules are appropriately calibrated to ensure that the standards do not penalise legitimate ESG strategies in the market. As per ESMA’s recent work on the eco-label, a standard which effectively excludes a significant proportion of the market will fail to achieve its intended goal.

If the guidelines were to be adopted without any of the changes we have proposed above, we would foresee additional costs to amend fund names, disclosures and marketing for around 30 funds that currently have ESG fund names, primarily as a result of the minimum criteria proposed, as well as the sustainable investments requirement, where we currently target 10% as opposed to 50%. This could also lead to loss of revenue from lower sales of these products, however it is unclear at this stage to what extent distributors would see alignment with this standard as a requirement given the lack of consistency with the MiFID sustainability preferences.

We would therefore urge ESMA to undertake a more detailed impact assessment of the various proposals and alternative options to ensure that the proposals are appropriately calibrated. We not that the impact assessment currently only assessed at a very high-level the percentage of funds that might potentially be impacted by these new guidelines, but no further consideration has been given as to how alternative thresholds could impact these funds, which is necessary to ensure that the costs and benefits are proportionate. For example, as discussed above, we foresee a significant additional cost for funds if the minimum safeguards are set in line with the PAB instead of the more limited set of exclusions we have proposed and if the sustainable investment threshold is set too high.

<ESMA\_QUESTION\_FUNA\_15>

1. : What additional costs and benefits would compliance with the proposed Guidelines bring to the stakeholder(s) you represent? Please provide quantitative figures, where available.

<ESMA\_QUESTION\_FUNA\_16>

As set out in the introduction, we see significant additional costs should these guidelines be introduced only to have the SFDR reviewed and amended shortly thereafter. At this current stage, it is too early to understand what the direction of travel will be and whether fundamental changes in approach, structure and content are being considered. We therefore consider that these guidelines could impose significant cost, both in terms of administrative burden as well as commercial costs, for firms to comply with these new rules, only to have a significant shift in policy announced shortly thereafter.

This would not only impose significant cost on industry but also create confusion for investors. We have already seen significant concern regarding the “downgrading” of Article 8 and 9 funds as a result of new regulatory interpretations being provided. Continued changes in the regulatory landscape would undermine trust in ESG and sustainable funds, as well as impose significant costs on industry.

<ESMA\_QUESTION\_FUNA\_16>