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Final Report on draft Regulatory Technical Standards

on the review of PAI and financial product disclosures in the SFDR
Delegated Regulation

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1. Executive Summary

The European Supervisory Authorities (ESAs) have developed through the Joint Committee (JC) proposed Regulatory Technical Standards (hereinafter 'RTS') on content and presentation of disclosures pursuant to Article 2a(3), 4(6), 4(7), 8(3), 8(4), 9(5), 9(6), 10(2), 11(4) and 11(5) of Regulation (EU) 2019/2088 (hereinafter Sustainable Finance Disclosure Regulation 'SFDR').

This final report responds to a mandate sent by the European Commission in April 2022¹ to review several aspects of the operation of Commission Delegated Regulation (EU) 2022/1288 (hereinafter the SFDR Delegated Regulation), including the disclosures of principal adverse impacts (PAI) of investment decisions on sustainability factors and to introduce disclosure of financial products' decarbonisation targets. The ESAs published consultation paper in April 2023 (JC 2023 09).

Having considered the feedback to the consultation, the ESAs have adjusted the draft RTS in several areas. The draft RTS cover the following topics as requested in the European Commission's mandate:

- An extension of the social PAI indicators;
- Other changes to the PAI disclosure framework;
- A new financial product disclosure of greenhouse gas (GHG) emission reduction targets;

Furthermore, having conducted consumer testing exercises in four Member States, the ESAs are proposing some improvements and simplifications to the financial product templates, contained in Annexes II-V of the SFDR Delegated Regulation, including a new "dashboard" with a simple summary of key information.

Finally, the ESAs are also proposing additional minor technical amendments to the SFDR Delegated Regulation relating to:

- Enhanced disclosure of how sustainable investments comply with the "do not significantly harm" ("DNSH") principle;
- Revision of the provisions for products with investment options such as multi-option products (MOPs); and
- Other technical changes including harmonised calculation of sustainable investments and a requirement to produce the disclosures in machine-readable format.

¹ [mandate to esas on pai product.pdf \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:5202204001_1&from=de)

Section 2 of this document contains background and rationale for the draft changes to the SFDR Delegated Regulation which are presented in the draft RTS in Section 3 of this document. The ESAs have prepared an impact assessment of the policy choices made in Section 4.1. Section 4.2 contains a feedback statement on the feedback received to the consultation paper. Finally, the response by the ESMA Securities and Markets Stakeholder Group (SMSG) to the public consultation is contained in the Annex to this final report.

2. Background and Rationale

2.1 Introduction

1. This final report contains the ESAs joint draft amending RTS for Commission Delegated Regulation (EU) 2022/1288 (referred to in this document as the SFDR Delegated Regulation).
2. To meet the Commission's request, the ESAs are proposing the following changes:
 - a) Extension of the list of social indicators for principal adverse impacts;
 - b) Refinement of the content of a number of the other indicators for adverse impacts and their respective definitions, applicable methodologies, metrics and presentation and;
 - c) Amendments regarding decarbonisation (the ESAs' preferred term is "GHG emissions reduction") targets.
3. In addition to what was explicitly requested by the Commission, the ESAs have considered further changes based on experiences shared by stakeholders through Q&As and observations, both directly through desk-based research and feedback from, the National Competent Authorities. Those proposed changes relate to:
 - a) DNSH disclosure design options;
 - b) Simplification of the templates; and
 - c) Other technical adjustments.

2.2 Extension of the list of social indicators for principal adverse impacts

4. On the request of the Commission, the ESAs proposed in the consultation paper several new indicators for principal adverse impact (PAI) of investment decisions on sustainability factors, focusing on the social adverse impacts, which were not as comprehensively covered in the SFDR Delegated Regulation as the environmental indicators.
5. The ESAs have noted the feedback received in terms of alignment of scope, definition, materiality and timing between ESRS and PAI indicators. While mindful of the data challenge presented by respondents the ESAs have presented in the final report the following mandatory social indicators:
 - a) 'Amount of accumulated earnings in non-cooperative tax jurisdictions applying to investee companies where the total consolidated revenue on their balance sheet date for each of the last two consecutive financial years exceeds a total of EUR 750 M' (new addition). The title

of the indicator has been adjusted to make it clear that it only applies to those companies in the scope of the Accounting Directive (Directive 2013/34/EU), according to Article 48b of Directive (EU) 2021/2101 of the European Parliament and of the Council amending Directive 2012/34/EU as regards disclosure of income tax information by certain undertakings and branches. The accompanying formula reflects the calculation of the share of the accumulated earnings as share of portfolio value.

- b) 'Exposure to companies active in the cultivation and production of tobacco' (new addition) was modified to ensure consistency with the language in the ESRS (specifically ESRS standard SBM-1). This addresses the uncertainty about what 'involvement' means, which was contained in the previous formulation of the indicator ('exposure to companies involved in the cultivation and production of tobacco').
 - c) 'Employees earning less than an adequate wage' (new addition) the ESAs consider this indicator an important one since it captures how a company compensate and rewards its workforce. The definition of adequate wage is taken from the ESRS S1-10 (Adequate wages) which includes the benchmark used for comparison with the lowest wage in the EEA and outside of the EEA.
 - d) Share of investments in investee companies that have been involved in violations of the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles, including the principles and 106 fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights (modification) The ESAs have changed the term from 'violation' to 'non-respect' to align the terminology with ESRS S1-17. The majority of stakeholders supported the change from UN Global Compact principles to UN Guiding principles.
 - e) Gender pay gap between female and male workers (modification). The ESAs went back to the original definition of 'unadjusted gender pay gap', hence aligning with indicator ESRS S1-16.
6. The ESAs have also made the following changes to the list of newly proposed opt-in social indicators:
- a) Interference in the formation of trade unions or elections of workers representative (new addition). The ESAs have acknowledged the concerns around the datapoint of this indicator which is mentioned in ESRS Appendix B2 as example of a policy that would be disclosed. For this reason, the ESAs have decided to take out this indicator from the list of mandatory ones and include it in the list of opt-in indicators.
 - b) Low coverage of collective bargaining agreements (new addition) the ESAs have considered it would be important to have an indicator capturing the adverse impact of a low share of workers covered by collective agreements, given its role in the improvement of working conditions. This is why we have changed the formulation to the 'Interference in the

formation of trade unions ‘ indicator and proposed for this final report a new indicator meant to assess the share of workforce which is not covered by collective bargaining agreements.

- c) There are no changes to the three indicators of ‘Excessive use of non-guaranteed-hour employees in investee companies’, ‘Excessive use of temporary contract employees in investee companies’ and ‘Excessive use of non-employee workers in investee companies’ (new additions).
 - d) Insufficient employment of persons with disabilities within the workforce (new addition). The ESAs have included no change to this indicator (with the exception of the change to the terminology from employees to workers).
 - e) Lack of grievance/complaints handling mechanism for communities affected by the operations of the investee companies(new indicator). The ESAs have changed back the indicator into ‘Lack of remediation mechanism for affected communities relating to the operations of the investee companies’ to align with the language of ESRS S4-3.
 - f) Lack of grievance/complaints handling mechanism for consumers/end-users of the investee company (new indicator). The ESAs have changed into ‘Lack of remediation handling mechanism for consumers/end-users of the investee company for the reasons’ outlined above.
7. Finally, taking into account the feedback received during the consultation phase, the ESAs have made technical adjustments to other indicators in Table 3.
- a) ‘Rate of recordable work-related injuries’ (existing indicator). The ESAs have changed the wording to this indicator from injuries to accidents, to align it with the current ESRS terminology.
 - b) ‘Lack of processes and compliance mechanisms to monitor compliance with OECD Guidelines for Multinational Enterprises or the UN Guiding principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO declaration and the International Bill of Human Rights’ (existing indicator). The ESAs have moved this indicator from Table 1 to Table 3 as opt in indicator. This is because feedback from respondents and experience with the first PAI statements issued in June 2023 showed that this indicator was not providing meaningful input on principal adverse impacts related to the international norms.
 - c) ‘Operations and suppliers using workforce qualifying as child labour’ (existing indicator). The ESAs went back to the original definition of ‘Operations and suppliers at significant risk of incidents of child labour’ to reflect feedback from stakeholders that ‘being exposed’ could be interpreted as only known cases of child labour in the workforce would be captured.

- d) 'Lack of due diligence' The ESAs have decided to delete this indicator because of the potential for duplication with indicator 10 in table 1.
 - e) 'Numbers of convictions and amount of fines for violation of anti-corruption and anti-bribery laws' (existing indicator) which required quantifications of the convictions and fines, was changed into 'Convictions and fines for violation of anti-corruption and anti-bribery laws), and the corresponding metric was changed to share of investments in investee companies with convictions or fines for violation of anti-corruption and anti-bribery laws. The effect is that the indicator measures investments in companies failing either any convictions or fines.
 - f) 'Investee countries subject to social violations' (existing indicator). The ESAs have clarified the description.
 - g) 'Lack of grievance / complaints handling mechanism to report alleged cases of discrimination related to employee matters; (existing indicator). The ESAs went back to the original definition of 'Lack of grievance / complaints handling mechanism related to employee matters' to meet concerns on the complexity around the concept of 'alleged' and to avoid narrowing the adverse impact of the indicator.
8. Changes to the other PAI indicators covering environmental adverse impacts are as follows:
- a) 'Carbon footprint; and 'GHG intensity of investee companies' (existing indicators) The ESAs have changed the description of the indicator, and the corresponding formulae to the ratio of the total GHG emissions expressed per million EU invested (carbon footprint) and the ratio of GHG emissions per million EU of revenue of investee companies (GHG intensity of investee companies).
 - b) 'Exposure to companies active in the fossil fuel sector' (existing indicator). The ESAs have slightly modified the way that Taxonomy-aligned gas activities are exempted, by isolating revenues derived from those activities as not applying to the definition of companies active in the fossil fuel sector.
 - c) 'Energy consumption intensity per high impact climate sector' (existing indicator). The ESAs have changed the MWh from GW, as stakeholders were in agreement that GW results in very low value for the indicator.
 - d) 'Breakdown of energy consumption by type of non-renewable sources of energy'. The ESAs decided to rephrase this indicator as 'the share of non-renewable energy consumption and production'.
 - e) 'Emissions to water' (existing indicator). The ESAs have changed the definition and the description of the indicator into pollution of water, with the alignment to the current definition of the ESRS considered more comprehensive than the Directive 2000/60/EC establishing a framework for Community action in the field of water policy.

- f) ‘Hazardous waste and radioactive waste’ (existing indicators). The ESAs have taken the ‘radioactive waste’ part of the adverse impact indicator to make it an opt-in indicator. This is because while radioactive waste is a type of hazardous waste and companies may report them together, there is no explicit requirement in the ESRS to make the proportion of radioactive waste a separate datapoint.
 - g) ‘Deforestation’ The ESAs have changed the definition of ‘deforestation’ aligning it with the recent Regulation (EU) 2023/1115 (conversion of forest to agricultural use, whether human-induced or not).
 - h) ‘Sovereign GHG intensity’. The ESAs have adjusted the description of the indicator, and the corresponding metric, to modify the GDP measure according to purchasing power parity (PPP). As many respondents to the consultation paper noted, without a PPP adjustment, GHG emission intensity would penalise developing countries.
9. There are no changes to the current real estate indicators, but the ESAs have provided some context for when real estate assets can be “storage” for fossil fuels in the feedback analysis to Question 7 in the feedback statement in Section 4.2 of this document.

2.3 Changes to the PAI framework

10. All vs relevant investments: The ESAs considered carefully the feedback received on the structural question about the basis on which the PAI indicators are calculated, whether on “all investments” as in the current SFDR Delegated Regulation or to change this to be on the basis of “relevant investments”. The ESAs note that respondents were almost equally split in support of the two proposals.
11. Two overriding reasons have led to the ESAs opting not to change the calculation basis. Firstly, as many respondents noted in their consultation responses, the European Commission’s assessment of SFDR² could result in changes that it might be better not to pre-empt these with any significant changes in the Delegated Regulation. Secondly, since any changes from these amendments to the Delegated Regulation would not apply for a few years, historical comparison of PAI values would be hampered by a change to the calculation basis.
12. The ESAs will make a few targeted amendments to the definition of “current value of all investments” following technical input by the insurance industry on the items to be included by insurance companies in the relevant definition in Table 1 in Annex I.
13. Disclosure of share of estimates: The ESAs believe that the best practice enshrined in Q&A IV.5 in the consolidated SFDR Q&As³, that the share of the PAI based on data from investee

² https://finance.ec.europa.eu/regulation-and-supervision/consultations/finance-2023-sfdr-implementation_en

³ https://www.esma.europa.eu/sites/default/files/2023-05/JC_2023_18_-_Consolidated_JC_SFDR_QAs.pdf#page=13

companies and the share that is estimated (or reasonably assumed) should be disclosed, should be reflected in the legal text of the SFDR Delegated Regulation.

14. For this reason, the proposal that was presented in the consultation paper, to add a paragraph to Article 6 of the SFDR Delegated Regulation specifying that the FMP making the PAI disclosure should disclose what share of the adverse impact was based on data from the investee company and what was estimates or subject to reasonable assumptions, is reflected in this final report.
15. New formulae and adjustments to existing formulae: all formulae have been adjusted to reflect the changes in the indicators.
16. Technical changes or clarifications to the current indicators: With regard to indicator 17 in Table 1 of Annex I (sovereign GHG intensity), in line with the Partnership for Carbon Accounting Financials (PCAF), the sovereign GHG intensity should be calculated using Gross Domestic Product adjusted (GDP) by a Purchasing Power Parity (PPP) factor. According to PCAF, the PPP-adjustment of GDP allows for comparing the real sizes of the economies and the output by subtracting the exchange rate effect, allowing for a fairer comparison of the countries. PPP-adjusted GDP figures are publicly available on the World Bank's website and can be used directly in the formula (i.e. in USD).
17. Treatment of derivatives in PAI disclosures: The ESAs considered the helpful technical input by respondents to the consultation paper. Ultimately, the ESAs did not believe that they could leave the treatment of derivatives entirely unchanged from the current situation in the delegated regulation, because the continuing uncertainty about how to treat certain investments for PAI disclosure purposes would persist. For this reason, the proposal in the consultation paper that derivatives should be converted to economic exposure was retained.
18. Taking note, however, of the significant negative feedback about the proposed carve out for derivative transactions that do not result in a physical exposure to the underlying, the ESAs have not included this provision in the draft RTS in this final report.
19. Treatment of investee companies' value chains: Noting the support for the alignment with the ESRS of the proposal in the consultation paper, the ESAs confirm that the value chains of investee companies only need to be included in the PAI calculations where the investee company reports on that value chain.

2.4 DNSH disclosure design options

20. Disclosure of PAI-related DNSH thresholds: The ESAs have digested the full and helpful responses from respondents to the thoughts and questions that were asked in the consultation paper. It is noteworthy that the DNSH element of sustainable investments is also a consideration by the European Commission in their recently published consultation on the

Level 1 framework. In light of the potential changes coming in the future on this topic, the ESAs have decided not to make or suggest any longer term revisions to this topic.

21. In the immediate context of this final report, the ESAs note that there was support in the consultation for slightly more specific disclosures about how financial products “take into account” PAI indicators for the purpose of the DNSH principle for sustainable investments. The draft RTS will include a requirement to disclose the thresholds or criteria for the PAI indicators that the financial product uses to determine that its sustainable investments comply with the DNSH principle in the website disclosures.
22. Disclosure related to “safe harbour” for taxonomy-aligned investments: The ESAs note that the question in the consultation paper on the “safe harbour” for taxonomy-aligned investments (please see paragraphs 53-56 of [JC 2023 09](#)), and the possible changes to the SFDR Delegated Regulation related to it, has been clarified by the Commission’s Q&A issued in June 2023 confirming the existence of the safe harbour and that financial market participants can rely on it.
23. In order to give certainty about the safe harbour, the ESAs have added provisions to the Articles related to the calculation of sustainable investments so that any investments in taxonomy-aligned economic activities is automatically considered sustainable investments.

2.5 Amendments regarding GHG emissions reduction targets

24. Following up on the mandate received from the European Commission, the ESAs have developed draft RTS that incorporate new disclosures for financial products information provided “in pre-contractual documents, on websites and in periodic reports on GHG emissions reduction targets, including intermediary targets and milestones, where relevant, and actions pursued.” These disclosures aim to help deliver on the Commission’s objective to improve target-setting, disclosure and monitoring of the financial sector’s commitments, under the Strategy for financing the transition to a sustainable economy for sustainable finance published in July 2021.
25. The draft RTS define a maximum interval of five years between targets. This will support consistency with the schedule required from undertakings under ESRS E1 and from countries under Article 4.9 of the Paris Agreement. The draft RTS do not create any additional burden for products without GHG emissions reduction targets: for products without such targets, the new set of disclosures does not apply.
26. Similar to proposal in the consultation paper, the new disclosures apply to products having GHG emissions reduction as their investment objective under Article 9(3) SFDR. However, for products that passively track EU Climate Transition or Paris-Aligned Benchmarks (together, referred to as “EU Climate benchmarks”), a simplified disclosures apply: compliance is achieved

by providing (1) a short summary of how ESG factors are reflected in the benchmark⁴ tracked by the product and (2) a hyperlink to a description of the Benchmark methodology (i.e., information disclosed by the benchmark administrator under Articles 13 and 27 of Regulation (EU) 2016/11). For products that do not passively track an EU Climate benchmark, detailed disclosures are required and the reference to the benchmark methodology should only be provided as a complement.

27. The draft RTS balance the need for detailed, decision-useful disclosures for investors with the need for comprehensible, summarised information suitable to retail investors. The draft RTS set out the details of the content and information as follows:

- (i) In pre-contractual documents, simplified disclosures are meant to provide information on the type of outcome the product is committing to achieve, on the level of ambition of the target(s), in particular on the alignment of the target with the goal of limiting global warming to 1.5 degree Celsius⁵. Disclosures also explain how the investment strategy will help deliver on the target(s);
- (ii) In the periodic reports, additional simplified disclosures are meant to provide information on progress to date and to explain how the investment strategy contributed to such progress. Periodic reports should also identify the potential delays in achieving the target(s) and potential adjustments needed;
- (iii) A third set of disclosures, more detailed and available on the website will complement pre-contractual and periodic disclosures. Cross-references to the website should be included in both the pre-contractual documents and the periodic reports.

28. FMPs will be asked to provide information about the way the target will be achieved (or what is their approach to reducing financed GHG emissions). In pre-contractual documents, FMPs can select among a list of possible approaches to GHG emissions reduction, indicating whether:⁶

- a. After the initial security selection, the financed GHG emissions of the product⁷ will be reduced through portfolio reallocation - divestment from assets with particular GHG emissions levels and investments in assets with comparatively lower GHG emissions, (excluding relatively higher-emitting assets from the portfolio would achieve a

⁴ Such summary should reflect the content of the templates set out under [Annex 1 in Commission Delegated Regulation \(EU\) 2020/1816 of 17 July 2020 supplementing Regulation \(EU\) 2016/1011 of the European Parliament and of the Council](#)

⁵ Given that the UN-backed Race to Zero campaign and the Glasgow Financial Alliance for Net Zero both refer to the 1.5 goal in their criteria and guidance, this information appears useful for investors interested in products that will support the alignment of their financial flows on the objective of the Paris Agreement to limit global warming to 1.5C.

⁶ These are not mutually exclusive. A single product may select all three options.

⁷ In the context of investment activities, “financed” emissions are the scope 1, scope 2 (and scope 3 when covered by the PCAF standard) GHG emissions of investee companies and assets in which funds are invested.

reduction in financed emissions, even if in parallel no emissions reduction has been achieved in the real economy); and/or

- b. The financed GHG emissions of the product will be reduced based on the delivery of actual GHG emissions reductions at asset level (i.e., the investee companies, sovereigns, projects, etc.) over the duration of the investment, either:
 - by investing in assets that are expected to deliver GHG emissions reductions over the duration of the investment (conducting a robust *ex ante* assessment of the assets ability to deliver GHG emissions reductions over time, based on their potential transition plans); and / or
 - by engaging with investee companies to contribute to their GHG emissions (reduction resorting to active ownership and harnessing the potential impact of stewardship and engagement).⁸
29. Framing this disclosure in tick boxes in the financial product templates aims to ensure comparability and supporting comprehensibility for retail investors. Where relevant, FMPs are free to complement that information by detailing further their approach to reducing financed GHG emissions, via narrative explanations. As part of periodic reports, FMPs also have to reflect on how the various decarbonisation approaches selected *ex ante* contributed to the progress achieved to date against the emissions reduction targets. FMPs may voluntarily quantify and disclose the contributions each of the approaches made to the overall progress towards the targets.
30. The draft RTS do not mandate any specific approach to climate target-setting. However, the draft RTS require that GHG emission reduction targets are set in terms of financed GHG emissions. The co-existence of different metrics in terms of climate target-setting would be the source of unnecessary burden for investors who want to identify products that can help them deliver on their climate commitments. It can also complicate their efforts to monitor progress and aggregate results across products. Overall, it undermines financial product comparability.
31. Requiring that targets are disclosed based on a single metric does not mean that these targets cannot be set taking into account complex bottom-up assessments, building on various sector-specific metrics. As the disclosure of such complementary metrics may be useful, for sophisticated investors which may also have sector-specific targets of their own. FMPs may disclose these additional details on their website (including using production-based metrics), under the condition that they do not replace financed GHG emissions data.

⁸ In November 2022, the Glasgow Financial Alliance for Net Zero published a set of recommendations and [guidance](#) on financial institutions net-zero transition plans. It lays out why and how financial institutions can engage with investee companies to support their transition to net zero.

32. Emissions associated with financial products fall under the scope 3 downstream emissions of financial institutions investing (or managing investments) in these products.⁹ Significant progress has been made in standardising GHG accounting and reporting, including at financial portfolio level. With regards to their scope 1 and scope 2 emissions, financial institutions can rely on the GHG accounting and reporting standards, available to corporates for more than two decades now. Additional GHG accounting and reporting guidance and standards have been developed, later on, to deal specifically with financed GHG emissions. The [GHG Protocol Corporate Value Chain \(Scope 3\) Standard](#) first provided guidance, under the Chapter dedicated to investments. In 2020, the Partnership for Carbon Accounting Financials (“PCAF”) complemented the GHG Protocol guidance with the Global GHG Accounting and Reporting Standard for the Financial Industry (“PCAF’s Standard”), which provides detailed guidance per asset class.¹⁰ PCAF’s Standard covers all seven GHG included in national inventories under the United Nations Framework Convention for Climate Change (UNFCCC).¹¹ In line with the GHG Protocol, PCAF’s Standard requires the inclusion of investee companies’ scope 1 and scope 2 emissions and is set to require the inclusion of scope 3 emissions for all sectors over time (following a phased-in approach).¹² EFRAG and the European Commission built on these pre-existing standardisation efforts for the development of the ESRS.¹³
33. The draft RTS encourage the use of the PCAF Standard by financial products when measuring their financed GHG emissions baseline and monitoring progress, as well as to set targets - specifically part A “Financed Emissions” (version December 2022), as set out under disclosure requirement E1-6 of the ESRS E1. FMPs are also asked to consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard, also in line with ESRS E1. The draft RTS support consistency with forthcoming entity-level disclosures which financial institutions subject to the Corporate Sustainability Reporting Directive (CSRD) will have to start disclosing from financial year 2024 under ESRS E1. For asset classes which are not covered by PCAF’s Standard, FMPs will be able to rely on alternative methodologies – in which case FMPs will be required to describe the methodology used as part of the website disclosures.

⁹ Also called “financed” emissions, they often represent the most significant portion of financial institutions’ emissions, far outweighing scope 1 and 2 emissions (respectively, emissions coming from the institution’s own operations and from its energy consumption).

¹⁰ Seven asset classes are covered: listed equity and corporate bonds, sovereign bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans. According to the second edition of the [standard](#) published in December 2022.

¹¹ Carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

¹² The inclusion of investees’ scope 3 emissions is challenging due to data availability and methodological uncertainty issues. PCAF adopted a phased-in approach whereby the requirement to include scope 3 emissions of companies will cover additional sectors over time. Starting in 2021, two sectors are covered: oil and gas, and mining. Starting 2024, transportation, construction, buildings, materials and industrial activities are covered as well. All sectors are to be covered starting 2026.

¹³ It is useful to note that EFRAG is developing sector-specific ESRS. The financial sector is expected to be subject to a number of additional sector-specific disclosure requirements. It will be essential to ensure continued consistency between such requirements and the disclosure requirements under the SFDR.

34. The draft RTS require that GHG emissions reduction targets are set on the basis of all relevant investments. Baseline measurement and progress monitoring should be done on the same basis. For the sake of comparability, and where the product invests in such asset classes, relevant investments should always include investments in the following asset classes: listed equity and corporate bonds, sovereign bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans.¹⁴ In addition, financial products may integrate other asset classes to this initial list, where they consider the investments as relevant – in which case the FMP should disclose the standard or methodology used to do so.
35. The draft RTS require that the new disclosures are provided separately for investments in sovereign bonds. Unlike other asset classes, where the attribution factor is based on a measure of the value of the underlying assets, the attribution factor used for sovereigns is generally based on macro indicator such as output or population (e.g., PCAF's Standard uses PPP-adjusted GDP). Separate disclosure appears necessary to enhance comparability across products with varying asset bases. This will also reduce potential double counting of financed emissions. Beyond sovereigns, the disaggregation of data per asset class will be allowed on a voluntary basis, for website disclosures. To avoid overburdening retail investors with technical information, aggregate data for all asset classes apart from sovereigns, will be required for disclosures in the pre-contractual documents and periodic reports.
36. With regards to multi option products (MOPs), the draft RTS set out details regarding the disclosure of a range of targets, based on the targets of the various underlying options, in the website disclosures.
37. As the availability and reliability of scope 3 emissions data is gradually improving, it is expected that FMPs will continue using estimates by third party providers. The draft RTS therefore require FMPs to be transparent about the share of the investments for which gross GHG emissions (i) was reported by underlying investee undertakings, (ii) was retrieved from investee companies or (iii) could be estimated. This information will be part of the website disclosures.
38. The draft RTS recognise that AuM- and EVIC-based calculations metrics are subject to market-based volatility.¹⁵ There is no perfect metric to address such challenges and economic-based metrics are necessary to measure environmental performance at portfolio level and compare across products of various sizes (in terms of assets under management). The draft RTS also seek to ensure consistency with other parts of the regulatory framework and existing market practices. EVIC-based calculations of financed GHG emissions are already in use under the Benchmark Regulation and the PAI indicators (PAI 2). The Net Zero Asset Owners Alliance also encourages the use of EVIC-based calculation for financed GHG emissions in its Target-setting

¹⁴ These are the asset classes covered by the PCAF Standard referred to in footnote 10.

¹⁵ AuM refers to Assets under management, EVIC refers to Enterprise Value Including Cash.

Protocol.¹⁶ Calculations in use under SFDR for PAI indicators (e.g., PAI indicators 2 and 3 in Table 1 of Annex I) support normalisation by all investments. The draft RTS require FMPs to disclose unadjusted metrics as part of their pre-contractual documents and periodic reports. But recognising that some adjustments may be helpful to reduce market-induced volatility of the results (e.g., accounting for changes in inflation, foreign exchange rates, assets market price fluctuations, etc.), the draft RTS allow for the disclosure of adjusted metrics as part of website disclosures, together with the adjustment factor used and an explanation of how this was constructed and applied.

39. The draft RTS provide that product-level financed GHG emission should only reflect gross GHG emissions of the investments. Financial products' GHG emission reduction targets must be set on that basis as well. This is in line with what is required under CSRD from financial institutions at entity level.¹⁷ GHG removals and storage, carbon credits or avoided emissions implemented by investees companies/ financed projects cannot be relied upon as a means of achieving the GHG emission reduction targets at product level. In addition, financial market participants cannot purchase carbon credits or rely on the computation of avoided emissions to achieve the GHG emission reduction targets at product level.
40. Recognising the potential contribution of carbon credits to climate change mitigation, the draft RTS provide that within periodic reports, FMPs are allowed to report volumes of carbon credits they have purchased and cancelled during the reporting period. They should do so separately from their monitoring of progress regarding financed GHG emission reduction targets. Such disclosures are optional and detailed website disclosures are required to ensure the avoidance of double counting – the retired carbon credits should be disclosed in relation to only one single financial product. Given concerns surrounding the environmental integrity of these carbon credits, it is important that investors are informed regarding the quality of such carbon credits: website disclosures must also mention the share of the carbon credits that have been certified by recognised quality standards for carbon credits (as defined under Annex 2 of the CSRD ESRS).^{18 19}

¹⁶ “the Alliance recommends using enterprise value (or EVIC) to allocate emissions to the relevant parts of the balance sheet (equity/debt). [...] EV/ EVIC is closely linked to the financing sources of companies, hence directly linked to the role of investors. This reasoning can also be applied to real assets like real estate and infrastructure, thus allowing a more uniform approach to the total portfolio. On the other hand, revenues are more closely linked to the production output of companies and thus to the source of emissions. Due to the Alliance’s long-term view to expanding the Protocol to all asset classes, it has a slight preference for EV/EVIC-based intensity metrics.” [[AOA TSP 3rd Edition](#). P. 45.]

¹⁷ ESRS E1 specifies under Disclosure requirement E1-4 on targets that “The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emission reduction targets”

¹⁸ The NZAMI [commitment statement](#), for instance, explains that for assets committed to be managed in line with the attainment of net zero emissions by 2050, signatories will “If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions”

¹⁹ “Quality standards for carbon credits that are verifiable by independent third parties, make requirements and project reports publicly available and at a minimum ensure additionality, permanence, avoidance of double counting and provide rules for calculation, monitoring, and verification of the project’s GHG emissions and removals.”

2.6 Simplification of the templates

41. Based on stakeholders' feedback and supervisory work, the financial product templates have been updated by simplifying the language, restructuring the information provided to avoid repetitions and removing the green colour in all disclosures except for the Taxonomy graphs.
42. To make the disclosure more understandable and less complex, the ESAs have introduced a dedicated "dashboard" to provide key information in the first page of the documents, alongside more detailed disclosures in the following pages. The dashboard is designed to attract readers' attention to critical information, reducing information overload while still offering detailed data for sophisticated investors.
43. The dashboard highlights whether a financial product has a sustainable investment objective or promotes environmental/social characteristics. The dashboard includes a statement about the product's nature. Four essential elements are included in the dashboard: Sustainable investments, Taxonomy-aligned investments, Principal Adverse Impacts (PAI) consideration, and GHG emissions reduction targets.
44. Icons have been added for visual clarity, indicating whether the product makes sustainable investments, EU Taxonomy-aligned investments, considers PAI or has a decarbonisation target.
45. The ESAs conducted qualitative consumer testing in Italy, Poland, France and the Netherlands between April and June 2023. Similar to the consultation responses, the "dashboard" at the start of the templates was particularly welcomed. However, interviewees struggled with differentiating "sustainable investments", "environmental or social characteristics" and "Taxonomy investments".
46. The disclosure of the taxonomy-alignment of investments with and without sovereign exposures has been enhanced by the provision of additional explanations about why there are two measurements. The explanations included emphasise that it is difficult to determine the taxonomy-alignment of sovereign exposures. The ESAs stress that this explanation does not apply to any other asset class and does not the change any of the obligations included in Article 17 of the SFDR Delegated Regulation for the calculation of the taxonomy-alignment of investments.
47. The "dashboards" also show whether the financial product have a GHG emissions reduction target. For the sake of comprehensibility, the description of the existence of a target is framed as the financial product "aiming" to reduce GHG emissions of its investments. This is not intended to conflate GHG emissions reduction targets with financial products that have a decarbonisation objective under Article 9(3) SFDR, as those products have their specific disclosures in Annexes III and V.

48. Finally, the ESAs clarify that when delivered electronically, the financial product disclosures can be extendable by click, based on the information provided in the “dashboard” in the first page. In fact, the remaining pages of the disclosures follow the structure of the “dashboard”, in a way that it should be easy to extend the dashboard information to open the full template by clicking in the boxes of the “dashboard”.

2.7 Disclosures for financial products with investment options

49. To cater for the specificities of financial products with investment options which can be insurance-based investment products that offer a choice of investment options to the investor, and pension products that offer different options (such as the pan-European pension product), the amending SFDR Delegated Regulation includes provisions for those products.

50. This includes extended disclosures pre-contractually for such products, which consist of a “dashboard” with the key information on the investment options that promote characteristics or have a sustainable investment objective.

51. The ESAs are of the view that where the number of invested options is significant, the periodic disclosures for financial products with investment options can be provided by cross-referencing to the relevant sectoral SFDR disclosures, including website disclosures made in accordance with Article 10 of Regulation (EU) 2019/2088. The ESAs are of the view that the cross-referencing should be to the specific document where the SFDR disclosure is Annexed to. This is necessary as retail consumers might struggle with finding the sustainability disclosures on-line.

52. The ESAs have clarified that website disclosures for products referred to in Article 8(1) or 9(1), (2) and (3) SFDR with investment options should include the following:

a. A “dashboard” summarising the key sustainability-related information on the investment options that qualify the financial product as a financial product referred to in Article 8(1) or 9(1), (2) and (3) SFDR; and

b. Additional details should be disclosed at the underlying investment option level. Where relevant, the information can be provided by cross-references to the specific section in the website of the specific underlying investment option. The cross-references can be a direct link to the relevant SFDR disclosure for the specific investment option as required under sectoral rules, and not a link to the general website section of the manufacturer of the investment option where information on the different investment options is available, or where different pre-contractual documents of that investment options are generally available.

53. The underlying investment options offered might or might not qualify as stand-alone financial products offered by the financial market participant that is marketing the financial product with

investment options nor by another financial market participant. For example, this can be the case for profit participation funds that are only offered in the form of a multi-option product.

54. The ESAs are of the view that FMPs should disclose, for qualifying investment products with underlying options²⁰, the financial product templates for the underlying options, irrespective of whether the underlying investment option qualifies as a stand-alone financial product under the SFDR or not. In that case the wording in the template should be adjusted by replacing “product” by “investment option”. However, this should not apply to investment options that are financial instruments according to Annex I of Directive 2014/65/EU, except for units in collective investment undertakings.

2.8 Other changes

55. The calculation of the proportion of sustainable investments of financial products: The ESAs have decided that following the European Commission’s Q&A (Q&A II.1 on page 6 of the Joint Q&A document²¹) it is possible to calculate sustainable investments at the economic activity or investment level, so it is appropriate to specify how those two calculations should be done.
56. For this reason, the draft RTS contain a new Article (17a) with the two ways to calculate the proportion of sustainable investments in a financial product, based on the clarifications provided by the European Commission in the Q&A, where the numerator consists of either the look-through into the economic activities contributing to objectives, or investments in entire companies. The denominator is similar to that of the taxonomy-aligned calculations, i.e. the market value of all investments.
57. Furthermore, financial products have to disclose which of the two methods it has chosen for the calculation of its sustainable investments in the pre-contractual, website and periodic disclosures.
58. Machine readability: In light of the support in the consultation paper for machine readability and in order to facilitate the accessibility, analysis and comparability of disclosures, and in preparation for the implementation of the European Single Access Point (ESAP) Regulation, the disclosures which will be made available on ESAP should be made available in a format which is at the same time human readable and machine readable. This affects all disclosures covered by the SFDR Delegated Regulation.
59. Inline XBRL is a machine-readable format which allows for the automated consumption of large amount of information and that is also human readable. It is well established in a number of

²⁰ Financial products with underlying investment options that because of their sustainability-related features qualify 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 objective.

²¹ https://www.esma.europa.eu/sites/default/files/2023-05/JC_2023_18_-_Consolidated_JC_SFDR_QAs.pdf#page=6

jurisdictions and it is the format in which sustainability information prepared pursuant to Directive (EU) 2022/2464 should be marked up.

60. Website disclosures: To ensure comparability, the ESAs require to include in the summary of the website disclosures of financial products, the “dashboard” that represents the first page of the pre-contractual disclosures.

3. Draft RTS

**COMMISSION DELEGATED REGULATION (EU) No .../..
of XXX**

**amending Delegated Regulation (EU) 2022/1288
supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with
regard to regulatory technical standards specifying the details of the content and presentation
of the information in relation to the principle of ‘do no significant harm’, specifying the content,
methodologies and presentation of information in relation to sustainability indicators and
adverse sustainability impacts, and the content and presentation of the information in relation
to the promotion of environmental or social characteristics and sustainable investment
objectives in precontractual documents, on websites and in periodic reports**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector⁽²²⁾, and in particular Article 2a(3), Article 4(6), third subparagraph, Article 4(7), second subparagraph, Article 8(3), fourth subparagraph, Article 8(4), fourth subparagraph, Article 9(5), fourth subparagraph, Article 9(6), fourth subparagraph, Article 10(2), fourth subparagraph, Article 11(4), fourth subparagraph and Article 11(5), fourth subparagraph thereof,

Whereas:

- (1) Regulation (EU) 2019/2088 establishes harmonised rules for sustainability-related disclosures by financial market participants and financial advisers. Commission Delegated Regulation (EU) 2022/1288²³ () lays down the content, methodologies and presentation of entity-level principal adverse impact disclosures and the content and presentation of financial product-level pre-contractual, website and periodic disclosures. That Regulation also requires pre-contractual and periodic disclosures of a financial product investing in an economic activity that contributes to one or more of

²² OJ L 317, 9.12.2019, p. 1.

²³ Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports (OJ L 196, 25.7.22, p. 1).

the environmental objectives referred to in Regulation (EU) 2020/852 of the European Parliament and of the Council .

- (2) With the aim of enhancing the comprehensiveness of the disclosures of the principal adverse impacts of investment decisions on sustainability factors, it is necessary to specify that the analysis of the adverse impacts of investee companies includes the adverse impacts of their value chains. However, to ensure coherence with the additional information on value chains to be disclosed in accordance with Directive (EU) 2022/2464 of the European Parliament and of the Council and the accompanying sustainability reporting standards, that information should be required where those investee companies themselves report that information in accordance with that Directive. If investee companies are not subject to the reporting required under that Directive, financial market participant should include information on those companies' value chains where that information is readily available, for example by third party data providers.
- (3) With the same aim of enhancing the comprehensiveness of the disclosures at entity level and to avoid circumvention by financial market participants, it is also appropriate to include the adverse impacts of the derivatives of financial market participants as they also constitute investment decisions on sustainability factors. For this purpose, the calculation and conversion methodology set out in Article 8 and Annex II of Commission Delegated Regulation (EU) No 231/2013 is an appropriate methodology for calculating the exposure, and therefore the aggregate adverse impact, by converting the derivatives into equivalent positions in the underlying assets of those derivatives.
- (4) As announced in the Communication on the Strategy for Financing the Transition to a Sustainable Economy , financial market participants should provide more transparency on the decarbonisation targets of their financial products. In order to enhance the transparency and comparability of financial products' commitments to climate transition or carbon neutrality, new disclosure obligations on any greenhouse gas emission reduction targets of financial products should be introduced in this Regulation. Financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 that for the purpose of measuring their performance track the return of an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark are considered to always have a decarbonisation target and should refer to the relevant decarbonisation disclosures of the benchmark administrator.
- (5) In order to provide more comprehensive disclosures of social adverse impacts of investment decisions, it is necessary to expand the list of indicators for such adverse impacts that are always principal, covering impacts arising from earnings in non-cooperative tax jurisdictions, the cultivation and production of tobacco, or employees earning less than an adequate wage. Other indicators are also required covering additional adverse impacts on social factors that may be principal adverse impacts.
- (6) Other technical changes are required to the indicators for adverse impacts of investment decisions on sustainability factors to update and clarify the provisions relating to the entity-level disclosures. In order to increase clarity for financial market

participants, it is necessary to include formulas specifying the metrics for all the indicators in Tables 1 to 3 of Annex I of Delegated Regulation (EU) 2022/1288.

- (7) In order to ensure that investors receive information that is comprehensible and is simple and clear, it is appropriate to simplify the presentation of the financial product pre-contractual and periodic disclosures, including through a new dashboard of key information to be presented at the beginning of the disclosure templates.
- (8) It is appropriate to complement the content and presentation of the disclosures for financial products with investment options to ensure that adequate information on each investment option with sustainability characteristics or with a sustainable investment objective is disclosed. In particular, pre-contractual, periodic and website disclosures for financial products offering a range of investment options should provide detailed information at the investment option level, including the investment options that do not qualify as financial products, provided the investment option promotes environmental or social characteristics or has a sustainable investment objective. At the same time, considering the current scope of Regulation (EU) 2019/2088, it is proportionate to exclude those investment options that qualify as financial instruments according to Section C of Annex I to Directive 2014/65/EU and are not units in collective investment undertakings.
- (9) Commission Delegated Regulation (EU) 2022/1288 enables cross-referencing where the number of annexes of the pre-contractual and periodic disclosures of financial products with investment options prevents the disclosures from being clear and concise. It is appropriate to clarify that financial market participants may make use of such cross-referencing by including a hyperlink to the templates published in accordance with points (c) and (d) of Article 10(1) of Regulation (EU) 2019/2088. Similarly, cross-referencing through hyperlinks should also be available for website disclosures of financial products with investment options in relation to the information disclosed in accordance with Article 10(1).
- (10) In order to facilitate the accessibility, analysis and comparability of disclosures, and in preparation for the implementation of the European Single Access Point (ESAP) in Regulation EU xx/xxxx [ESAP Regulation], the disclosures which will be made available on ESAP should be made available in a format which is at the same time human readable and machine readable. Inline XBRL is a machine-readable format which allows for the automated consumption of large amount of information and that is also human readable. It is well established in a number of jurisdictions and it is the format in which sustainability information prepared pursuant to Directive (EU) 2022/2464 should be marked up.
- (11) In order to enhance consistency of the disclosure and to ensure that financial market participants can correctly calculate the proportion of sustainable investments in which the financial product invests, it is necessary to describe calculation methods in this Regulation.
- (12) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority, the European Insurance and

Occupational Pensions Authority and the European Securities and Markets Authority (European Supervisory Authorities).

- (13) The European Supervisory Authorities have conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council ([1]), the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council ([2]), and the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council ([3]).
- (14) In order to ensure the smooth functioning of the financial services sector and sustainability disclosures, it is necessary that this Regulation applies from [...],

HAS ADOPTED THIS REGULATION:

Article 1
Amendments to Commission Delegated Regulation (EU) 2022/1288

Commission Delegated Regulation (EU) 2022/1288 is amended as follows:

- (1) Article 1 is replaced by the following:

‘Article 1

Definitions

For the purposes of this Regulation, the following definitions apply:

- (1) ‘greenhouse gas (GHG) emissions’ means emissions of gases listed in Part 2 of Annex V to Regulation 2018/1999 expressed in tonnes of CO₂-equivalent²⁴;
- (2) ‘financed GHG emissions’ means the gross value of the GHG emissions defined in point (3) of Annex I of this Regulation relating to investments underlying the financial product and shall be accounted for and reported

²⁴ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p.1).

considering the standards referred to in Annex I, ESRS E1 Climate change, Appendix A: Application Requirements, paragraph AR46, points (a) and (b), of Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34 of the European Parliament and the Council²⁵;

- (3) ‘GHG removals and storage’ means a transferable or tradable instrument that represents one metric tonne of CO₂ equivalent emission reduction or removal;
- (4) ‘carbon credit’ means carbon credits as defined in Table 2 of Annex II of Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2022/2464 of the European Parliament and the Council];
- (5) ‘sovereign exposure’ means an exposure to central governments, central banks and supranational issuers;
- (6) ‘environmentally sustainable economic activity’ means an economic activity that complies with the requirements laid down in Article 3 of Regulation (EU) 2020/852;
- (7) ‘non-financial undertaking’ means an undertaking that is not a financial undertaking as defined in point (8);
- (8) ‘financial undertaking’ means an AIFM as defined in Article 4(1), point (b), of Directive 2011/61/EU of the European Parliament and of the Council²⁶, a management company as defined in Article 2(1), point (b), of Directive 2009/65/EC of the European Parliament and of the Council, an investment company authorised in accordance with Articles 27, 28 and 29 of Directive 2009/65/EC of the European Parliament and of the Council²⁷ that has not designated for its management a management company authorised in accordance with Articles 6, 7 and 8 of that Directive, a credit institution as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the

²⁵ Throughout the Articles, reference to ‘Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34 of the European Parliament and the Council’ means to the delegated act that the European Commission will adopt pursuant to Article 29b of Directive (EU) 2013/34 of the European Parliament and the Council. The reference to the relevant Section or Article will be inserted following the publication of such delegated act.

²⁶ Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

²⁷ Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

European Parliament and of the Council²⁸, an investment firm as defined in Article 4(1), point (2), of Regulation (EU) No 575/2013, an insurance undertaking as defined in Article 13, point (1), of Directive 2009/138/EC of the European Parliament and of the Council²⁹, a reinsurance undertaking as defined in Article 13, point (4), of Directive 2009/138/EC, or any third country entity that carries out similar activities, is subject to the laws of a third country and is supervised by a third-country supervisory authority;

- (9) ‘transitional economic activity’ means an economic activity that complies with the requirements laid down in Article 10(2) of Regulation (EU) 2020/852;
- (10) ‘enabling economic activity’ means an economic activity that complies with the requirements laid down in Article 16 of Regulation (EU) 2020/852.’;

(2) in Article 2, paragraph 1 is replaced by the following:

‘1. Financial market participants and financial advisers shall provide the information required by this Regulation free of charge and in a manner that is easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear and not misleading. Financial market participants and financial advisers shall present and lay out the information required by this Regulation in a way that is easy to read, use characters of readable size and use a style that facilitates its understanding. Financial market participants may only adapt size and font type of characters used in the templates set out in Annexes I to V to this Regulation.’;

(3) In Article 2, paragraph 2 is replaced by the following:

‘2. Financial market participants shall prepare the information required by this Regulation in XHTML format and shall mark up the information contained therein using the XBRL markup language. Those markups shall be embedded in the XHTML document using the Inline XBRL 1.1 specifications.’

(4) In Article 2, paragraph 3 is replaced by the following:

3. Financial market participants and financial advisers shall keep the information published on their websites in accordance with this Regulation up to date and shall

²⁸ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

²⁹ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1).

ensure that hyperlinks are in working order. They shall clearly mention the date of publication of the information and the date of any update. Where that information is presented as a downloadable file, financial market participants and financial advisers shall indicate the version history in the file name.

(5) in Article 6, the following paragraphs 4 to 7 are inserted:

‘4. For the purposes of the indicators related to adverse impacts referred to in paragraph 1, financial market participants shall include derivatives by calculating them according to the conversion method set out in Annex II to Commission Delegated Regulation (EU) No 231/2013³⁰ and applying paragraphs 4 to 9 and 14 of Annex I of that Regulation and Article 8(4) of that Regulation. Financial market participants shall net positions in accordance with Article 8(3), point (a) of that Regulation. Where the result of the netting is below zero, financial market participants shall not include this result in the “impact” column but may disclose the short positions and indicate that these short positions originate from derivatives in the column “explanation”.

5. For the purposes of the indicators related to principal adverse impacts referred to in paragraph 1 that apply to investments in investee companies, financial market participants shall include information on the value chains of those investee companies where that information is reported by those investee companies in accordance with the sustainability reporting requirements in Article 19a or 29a of Directive 2013/34/EU of the European Parliament and of the Council³¹. Financial market participants shall include information on the value chains of other investee companies where that information is readily available.

6. Financial market participants shall disclose in the column ‘Explanation’ in the section ‘Description of the principal adverse impacts on sustainability factors’ in Table 1 of Annex I, the proportion of their calculation that is based on information obtained from the investee company, sovereign or supranational or real estate asset, the proportion of information that was estimated or subject to reasonable assumptions and the proportion of information referred to in paragraph 3 of Article 7.

³⁰ Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013, p. 1).

³¹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

7. Where the investment decisions exclusively finance identified projects, the assessment of the principal adverse impacts of these investment decisions may be limited to those of the projects financed. Financial market participants shall indicate whether the assessment is limited to principal adverse impacts of the projects financed.’;

(6) Point (c) of Article 7(1) is replaced by the following:

‘(c) The methodologies to select and prioritise the indicators referred to in Article 6(1), points (a), (b) and (c), and to identify and assess the principal adverse impacts referred to in Article 6(1), and in particular an explanation of how those methodologies take into account the probability of occurrence and the severity of those principal adverse impacts, including their potentially irremediable character;’;

(7) The following paragraph 3 of Article 7 is inserted:

‘3. Financial market participants may consider datapoints assessed as non-material by investee companies reporting in accordance with Annex I to [Commission Delegated Regulation XXX], ESRS 1 General Requirements, Section 3.4 Impact materiality and Section 3.5 Financial materiality as not contributing to adverse impact measured by the corresponding indicator in Annex I of this Regulation.’

(8) Article 14 is amended as follows:

(a) paragraph 3 in is deleted;

(b) the following paragraph 4 is inserted:

‘4. ‘The proportion of sustainable investments of the financial product shall be calculated in accordance with Article 17a of this Regulation and be accompanied by an indication of whether the calculation method referred to in Article 17a(1)(a) or whether the calculation method referred to in Article 17a(1)(b) was used.’;

(9) The following Article 14a is inserted:

‘Article 14a

GHG emission reduction target information

1. Where financial products have a GHG emissions reduction target to reduce financed GHG emissions, financial market participants shall disclose the information set out in the template in Annex II of this Regulation on GHG emission reduction targets.
2. The GHG emissions reduction target referred to in paragraph 1 shall be calculated for all the investments of the financial product in asset classes referred to in the standard mentioned in Annex I, ESRS E1 Climate change, Appendix A: Application Requirements, paragraph AR 46 point (b) of Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34/EU.

Investments of the financial products in asset classes to which the standard referred to in the first subparagraph does not apply may be included in the calculation, provided that the financial market participant discloses which is the different GHG accounting and reporting standard used for these other asset classes.

Investee companies' GHG removals and storage, carbon credits and avoided emissions and the financial market participant's carbon credits and avoided emissions shall not be included in the calculation of the GHG emission reduction target of the financial product.

3. The financed GHG emissions target, the baseline financed GHG emissions value and reporting of progress over time shall be calculated in intensity terms, in tonnes of CO₂-equivalent per million EUR, for investments in asset classes to which the standard referred to in paragraph 2 first and second subparagraphs apply, according to the following formula:

$$\text{Financed GHG emissions intensity} \left(\frac{\text{tCO}_2\text{eq}}{\text{€M}} \right) = \sum_{i=0}^n \frac{\text{Financed GHG emissions}_i(\text{tCO}_2\text{eq})}{\text{Current value of investments}_i(\text{€M})}$$

Where:

(a) for the purposes of this Regulation, 'Financed GHG emissions intensity' refers to the value of the baseline financed GHG emissions, to its progress over time and to the value of the GHG emission reduction target;

(b) 'Financed GHG emissions_i' refers to the emissions associated to investments of the financial product in investee undertakings i; and

(c) the 'current value of investments_i' refers to the total investments of the financial product in investee undertaking i.

The GHG emissions reduction target shall be expressed either in tonnes of CO₂-equivalent per million EUR or in percentage terms relative to the baseline financed GHG emissions intensity.

Baseline financed GHG emissions intensity and GHG emissions reduction target shall be disclosed separately for investments of the financial product in sovereign exposures and for investments in any other asset classes.

4. Where the investment horizon of the financial product is longer than five years, the financial market participant shall disclose information or estimates on intermediate GHG emissions reduction target(s) in intervals of five years.’;

(10) Article 15 is amended as follows:

- (a) the title is replaced by the following:

‘Sustainable investment information in the section on environmentally sustainable investments for financial products that promote environmental characteristics’;

- (b) the introductory sentence of paragraph 1 is replaced by the following:

‘1. For the financial products referred to in Article 6, first subparagraph, of Regulation (EU) 2020/852, financial market participants shall provide, in the section ‘What is the minimum proportion of EU Taxonomy-aligned investments’ in the template set out in Annex II, all of the following:’;

- (c) paragraph 3, point (b) is replaced by the following:

‘(b) where information about the degree to which the investments are in environmentally sustainable economic activities is not readily available from public disclosures by investee companies, details of whether the financial market participant used estimates;’;

(11) Article 16 is deleted;

(12) Article 17 is amended as follows:

- (a) in paragraph 1, the following point (ba) is inserted:

‘(ba) for loans and advances granted by the financial product to investee companies, where a proportion of activities of those investee companies is associated with environmentally sustainable economic activities, the market value of that proportion of those loans and advances’;

(b) in paragraph 1, point (c) is replaced by the following:

‘(c) for loans and advances other than those referred to in point (ba), where a proportion of the proceeds is required by the terms of those loans and advances to be used exclusively on environmentally sustainable economic activities, the market value of that proportion’;

(c) in paragraph 1, point (g) is replaced by the following;

‘(g) for investments in financial products as referred to in Article 5, first paragraph, and Article 6, first paragraph, of Regulation (EU) 2020/852, the market value of the proportion of those financial products representing the degree to which investments are in environmentally sustainable economic activities, as calculated in accordance with this Article’;

(d) in paragraph 1, the following second subparagraph is inserted:

‘The degree to which investments are into environmentally sustainable economic activities shall be calculated by applying the methodology used to calculate net short positions laid down in Article 3(4) and (5) of Regulation (EU) No 236/2012 of the European Parliament and of the Council³². That methodology shall also be applied to investments referred to in points (a) to (c) of the first subparagraph.’;

(e) in paragraph 2, point (b) is replaced by the following:

‘(b) for other investee companies, estimates obtained by the financial market participant directly from investee companies or from third party providers.’;

(13) The following Article 17a is inserted:

‘Article 17a

Calculation of the proportion of sustainable investments of a financial product

³² Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (OJ L 86, 24.3.2012, p. 1)

- ‘1. The proportion of sustainable investments of a financial product shall be calculated in accordance with the following formula:

$$\frac{\textit{market value of all sustainable investments of the financial product}}{\textit{market value of all investments of the financial product}}$$

where ‘sustainable investments of the financial product’ shall be either:

- (a) where the financial product measures the proportion of sustainable investments considering the proportion of economic activities contributing to an environmental or social objective according to Article 2(17) of Regulation (EU) 2019/2088 in which the financial product invests, the sum of the market values of investments in such economic activities; or
- (b) where the financial product measures the proportion of sustainable investments at the level of the investment, the sum of the market values of the investments qualifying as sustainable investments according to Article 2(17) of Regulation (EU) 2019/2088;

2. The proportion of sustainable investments of a financial product shall be calculated by applying the methodology used to calculate net short positions laid down in Article 3(4) and (5) of Regulation (EU) No 236/2012. That methodology shall also be applied to investments in debt securities of investee companies and loans and advances granted by the financial product to investee companies.

3. Financial market participants shall disclose in Annexes II-V whether the proportion of sustainable investments of the financial product was calculated in accordance with paragraph 1, point (a) or (b).

- (14) In Article 18, paragraph 3 is replaced by the following;

‘3. For the financial products with a GHG emission reduction target to reduce financed GHG emissions, financial market participants shall provide the information in the format of the template set out in Annex III on GHG emission reduction targets. The baseline financed GHG emission intensity and the GHG emission reduction target shall be calculated in accordance with Article 14a(2) and (3).’;

(15) In Article 18, paragraphs (4) and (5) are inserted:

‘4. By way of derogation from paragraph 3, for financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 whose investment objective is to track an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark as defined in Article 3, points (23a) and (23b) of Regulation (EU) 2016/1011, financial market participants shall provide a summary of how ESG factors are reflected in the relevant benchmark and a hyperlink to information disclosed by the benchmark administrator pursuant to Articles 13 and 27 of that Regulation.’;

5. The proportion of sustainable investments of the financial product shall be calculated in accordance with Article 17a of this Regulation and be accompanied by an indication of whether the proportion was calculated in accordance with Article 17a(1)(a) or (b);’;

(16) in Article 19 the introductory sentence of paragraph 1 is replaced by the following:

‘1. For the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, financial market participants shall include in the section ‘What type of investments does this product make and what is the minimum proportion of sustainable investments?’ in the template set out in Annex III all of the following information:’;

(17) Article 20 is amended as follows:

(a) paragraphs 2 to 5 are replaced by the following:

‘2. The prominent statement referred to in paragraph 1 shall be accompanied by the information referred to and presented in the format set out in Annex VI.

3. Financial market participants shall provide all of the following information in annexes to the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088 for the following categories of investment options:

(a) for each investment option that promotes environmental or social characteristics, the information referred to in Articles 14 to 17 and Article 17a(3) of this Regulation;

(b) for each investment option that has sustainable investment as its objective, the information referred to in Articles 18 and 19 of this Regulation.

4. Financial market participants shall present the information referred to in paragraph 3, point (a), in the form of the template set out in Annex II and the information referred to in paragraph 3, point (b), in the form of the template set out in Annex III. For this purpose, references to ‘product’ and ‘financial product’ in those templates shall be replaced by ‘investment option’.

5. By way of derogation from paragraph 3 and the second sentence of paragraph 4, where a financial product offers a range of investment options to the investor such that the information about those investment options cannot be provided in annexes to the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088 in a clear and concise manner due to the number of annexes required, financial market participants may provide the information referred to in paragraph 3 of this Article by including in the main body of the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088 a hyperlink to the templates referred to in paragraph 4.’;

(b) the following paragraph 6 is inserted:

‘6. For the purposes of this Article, the investment options shall not include those investment options that qualify as financial instruments according to points (1), (2) and (4) to (11) of Section C, Annex I to Directive 2014/65/EU.’;

(18) Article 21 is amended as follows:

(a) Paragraphs 2 to 5 are replaced with the following:

‘2. The prominent statement referred to in paragraph 1 shall be accompanied by the information referred to and presented in the format set out in Annex VII.

3. For each investment option that has sustainable investment as its objective, financial market participants shall provide the information referred to in Articles 18 and 19 of this Regulation in annexes to the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088.

4. Financial market participants shall present the information referred to in paragraph 3 in the form of the template set out in Annex III. For this purpose, references to ‘product’ and ‘financial product’ in the template shall be replaced by ‘investment option’.

³³ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), OJ L 173 12.6.2014, p. 349.

5. By way of derogation from paragraph 3 and the second sentence of paragraph 4, where a financial product offers a range of investment options to the investor such that the information relating to those investment options cannot be provided in annexes to the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088 in a clear and concise manner due to the number of annexes required, financial market participants may provide the information referred to in paragraph 3 of this Article by including in the main body of the document or information referred to in Article 6(3) of Regulation (EU) 2019/2088 a hyperlink to the templates referred to in paragraph 4.’;

(b) the following paragraph 6 is inserted:

‘6. For the purposes of this Article, the investment options shall not include those investment options that qualify as financial instruments according to points (1), (2) and (4) to (11) of Section C, Annex I to Directive 2014/65/EU.’;

(19) Article 22 is deleted;

(20) Article 24 is replaced by the following:

Article 24

Sections of website product disclosure for financial products that promote environmental or social characteristics

1. For financial products that promote environmental or social characteristics, financial market participants shall publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 25 to 36 of this Regulation in the following order and made up of all of the following sections titled:

- (a) ‘Summary’;
- (b) ‘No sustainable investment objective’;
- (c) ‘Environmental or social characteristics of the financial product’;
- (d) ‘Investment strategy’;
- (e) ‘Proportion of investments’;
- (ea) where the financial product has set a GHG emission reduction target in accordance with Article 14a(1), ‘GHG emission reduction target’;
- (f) ‘Monitoring of environmental or social characteristics’;
- (g) ‘Methodologies for environmental or social characteristics’;
- (h) ‘Data sources and processing’;
- (i) ‘Limitations to methodologies and data’;

- (j) 'Due diligence';
- (k) 'Engagement policies';
- (l) where an index is designated as a reference benchmark to attain the environmental or social characteristics promoted by the financial product, 'Designated reference benchmark'.

(21) In Article 25, paragraph 1 is replaced by the following:

'1. In the website section 'Summary' referred to in Article 24, point (a), financial market participants shall summarise all the information contained in the different sections referred to in that Article about the financial products that promote environmental or social characteristics. The summary section shall start with the information referred to in the first page of the template of Annex II of this Regulation and shall be provided in the same format. It shall have a maximum length of two sides of A4-sized paper when printed.'

(22) in Article 26:

(a) paragraph 1 is replaced by the following:

'1. In the website section 'No sustainable investment objective' referred to in Article 24, point (b), financial market participants shall insert the following statement: "This product has limited sustainability characteristics, certain investments could be harmful for the environment or people. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product has and which ones it does not have."

(b) paragraph 2, point (a) is replaced by the following:

(a) how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex are taken into account, including the description of the thresholds or criteria used to determine that the sustainable investments do not significantly harm any environmental or social objectives and how they are determined;';

(23) Article 29 is replaced by the following:

Article 29

Website section ‘Proportion of investments’ for financial products that promote environmental or social characteristics

In the website section ‘Proportion of investments’ referred to in Article 24, point (e), financial market participants shall insert the information referred to in the section ‘What type of investments does this product make?’ in the template set out in Annex II to this Regulation and shall distinguish between direct exposures in investee entities and all other types of exposures to those entities.’;

(24) the following Article 29a is inserted:

Article 29a

Website section ‘GHG emission reduction target’ for financial products that promote environmental or social characteristics

1. For financial products that have a GHG emission reduction target to reduce financed GHG emissions, in the website section ‘GHG emission reduction target’ referred to in Article 24, point (ea), financial market participants shall provide all of the information referred to in the section ‘Does this product aim to decrease the greenhouse gas (GHG) emissions from the activities the product invests in?’ in the template set out in Annex II and the following information:

(a) a description of the actions planned to achieve the GHG emission reduction target, including of all of the following:

(i) whether and how binding elements of the investment strategy are designed to meet the GHG emission reduction target;

(ii) where the financial product commits to contribute to GHG emission reduction at investee companies’ level, a summary of the engagement plan supporting the GHG emission reduction target, including how the financial market participant intends to conduct dialogue with investee companies, exercise voting rights, monitor investee companies progress regarding GHG emissions reduction target and actions planned in case of non-achievement of the GHG emission reduction target;

(b) all of the following additional information on the scope and the ambition of the GHG emission reduction target:

(i) the GHG accounting and reporting standard methodology used to measure the financed GHG emissions, in accordance with Article 14a(3);

- (ii) the proportion of all investments of the financial product to which the GHG accounting and reporting standard referred to in Article 14a(2), first and second subparagraph apply;
- (iii) the proportion of the investments of the financial product for which data on GHG emissions was obtained from investee undertakings and the proportion of the investments of the financial product for which data on GHG emissions was estimated or obtained from third parties;
- (iv) where information on investee companies' GHG removals and storage or carbon credits is not readily available, 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.
- (v) for financial products with underlying investment options, the GHG emission reduction target expressed as a range of targets, based on the information from the underlying options;
- (vi) where relevant, the methodology used to assess the compatibility of the GHG emission reduction targets with the objective of limiting global warming to 1.5 C, including information on the underlying assumptions and scenarios, and the conclusions of the assessment.

2. Financial market participants may disclose the following information:

- (a) The baseline financed GHG emissions and the GHG emission reductions targets per asset class in which the financial product invests;
- (b) any additional metrics explaining how the GHG emission target were designed;
- (c) additional information on its use of carbon credits, including information on the proportion of the carbon credits that have been certified by recognised quality standards for carbon credits, in accordance with Table 2 of Annex 2 of the Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34/EU.
- (d) any measure of progress towards the GHG emission reduction target, in adjusted terms, with accompanying adjustment factors used and an explanation of how this was constructed and applied.';

(25) Article 37 is replaced by the following:

Article 37

Website product disclosure for financial products that have sustainable investments as their objective

For financial products that have sustainable investments as their objective, financial market participants shall publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 38 to 49 of this Regulation in the following order and made up of all of the following sections titled:

- (a) 'Summary';
- (b) 'No significant harm to the sustainable investment objective';
- (c) 'Sustainable investment objective of the financial product';
- (d) 'Investment strategy';
- (e) 'Proportion of investments';
- (ea) Where the financial product has a GHG emission reduction target in accordance with Article 14a(1), 'GHG emission reduction target';
- (f) 'Monitoring of the sustainable investment objective';
- (g) 'Methodologies for sustainable investments';
- (h) 'Data sources and processing';
- (i) 'Limitations to methodologies and data';
- (j) 'Due diligence' ;
- (k) 'Engagement policies' ;
- (l) 'Attainment of the sustainable investment objective' .';

(26) in Article 38, paragraph 1 is replaced by the following:

1. In the website section 'Summary' referred to in Article 37, point (a), financial market participants shall summarise all the information contained in the sections referred to in that Article. The summary section shall begin with the information referred to in the first page of the template in Annex III of this Regulation and shall be provided in the same format. It shall have a maximum length of two sides of A4-sized paper when printed.

(27) in Article 39, point (a) is replaced by the following:

'(a) how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, are taken into account, including the

description of the thresholds or criteria used to determine that the sustainable investments do not significantly harm any environmental or social objectives and how they are determined;’;

(28) the following Article 42a is inserted:

‘Article 42a

Website section ‘GHG emissions reduction target’ for financial products that have sustainable investments as their objective

1. For financial products that have a GHG emission reduction targets in accordance with Article 14a(1), in the website section ‘GHG emissions reduction target’ referred to in Article 37, point (ea), financial market participants shall provide the information set out in the section ‘Does this product aim to decrease the greenhouse gas (GHG) emissions from the activities the product invests in?’ in the template in Annex III and all of the following information:
 - (a) a description of the actions planned to achieve the GHG emission reduction target, including of all of the following:
 - (i) whether and how binding elements of the investment strategy are designed to meet the GHG emission reduction target;
 - (ii) where the financial product commits to contribute to GHG emission reduction at investee companies’ level, a summary of the engagement plan supporting the GHG emission reduction target, including how the financial market participant intends to conduct dialogue with investee companies, exercise voting rights, monitor investee companies progress regarding GHG emissions reduction target and actions planned in case of non-achievement of the GHG emission reduction target;
2. By way of derogation from paragraph 1, for financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 that use an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark as defined in Article 3, points (23a) and (23b) of Regulation (EU) 2016/1011 to measure performance by passively tracking the return of those indices, financial market participants shall provide a summary of how ESG factors are reflected in the relevant benchmark and a hyperlink to information disclosed by the benchmark administrator pursuant to Articles 13 and 27 of that Regulation.’;
3. All of the following additional information on the scope and the ambition of the GHG emission reduction target:
 - (i) the GHG accounting and reporting standard methodology used to measure the financed GHG emission, in accordance with Article 14a(3);

(ii) the proportion of all investments of the financial product to which the GHG accounting and reporting standard referred to in Article 14a(2) first and second subparagraph apply;

(iii) the proportion of the investments of the financial product for which data on GHG emissions was obtained from investee undertakings and the proportion of the investments of the financial product for which data on GHG emissions was estimated or obtained from third parties;

(iv) where information on investee companies' GHG removals and storage or carbon credits is not readily available, 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.

(iv) for financial products with underlying investment options, the GHG emission reduction target expressed as a range of targets, based on the information from the underlying options;

(v) where relevant, the methodology used to assess the compatibility of the GHG emission reduction targets with the objective of limiting global warming to 1.5 C, including information on the underlying assumptions and scenarios, and the conclusions of the assessment;

4. Financial market participants may disclose the following information:

(a) baseline financed GHG emission and the GHG emission reduction targets per asset class in which the financial product invests;

(b) any additional metrics explaining how the GHG emission targets were designed;

(c) additional information on its use of carbon credits, including information on the proportion of the carbon credits that have been certified by recognised quality standards for carbon credits, in accordance with Table 2 of Annex 2 of the Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34/EU;

(d) any measure of progress towards the GHG emission reduction targets, in adjusted terms, with accompanying adjustment factors used and an explanation of how this was constructed and applied.';

(29) Article 44 is replaced by the following:

Article 44

Website section ‘Methodologies for sustainable investments’ for financial products that have sustainable investment as their objective

In the website section ‘Methodologies for sustainable investments’ referred to in Article 37, point (g), financial market participants shall describe the methodologies used to measure the attainment of the sustainable investment objective and how the sustainability indicators to measure the attainment of that sustainable investment objective are used.’;

(30) in Chapter IV, the following Sections 3 and 4 are inserted:

‘SECTION 3

Website financial product disclosure for financial products with one or more underlying investment options that qualify the financial product as promoting environmental or social characteristics

Article 49a

Website section for the disclosure of sustainability-related information about financial products with underlying investment options that qualify those financial products as promoting environmental or social characteristics

1. By way of derogation from Section 1, where a financial product offers investment options to the investor and one or more of those investment options qualify that financial product as a financial product that promotes environmental or social characteristics, financial market participants shall publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 49b to 49f of this Regulation in the following order and made up of all of the following sections titled:

- (a) ‘Summary’;
- (b) for each investment option that promotes environmental or social characteristics ‘Investment option information: environmental or social characteristics’;
- (c) for each investment option that has a sustainable investment objective, ‘Investment option information: sustainable investment objective’.

2. For the purposes of this Section, the investment options shall not include those investment options that qualify as the financial instruments referred to in points (1), (2) and (4) to (11) of Section C, Annex I to Directive 2014/65/EU.

Article 49b

Website section ‘Summary’ for financial products with underlying investment options that qualify those financial products as promoting environmental or social characteristics

1. In the website section ‘Summary’ referred to in Article 49a, point (c), financial market participants shall include the information referred to, and shall use the format set out, in Annex VI of this Regulation.
2. The website section ‘Summary’ referred to in Article 49a, point (a), shall be provided in at least the following languages:
 - (a) one of the official languages of the home Member State and, where different and where the financial product is made available in more than one Member State, in an additional language customary in the sphere of international finance;
 - (b) where the financial product is made available in a host Member State, one of the official languages of that host Member State.

Article 49c

Website section ‘Investment option information: environmental or social characteristics’

1. In the website section ‘Investment option information: environmental or social characteristics’ as referred to in Article 49a, point (b), financial market participants shall identify each investment option and publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 25 to 36 of this Regulation in respect of those investment options in the same order and made up of all of the same sections as those referred to in Article 24.
2. For the purposes of paragraph 1:
 - (a) the sections referred to in Article 24 shall be subsections of the website section, ‘Investment option information: environmental or social characteristics’;
 - (b) in Articles 26 to 36, references to ‘financial product’ shall be replaced with ‘investment option’.
3. By way of derogation from paragraphs 1 and 2, financial market participants may provide the information referred to in paragraph 1 in respect of an investment option through a

hyperlink to the website section for that investment option published in accordance with Article 24 of this Regulation, where applicable.

Article 49d

Website section ‘Investment option information: sustainable investment objective’

1. In the website section ‘Investment option information: sustainable investment objective’ as referred to in Article 49a, point (c), financial market participants shall identify each investment option and publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 38 to 49 of this Regulation in respect of those investment options in the same order and made up of the same sections as those referred to in Article 37.

2. For the purposes of paragraph 1:

(a) the sections referred to in Article 37 shall be subsections of the website section, ‘Investment option information: sustainable investment objective’;

(b) in Articles 38 to 49, references to ‘financial product’ shall be replaced with ‘investment option.’

3. By way of derogation from paragraphs 1 and 2, financial market participants may provide the information referred to in paragraph 1 in respect of an investment option through a hyperlink to the website section for that investment option published in accordance with Article 37 of this Regulation, where applicable.

SECTION 4

Website product disclosure for financial products with underlying options that all have sustainable investment as their objective

Article 49e

Website section for the disclosure of sustainability-related information about financial products with underlying options that all have sustainable investment as their objective

1. By way of derogation from Section 2, where a financial product offers investment options to the investor and those investment options all have sustainable investment as their objective, financial market participants shall publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 49g to 49i of this Regulation in the following order and made up of all of the following sections titled:

- (a) 'Summary';
- (b) for each investment option, 'Investment option information: sustainable investment objective'.

2. For the purposes of this Section, the investment options shall not include those investment options that qualify as the financial instruments referred to in points (1), (2) and (4) to (11) of Section C of Annex I to Directive 2014/65/EU.

Article 49f

Website section 'Summary' for financial products with underlying options that all have sustainable investment as their objective

1. In the website section 'Summary' referred to in Article 49f, point (b), financial market participants shall include the information referred to, and shall use the format set out, in Annex VII.
2. The website section 'Summary' referred to in Article 49e, point (a), shall be provided in at least the following languages:
 - (a) one of the official languages of the home Member State and, where different and where the financial product is made available in more than one Member State, in an additional language customary in the sphere of international finance;
 - (b) where the financial product is made available in a host Member State, one of the official languages of that host Member State.

Article 49g

Website section 'Investment option information: sustainable investment objective' for financial products with underlying options that all have sustainable investment as their objective

1. In the website section 'Investment option information: sustainable investment objective' as referred to in Article 49e, point (b), financial market participants shall identify each investment option and publish the information referred to in Article 10(1) of Regulation (EU) 2019/2088 and Articles 38 to 49 of this Regulation in respect of those investment options in the same order and made up of the same sections as those referred to in Article 37.
2. For the purposes of paragraph 1:

(a) the sections referred to in Article 37 shall be subsections of the website section, ‘Investment option information: sustainable investment objective’;

(b) in Articles 38 to 49, references to ‘financial product’ shall be replaced with ‘investment option.’

3. By way of derogation from paragraphs 1 and 2, financial market participants may provide the information referred to in paragraph 1 in respect of an investment option through a hyperlink to the website section for that investment option published in accordance with Article 37 of this Regulation, where applicable.’;

(31) Article 51 is replaced by the following:

‘Article 51

Attainment of the environmental or social characteristics promoted by the financial products

‘In the section ‘What are the environmental and/or social characteristics of this product and how were they achieved?’ in the template set out in Annex IV to this Regulation, financial market participants shall provide all of the following information:

(a) the environmental and/or social characteristics promoted by the financial product and the extent to which those characteristics were met during the period covered by the periodic report, including the performance of the sustainability indicators used to measure how each of those environmental or social characteristics are met and which derivatives, if any, have been used to meet those environmental or social characteristics;

(b) for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, an identification of the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributed;

(c) where the financial market participant has provided at least one previous periodic report in accordance with this Section for the financial product, a historical comparison between the period covered by the periodic report and periods covered by previous periodic reports;

(d) for financial products that included a commitment to make sustainable investments, an explanation of how those investments have contributed to the sustainable investment objectives referred to in Article 2, point (17), of Regulation (EU) 2019/2088;

(e) information on principal adverse impacts on sustainability factors as referred to in the section ‘Did this product consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?’ in the template set out in Annex IV to this Regulation.

(f) a description of the actions taken during the period covered by the periodic report to meet the environmental or social characteristics promoted by the financial product, including shareholder engagement as referred to in Article 3g of Directive 2007/36/EC and any other engagement relating to the environmental or social characteristics promoted by the financial product.’;

(32) the following Article 51a is inserted:

‘Article 51a

‘Progress achieved towards the GHG emissions reduction target for financial products that promote environmental or social characteristics

For financial products that have a GHG emission reduction target to reduce financed GHG emissions, in the section ‘Did this product decrease the greenhouse gas (GHG) emissions that came from the activities in which the product invested?’ in the template set out in Annex IV to this Regulation, financial market participants shall provide all of the following information:

(a) a comparison between the information published in the template set out in Annex II to this Regulation on the GHG emission reduction target and the progress achieved towards that target. The comparison shall be presented in the form of a table and shall include:

(i) the baseline financed GHG emissions published in the template set out in Annex II to this Regulation;

(ii) intermediate and final GHG emission reduction targets published in the template set out in Annex II to this Regulation and the progress achieved during the period covered by the periodic report. Progress in terms of financed GHG emissions reduction shall be measured in accordance with Article 14a(3) of this Regulation;

(iii) carbon credits purchased and cancelled by the financial market participant during the reference period covered by the periodic report.

Progress against the GHG emissions reduction target shall be disclosed separately for investments of the financial product in sovereign exposures and for investments in any other asset classes.

(b) A description of how the implementation of the investment strategy contributed to the achievement of the target and the description of amendments to the investment strategy during the period covered by the periodic report;

(c) Where the GHG emission reduction target has not been met, an explanation of why that target has not been met, including the explanation of obstacles encountered and the extent to which it hampered progress towards the target(s), and a description of corrective actions planned to meet the target.

(d) Information about whether the GHG emission reduction target is compatible with the objective to limit global warming to 1.5 degrees Celsius. If the GHG emissions reduction target is compatible with the objective to limit global warming to 1.5 degrees Celsius, financial market participants shall include a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources. If the GHG emissions reduction target is not compatible with the objective to limit global warming to 1.5 degrees Celsius, financial market participants shall include the results of that assessment and provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.

Where that compatibility was not assessed, financial market participants shall include the following text: “The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C.”;

(33) Article 52 is replaced by the following:

‘Article 52

Largest investments for financial products that promote environmental or social characteristics

1. The section ‘What were the largest investments of this product?’ in the template set out in Annex IV to this Regulation shall contain a list, in descending order of size, of the

fifteen investments constituting the largest proportion of investments of the financial product during the period covered by the periodic report, including the sector and countries in which those investments were made.

2. By way of derogation from paragraph 1, where the number of investments constituting fifty percent of the investments of the financial product during the period covered by the periodic report is less than fifteen, the section referred to in paragraph 1 shall contain a list of those investments, in descending order of size, including the sectors and countries in which those investments were made.’;

- (34) In Article 53, the introductory sentence is replaced by the following:

‘In the subsection ‘What type of investments did this product make?’ in the template set out in Annex IV to this Regulation, financial market participants shall provide a description of the investments of the financial product, including all of the following:’

- (35) the following Article 54a is inserted:

‘Article 54a

Information on the sustainable investments of the financial product

‘For financial products that included a commitment to make sustainable investments, in the section ‘How was significant harm to the environment and people avoided within the sustainable investments made?’ in the template set out in Annex IV to this Regulation, financial market participants shall provide the proportion of sustainable investments made during the reference period, shall clearly state whether the calculation method referred to in Article 17a(1)(a) or (b) of this Regulation was used, and shall explain how those investments have not harmed significantly any of the objectives referred to in Article 2, point (17), of Regulation (EU) 2019/2088 during the period covered by the periodic report, including how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, were taken into account. Financial market participants shall provide a concise explanation of how the thresholds or criteria to determine that the sustainable investments have not harmed significantly any sustainable investment objective during the reference period were determined and provide a hyperlink to the section on the website referred to in Article 26(2)(a) where further explanations and the thresholds or criteria are disclosed.’;

- (36) in Article 55, paragraph 1, the introductory sentence is replaced by the following:

‘For financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, financial market participants shall include in the section ‘What was the proportion of EU Taxonomy-aligned investments?’ in the template set out in Annex IV all of the following information:’;

(37) Article 56 is deleted.

(38) in Article 57, paragraph 1, the introductory sentence is replaced by the following:

‘In the section ‘Was a reference benchmark designated for the purpose of ensuring consistency with the environmental and/or social characteristics of the product and was this consistency monitored?’ in the template set out in Annex IV to this Regulation, financial market participants shall, for financial products that promote environmental or social characteristics, provide all of the following information:’;

(39) Article 59 is replaced by the following:

‘Article 59

Attainment of the sustainable investment objectives of the financial product

In the section ‘To what extent were the sustainable investment objectives of this product met?’ in the template set out in Annex V, financial market participants shall provide all of the following information:

- (a) the extent to which the sustainable investment objectives were attained during the period covered by the periodic report, including the performance of:
 - (i) the sustainability indicators referred to in the subsection ‘How did this product measure how the objectives of the sustainable investment were met?’ in the template set out in Annex III to this Regulation;
 - (ii) any derivatives referred to in the subsection ‘How did the use of derivatives contribute to the sustainable investment objective?’ in the template set out in Annex III to this Regulation used to attain the sustainable investment objective;
- (b) for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, an identification of the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributed;

- (c) for the financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, information on how the objective of a reduction in carbon emissions was aligned with the Paris Agreement, containing a description of the contribution of the financial product during the period covered by the periodic report to achieve the objectives of the Paris Agreement, including in respect of an EU Climate Transition Benchmark or EU Paris-aligned Benchmark, the ESG factors and criteria considered by the benchmark administrator in accordance with Delegated Regulation (EU) 2020/1818;
 - (d) where the financial market participants have provided at least one previous periodic report in accordance with this Section for the financial product, a historical comparison between the current period covered by the periodic report and previous periods;
 - (e) an explanation of how the sustainable investments have contributed to a sustainable investment objective;
 - (f) information on principal adverse impacts on sustainability factors as referred to in the section ‘Did this product consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?’ in the template set out in Annex V to this Regulation.’;
- (40) the following Article 59a is inserted:

Article 59a

Progress achieved towards the GHG emissions reduction target for financial products that have sustainable investment as their objective

1. For financial products that have a GHG emission reduction target to reduce financed GHG emissions, in the section ‘Did this product decrease the greenhouse gas (GHG) emissions from the activities in which the product invested?’ in the template set out in Annex V to this Regulation, financial market participants shall provide all of the following information:

- (a) a comparison between the information published in the template set out in Annex III to this Regulation on the GHG emission reduction target and the progress achieved towards that target. The comparison shall be presented in the form of a table and shall include:
 - (i) the baseline financed GHG emissions published in the template set out in Annex III to this Regulation;

(ii) intermediate and final GHG emission reduction targets published in the template set out in Annex III to this Regulation and the progress achieved during the period covered by the periodic report. Progress in terms of financed GHG emissions reduction shall be measured in accordance with Article 14a(3);

(iii) carbon credits purchased and cancelled by the financial market participant during the reference period covered by the periodic report.

Progress against the GHG emissions reduction target shall be disclosed separately for investments of the financial product in sovereign exposures and for investments in any other asset classes;

- (b) A description of how the implementation of the investment strategy contributed to the achievement of the target and the description of amendments to the investment strategy during the period covered by the periodic report;
- (c) Where the GHG emission reduction target has not been met, an explanation of why that target has not been met, including the explanation of obstacles encountered and the extent to which it hampered progress towards the target(s), and a description of corrective actions planned to meet the target.
- (d) Information about whether the GHG emission reduction target is compatible with the objective to limit global warming to 1.5 degrees Celsius. If the GHG emissions reduction target is compatible with the objective to limit global warming to 1.5 degrees Celsius. Financial market participants shall include a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources. If the GHG emissions reduction target is not compatible with the objective to limit global warming to 1.5 degrees Celsius, financial market participants shall include the results of that assessment and provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.

Where that compatibility was not assessed, financial market participants shall include the following text “The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C”.

- 2. By way of derogation from paragraph 1, for financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 that use an EU Climate Transition Benchmark or

an EU Paris-aligned Benchmark as defined in Article 3, points (23a) and (23b) of Regulation (EU) 2016/1011 to measure performance by passively tracking the return of those indices, financial market participants shall provide:

(a) a summary of how ESG factors are reflected in the benchmark tracked by the product, accompanied by a hyperlink to information disclosed by the benchmark administrator pursuant to Articles 13 and 27 of that Regulation; and

(b) a summary table reporting the progress achieved during the reference period on GHG emissions reduction and the relevant baseline value.’;

(41) Article 60 is replaced by the following:

‘Article 60

Largest investments for financial products that have sustainable investment as their objective

1. In the section ‘What were the largest investments of this product?’ in the template set out in Annex V, financial market participants shall list, in descending order of size, the fifteen investments constituting the largest proportion of investments of the financial product during the period covered by the periodic report, including the sectors and countries of those investments.
2. By way of derogation from paragraph 1, where the number of investments constituting fifty percent of the investments of the financial product during the period covered by the periodic report is less than fifteen, the section referred to in paragraph 1 shall contain a list of those investments, in descending order of size, including the sectors and countries in which those investments were made.’;

(42) Article 61 is replaced by the following:

‘Article 61

Proportion of sustainable investments for financial products that have sustainable investment as their objective

In the section ‘What type of investments did this product make and what was the proportion of sustainable investments?’ in the template set out in Annex V, financial market participants shall provide all of the following information:

(a) a description of the objectives of the sustainable investments and the proportions of the investments of the financial product that contributed to the sustainable investment objective, including a clear statement about whether that proportion is measured by the method referred to in Article 17a(1)(a) or Article 17a(1)(b);

(b) the proportion of investments during the period covered by the periodic report in different sectors and sub-sectors.

(c) an explanation of how the sustainable investments have not harmed significantly any of the sustainable investment objectives during the period covered by the periodic report, including how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex, were taken into account. Financial market participants shall provide a concise explanation of how the thresholds or criteria to determine that the sustainable investments have not harmed significantly any sustainable investment objective during the reference period were determined and provide a hyperlink to the section on the website referred to in Article 39(a) where further explanations and the thresholds or criteria are disclosed.’;

(43) Article 62 is replaced by the following:

‘Article 62

Information on environmentally sustainable investments for financial products with the objective of sustainable investment

1. For the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, the section ‘What was the proportion of EU Taxonomy-aligned investments?’ in the template set out in Annex V shall contain all of the following information:

(a) a breakdown in accordance with Article 55(1), point (a);
(b) a description of the sustainable investments in environmentally sustainable economic activities during the period covered by the periodic report, including:

(i) the information in accordance with Article 55(1), point (b)(i);

(ii) a graphical representation in the form of a bar chart in accordance with Article 55(1), point (b)(ii);

(iii) a graphical representation in the form of a bar chart in accordance with Article 55(1), point (b)(iii);

(iv) the information referred to in Article 15(3), point (b);

(v) a breakdown in accordance with Article 55(1), point (b)(v);

(vi) where the financial product invested in sustainable investments with an environmental objective but that are not environmentally sustainable economic activities, a clear explanation of the reasons for doing so;

(vii) where the financial market participant has provided at least one previous periodic report in accordance with this Section for the financial product, a historical comparison of the degree to which the investments were made in environmentally sustainable economic activities during the period covered by the periodic report and during previous periods;

(c) a narrative explanation in accordance with Article 55(1), point (b)(viii);

2. For the purposes of paragraph 1, point (b)(ii) and point (b)(iii), financial market participants shall apply Article 55(2).’;

(44) the following Article 62a is inserted:

‘Article 62a

Information on the actions taken to attain the sustainable investment objective

In the section ‘What actions have been taken attain the sustainable investment objective during the reference period?’ in the template set out in Annex V to this Regulation, financial market participants shall provide a description of the actions taken during the period covered by the periodic report to meet the environmental or social characteristics promoted by the financial product, including shareholder engagement as referred to in Article 3g of Directive 2007/36/EC and any other engagement relating to the sustainable investment objective of the financial product.’;

(45) in Article 63, paragraph 1, the introductory sentence is replaced by the following:

‘1. In the section ‘Was a reference benchmark designated for the purpose of ensuring consistency with the sustainable investment objective of the product and how was this consistency monitored?’ in the template set out in Annex V, financial market participants shall, for financial products that have sustainable investment as their objective and for which an index has been designated as a reference benchmark, provide all of the following information:’;

(46) in Article 64, paragraph 2, point (c) is replaced by the following:

‘(c) the proportion of underlying assets of the financial product referred to in the section ‘What type of investments did this product make?’ in the template set out in

Annex IV to this Regulation and in the section ‘What type of investments did this product make and what was the proportion of sustainable investments?’ in the template set out in Annex V.’;

(47) Articles 65 and 66 are replaced by the following:

‘Article 65

Financial products with one or more underlying investment options that qualify those financial products as financial products that promote environmental or social characteristics

1. By way of derogation from Articles 50 to 57, where a financial product offers investment options to the investor and one or more of those investment options qualify that financial product as a financial product that promotes environmental or social characteristics, financial market participants shall insert in the main body of the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 a prominent statement confirming all of the following:

- (a) that the financial product promotes environmental or social characteristics;
- (b) that the attainment of those characteristics is subject to investing in at least one of the investment options referred to in paragraph 2 of this Article and holding at least one of those options during the holding period of the financial product;
- (c) that further information related to those environmental or social characteristics is available in the annexes referred to in paragraph 2 of this Article.

2. Financial market participants shall provide all of the following information in annexes to the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088:

- (a) for each investment option invested in that promotes environmental or social characteristics, the information referred to in Articles 50 to 57 of this Regulation;
- (b) for each investment option invested in that has sustainable investment as its objective, the information referred to in Articles 58 to 63 of this Regulation.

3. Financial market participants shall present the information referred to in paragraph 2, point (a), in the form of the template set out in Annex IV and the information referred to in paragraph 2, point (b), in the form of the template set out in Annex V.

For this purpose, references to ‘product’ and ‘financial product’ in the template shall be replaced by ‘investment option’.

4. By way of derogation from paragraph 2 and the second sentence of paragraph 3, where a financial product offers a range of investment options to the investor such that the information about those investment options cannot be provided in annexes to the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 in a clear and concise manner due to the number of annexes required, financial market participants may provide the information referred to in paragraph 2 of this Article by including in the main body of the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 hyperlinks to the annexes referred to in paragraph 2.’

5. For the purposes of this Article, the investment options shall not include those investment options that qualify as financial instruments according to points (1), (2) and (4) to (11) of Section C, Annex I to Directive 2014/65/EU.

Article 66

Financial products with underlying investment options that all have sustainable investment as their objectives

1. By way of derogation from Articles 58 to 63, where a financial product offers investment options to the investor and all of those investment options have sustainable investment as their objectives, financial market participants shall confirm in a prominent statement in the main body of the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 that the financial product has as its objective sustainable investment and that the information related to that objective is available in the annexes referred to in paragraph 2 of this Article.

2. Financial market participants shall provide the information referred to in Articles 58 to 63 in the annexes to the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 for each investment option that has sustainable investment as its objective.

3. Financial market participants shall present the information referred to in paragraph 2 in the form of the template set out in Annex V. For this purpose,

³⁴ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), OJ L 173 12.6.2014, p. 349.

references to ‘product’ and ‘financial product’ in the template shall be replaced by ‘investment option’.

4. By way of derogation from paragraph 2 and the second sentence of paragraph 3, where a financial product offers a range of investment options to the investor such that the information about those investment options cannot be provided in annexes to the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 in a clear and concise manner due to the number of annexes required, financial market participants may provide the information referred to in paragraph 2 of this Article by including in the main body of the document or information referred to in Article 11(2) of Regulation (EU) 2019/2088 hyperlinks to the annexes referred to in paragraph 2.

5. For the purposes of this Article, the investment options shall not include those investment options that qualify as financial instruments according to points (1), (2) and (4) to (11) of Section C, (1), (2) and (4) to (11) of Section C of Annex I to Directive 2014/65/EU.;

(48) Annexes I to V are replaced by Annexes I to V of this Regulation.

(49) Annexes VI and VII of this Regulation are added.

Article 2

Entry into force and application

1. This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.
2. This Regulation shall apply from [...].

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission
The President*

*[For the Commission
On behalf of the President]*

[Position]

ANNEX I

Template principal adverse sustainability impacts statement

For the purposes of this Annex, the following definitions shall apply:

- (1) ‘current value of investment’ means the value in EUR of the investment by the financial market participant in the investee company;
- (2) ‘enterprise value’ means the sum, at fiscal year-end, of the market capitalisation of ordinary shares, the market capitalisation of preferred shares, and the book value of total debt and non-controlling interests, without the deduction of cash or cash equivalents;
- (3) ‘scope 1, 2 and 3 GHG emissions’ means the scope of greenhouse gas emissions referred to in points (1)(e)(i) to (iii) of Annex III to Regulation (EU) 2016/1011 of the European Parliament and of the Council¹;
- (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), property (item R0080), equities (item R0100), bonds (item R0130), collective investment undertakings (item R0180), derivatives (item R0190), 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) 2015/2452²;
 - 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

¹ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

² Commission Implementing Regulation (EU) 2015/2452 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ L347, 31.12.2015, p. 1285).

accounts receivable/payable, non-financial assets as referred to in Table 1a of Annex I of Regulation (EU) 2018/231 of the European Central Bank³ and real estate property as referred to in Table 1 of Chapter 7 of Annex A to Regulation (EU) No 549/2013⁴;

- 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;
- (5) ‘companies active in the fossil fuel sector’ means companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council, except where such revenues relate exclusively to environmentally sustainable economic activities referred to in Section 4.29 to 4.31 of Annexes I and II to Delegated Regulation (EU) 2021/2139;
- (6) ‘energy consumption intensity’ means the ratio of energy consumption per unit of activity, output or any other metric of the investee company to the total energy consumption of that investee company;
- (7) ‘high impact climate sectors’ means the sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council⁵;
- (8) ‘activities negatively affecting biodiversity-sensitive areas’ means activities that are characterised by all of the following:
 - (a) those activities lead to the deterioration of natural habitats and the habitats of species and disturb the species for which a protected area has been designated;
 - (b) for those activities, none of the conclusions, mitigation measures or impact assessments adopted pursuant to any of the following Directives or national provisions or international standards that are equivalent to those Directives have been implemented:

³ Regulation (EU) 2018/231 of the European Central Bank of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2) (OJ L 45, 17.2.2018, p. 3).

⁴ Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p.1)

⁵ Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains Text with EEA relevance (OJ L 393, 30.12.2006, p. 1–39).

- (i) Directive 2009/147/EC of the European Parliament and of the Council⁶;
 - (ii) Council Directive 92/43/EEC⁷;
 - (iii) an Environmental Impact Assessment (EIA) as defined in Article 1(2), point (g), of Directive 2011/92/EU of the European Parliament and of the Council⁸;
 - (iv) for activities located in third countries, conclusions, mitigation measures or impact assessments adopted in accordance with national provisions or international standards that are equivalent to the Directives and impact assessments listed in points (i), (ii) and (iii);
- (9) ‘biodiversity-sensitive areas’ means Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas (‘KBAs’), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139⁹;
 - (10) ‘pollution of water’ defined in Annex I of the Commission Delegated Regulation (EU) .../... of ... supplementing Directive (EU) 2013/34/EU of the European Parliament and the Council as regards sustainability reporting standards – current ESRS E2. ;
 - (11) ‘hazardous waste’ means hazardous waste as defined in Article 3(2) of Directive 2008/98/EC of the European Parliament and of the Council¹⁰;
 - (12) ‘international guideline or principle’ means OECD guidelines for multinational enterprises or the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration ;
 - (13) ‘UN Guiding Principles’ means the Principles of the UN Guiding Principles on Business and Human Rights;

⁶ Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds (OJ L 20, 26.1.2010, p. 7).

⁷ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (OJ L 206, 22.7.1992, p. 7).

⁸ Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011 on the assessment of the effects of certain public and private projects on the environment (OJ L 026, 28.1.2012, p. 1).

⁹ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (OJ L 442, 9.12.2021, p. 1).

¹⁰ Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (OJ L 312, 22.11.2008, p. 3).

- (14) ‘ILO Declaration’ means the International Labour Organization Declaration on Fundamental Principles and Rights at Work;
- (15) ‘The International Bill of Human Rights’ means the five key United Nation’s Human Rights documents, namely the Universal Declaration of Human Rights, the International Covenant of Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, The First Optional Protocol to International Covenant on Civil and Political Rights, the Second Optional Protocol to International Covenant on Civil and Political Rights;
- (16) ‘pay’ means pay as defined in [point (a) of Article (3)(1) of] [Directive (EU) .../... of ... of the European Parliament and of the Council [Pay Transparency Directive]];
- (17) ‘amount of accumulated earnings in non-cooperative tax jurisdictions’ means earnings from investee companies referred to in Article 48b of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 from tax jurisdictions referred to in Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes;
- (18) ‘controversial weapons’ means anti-personnel mines, cluster munitions, chemical weapons and biological weapons;
- (19) ‘adequate wage’ means adequate wage as defined in Appendix A.1 of Commission Delegated Regulation (EU) .../... [ESRS E1];
- (20) ‘nearly zero-energy building (NZEB)’ means nearly zero-energy building as defined in point 2 of Article 2 of Directive 2010/31/EU of the European Parliament and of the Council¹¹;
- (21) ‘primary energy (PE)’ means primary energy as defined in point 5 of Article 2 of Directive 2010/31/EU;
- (22) ‘energy performance certificate (EPC)’ means energy performance certificate as defined in point 12 of Article 2 of Directive 2010/31/EU;
- (23) inorganic pollutants’ means a pollutant of mineral origin and not of basically carbon structure listed in Annex II to Regulation (EC) No 166/2006 of the European Parliament and the Council¹², reported as total release to air, water and land whenever the established annual threshold in column 4,5 and 6 of that Regulation are exceeded by specific sources or facilities.
- (24) ‘air pollutants’ means direct emissions of sulphur dioxides (SO₂), nitrogen oxides (NO_x), non-methane volatile organic compounds (NMVOC), and fine particulate matter (PM_{2,5}) as defined in Article 3, points (5) to (8), of Directive (EU) 2016/2284 of the European

¹¹ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (recast) (OJ L 153, 18.6.2010, p. 13).

¹² Regulation (EC) No 166/2006 of the European Parliament and of the Council of 18 January 2006 concerning the establishment of a European Pollutant Release and Transfer Register and amending Council Directives 91/689/EEC and 96/61/EC (OJ L 033 4.2.2006, p. 1).

Parliament and of the Council¹³, ammonia (NH₃) as referred to in that Directive and heavy metals (HM) as referred to in Annex I to that Directive;

- (25) ‘areas of high water stress’ means regions where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%) in the World Resources Institute’s (WRI) Water Risk Atlas tool “Aqueduct”;
- (26) ‘ozone depleting substances’ mean substances listed in the Montreal Protocol on Substances that Deplete the Ozone Layer;
- (27) ‘land degradation’ means land degradation as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) .../... of [ESRS 1];
- (28) ‘desertification’ means desertification as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) .../... of ... [ESRS E-1];
- (29) ‘sustainable land/agriculture practices or policies’ means practices or policies in accordance with the meaning of ‘sustainable food system’ in Article .../... in Regulation/Directive .../... [legislative proposal for a framework for a sustainable food system by the European Commission due before the end of 2023 – see page 5 of COM(2020)381 “A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system”];
- (30) ‘sustainable oceans/seas practices or policies’ means practices or policies relating to oceans, seas, coasts and inland waters, including emerging sectors and non-market goods and services, aimed at ensuring environmental, social and economic sustainability in the long term and which are consistent with the sustainable development goals (SDGs) of the United Nations 2030 Agenda for Sustainable Development, and in particular SDG 14 (‘Conserve and sustainably use the oceans, seas and marine resources for sustainable development’), and with Union environmental legislation;
- (31) ‘non-recycled waste’ means any waste not recycled within the meaning of ‘recycling’ in Article 3(17) of Directive 2008/98/EC;
- (32) ‘radioactive waste’ means radioactive waste as defined in Article 3(7) of Council Directive 2011/70/Euratom¹⁴;

¹³ Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC (Text with EEA relevance), *OJ L 344, 17.12.2016, p. 1–31*

¹⁴ Council Directive 2011/70/Euratom of 19 July 2011 establishing a Community framework for the responsible and safe management of spent fuel and radioactive waste (OJ L 199, 2.8.2011, p. 48).

- (33) ‘protected area’ means the Natura 2000 network of protected areas set up in accordance with Directives 2009/147/EC¹⁵ and Council Directive 92/43/EEC¹⁶ and designated areas in the European Environment Agency’s Common Database on Designated Areas (CDDA);
- (34) ‘deforestation’ means deforestation as defined in Article 2(3) of Regulation (EU) 2023/1115 of the European Parliament and of the Council¹⁷;
- (35) ‘supplier code of conduct’ means publicly available code of conducts adopted by suppliers that include prevention policies against unsafe working conditions child labour and forced labour;
- (36) ‘whistleblower’ means ‘reporting person’ as defined in Article 5(7) of Directive (EU) 2019/1937 of the European Parliament and of the Council¹⁸;
- (37) ‘human rights policy’ means a policy commitment approved at board level on human rights that the economic activities of the investee company shall be in line with the UN Guiding Principles;
- (38) ‘child labour’ means child labour as defined in Table 2 of Annex I to Commission Delegated Regulation (EU) .../... [ESRS S1];
- (39) ‘affected communities’ means affected communities as defined in Table 2 of Annex I to Commission Delegated Regulation (EU) .../... [ESRS S1];
- (40) ‘corruption’ means ‘active corruption’ and ‘passive corruption’ as referred to in points (a) and (b) of Article 4(2) of Directive (EU) 2017/1371 of the European Parliament and of the Council¹⁹ and ‘active and passive corruption in the private sector’ as referred to in Article 2 of the Council Framework Decision 2003/568/JHA²⁰ ;

¹⁵ Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds (codified version) (OJ L 20, 26.1.2010, p.7). All the information about the N2000 network is assembled and visualised through the [N2000 network viewer](#).

¹⁶ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (OJ L 206, 22.7.1993, p.7)

¹⁷ Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010 (OJ L 150, 9.6.2023, p. 206).

¹⁸ Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law (OJ L305, 26.11.2019, p. 17).

¹⁹ Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (OJ L 198, 28.7.2017, p. 29).

²⁰ Council Framework Decision 2003/568/JHA of 22 July 2003 on combating corruption in the private sector (OJ L 192, 31.7.2003, p. 54).

- (41) ‘persons with disabilities’ means persons with disabilities as defined in Table 2 of Annex I to Commission Delegated Regulation (EU) .../... [ESRS S1];
- (42) ‘severe human rights issues and incidents’ means severe human rights issues and incidents in accordance with paragraph 104 of Commission Delegated Regulation (EU) .../... [ESRS S1-17];
- (43) ‘non-renewable energy sources’ means energy sources other than renewable energy sources;
- (44) ‘renewable energy sources’ means the following renewable non-fossil sources: wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas;
- (45) ‘EU list of non-cooperative jurisdictions for tax purposes’ means the list of jurisdictions included in the applicable Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes;
- (46) ‘threatened species’ means endangered species, including flora and fauna, listed in the European Red List or the IUCN Red List, as referred to in Section 7 of Annex II to Delegated Regulation (EU) 2021/2139;
- (47) ‘area of high biodiversity value outside protected areas’ means land with high biodiversity value as referred to in Article 7b(3) of Directive 98/70/EC of the European Parliament and of the Council²¹.
- (48) ‘affected communities’ means affected communities as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) / [ESRS S1];
- (49) ‘collective bargaining’ means collective bargaining as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) / [ESRS 1].
- (50) ‘consumers’ means consumers as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) / [ESRS 1];
- (51) ‘end-users’ means end-users as defined in Table 2 of Annex II to Commission Delegated Regulation (EU) .../.... [ESRS 1];

²¹ Directive 98/70/EC of the European Parliament and of the Council of 13 October 1998 relating to the quality of petrol and diesel fuels and amending Council Directive 93/12/EEC (OJ L 350, 28.12.1998, p. 58).

- (52) ‘investee country subject to social violation’ means countries subject to social violations as referred to in international treaties and conventions, United Nations principles and, where applicable, national laws or principles,

For the purposes of this Annex, the following formulas shall apply:

- (1) ‘GHG emissions’ shall be calculated in accordance with the following formula:

For x: {1,2,3}, Total

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope}(x) \text{ GHG emissions}_i \text{ (tCO}_2\text{eq)} \right)$$

where n is the number of investee companies in the investments

- (2) ‘carbon footprint’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 GHG emissions}_i \text{ (tCO}_2\text{eq)} \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

- (3) ‘GHG intensity of investee companies’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{investee company's Scope 1, 2 and 3 GHG emissions}_i \text{ (tCO}_2\text{eq)}}{\text{investee company's €M revenue}_i} \right)$$

where n is the number of investee companies in the investments

- (4) ‘Exposure to companies active in the fossil fuel sector’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies active in the fossil fuel sector})}{\text{current value of all investments}}$$

where n is the the number of investee companies active in the fossil fuel sector

- (5) ‘share of non-renewable energy consumption and production’ shall be calculated in accordance with the following formula:

$$= \sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{consumption and production of non – renewable energy (in MWh) by investee company}_i}{\text{consumption and production of energy (in MWh) by investee company}_i} \right)$$

- (6) ‘energy consumption intensity per high impact climate sector’ shall be calculated in accordance with the following formula:

For α in $\{A, B, C, D, E, F, G, H, L\}$

Energy consumption intensity $_{\alpha}$

$$= \sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{energy consumption of investee company}_i \text{ belonging to NACE}(\alpha) \text{ (in MWh)}}{\text{investee company's €M revenue}_i \text{ belonging to NACE}(\alpha)} \right)$$

where n is the number of investee companies in the investments belonging to NACE(α)

- (7) ‘activities negatively affecting biodiversity-sensitive areas’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies with sites or operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

- (8) ‘pollution of water’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's tonnes of pollution of water generated}_i)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

- (9) ‘hazardous waste ratio’ shall be calculated in accordance with the following formula:

$$= \frac{\sum_{i=1}^n (\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's tonnes of hazardous waste generated}_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

- (10) ‘non-respect of Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises or the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and in the International Bill of Human Rights’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i \text{ in investee companies not respecting}}{\text{international guidelines or principles}} \right)}{\text{current value of all investments}}$$

where the international guidelines or principles are either OECD guidelines for multinational enterprises or the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and in the international Bill of Human Rights; and

where n is the number of investee companies in the investments

- (11) ‘unadjusted gender pay gap’ shall be calculated in accordance with the following formula:

For each $i = 1, \dots, n$

$$\text{Unadjusted gender Pay Gap}_i = \max\left\{0; \frac{\left(\begin{array}{l} \text{pay of male paid employees in investee company}_i \\ - \text{pay of female paid employees in investee company}_i \end{array} \right)}{\text{pay of male paid employees in investee company}_i} \right\}$$

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{Unadjusted gender Pay Gap}_i \right)$$

where n is the the number of investee companies in the investments

- (12) ‘management and supervisory bodies gender diversity’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of male board members in investee company}_i}{\text{total number of board members in investee company}_i} \right)$$

where board members means members of management and supervisory bodies; and

where n is the number of investee companies in the investments

- (13) ‘amount of accumulated earnings in non-cooperative tax jurisdictions shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{accumulated earnings of investee company}_i \right. \\ \left. \text{from the EU revised list of non – cooperative jurisdictions for tax purposes} \right)$$

where n is the number of investee companies where the total consolidated revenue on its balance sheet date

for each of the last two consecutive financial years exceeds total of 750M€ in the investments

(14) 'exposure to controversial weapons' shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies involved in the manufacture or selling of controversial weapons})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(15) 'exposure to companies active in the cultivation and production of tobacco' shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies active in the cultivation and production of tobacco})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(16) 'share of employees earning less than the adequate wage' shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of employees in investee company}_i \text{ earning less than the adequate wage}}{\text{number of employees in investee company}_i} \right)$$

where n is the number of investee companies in the investments

(17) 'sovereign GHG intensity' shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of sovereign investment}_i}{\text{current value of all investments}} \times \frac{\text{country's Scope 1,2 and 3 GHG emissions}_i \text{ (tCO}_2\text{eq)}}{\text{country's PPP – adjusted GDP}_i} \right)$$

where n is the number of different sovereigns in the investments

(18) ‘investee countries subject to social violations’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee country}_i \text{ subject to social violations})}{\text{current value of all investments}}$$

where n is the number of different sovereigns in the investments

(19) ‘exposure to fossil fuels through real estate assets’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels})}{\text{current value of all investments}}$$

where n is the the number of real estate assets involved in the extraction, storage or manufacture of fossil fuels

(20) ‘exposure to energy inefficient real estate assets’ shall be calculated in accordance with the following formula:

$$\frac{((\text{Value of real estate assets built before 31.12.2020 with EPC of D or below}) + (\text{Value of real estate assets built after 31.12.2020 with PE demand above NZEB in Directive 2010/31/Eu}))}{\text{Value of real estate assets required to abide by EPC and NZEB rules}}$$

(21) ‘emissions of inorganic pollutants’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's emission of inorganic pollutants}_i \text{ (in tonnes)} \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

(22) ‘emissions of air pollutants’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's emissions of air pollutants}_i \text{ (in tonnes)} \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

(23) ‘emissions of ozone-depleting substances’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's emissions of ozone depleting substances}_i \text{ (in tonnes)} \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

(24) ‘investments in companies without carbon emission reduction initiatives’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{Current value of investment in company}_i \text{ without carbon emission reduction initiative})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(25) ‘breakdown of energy consumption by type of non-renewable sources of energy’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{consumption of non – renewable energy (in MWh) type by investee company}_i}{\text{consumption of energy (in MWh) by investee company}_i} \right)$$

where n is the number of investee companies in the investments

(26) ‘water usage and recycling’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{amount of water consumed by investee company (in cubic meters)}_i}{\text{investee company's €M revenue}_i} \right)$$

where n is the number of investee companies in the investments

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{amount of water recycled and reused by investee companies (in cubic meters)}_i}{\text{amount of water consumed by investee companies}_i} \right)$$

where n is the number of investee companies in the investments

- (27) ‘investments in companies without water management policies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \text{Current value of investment in investee companies without water management policies}_i}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

- (28) ‘exposure to areas of high-water stress’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{Current value of investment in investee companies with sites located in areas of high water stress without a water management policy}_i}{\text{current value of all investments}} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

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

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

where n is the number of investee companies in the investments

- (30) ‘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

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

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

where n is the number of investee companies in the investments

- (32) ‘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

(33) 'non-recycled waste ratio' shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's tonnes of non - recycled waste generated}_i \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

(34) 'radioactive waste ratio' shall be calculated in accordance with the following formula:

$$= \frac{\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's tonnes of radioactive waste generated}_i \right)}{\text{current value of all investments (€M)}}$$

where n is the number of investee companies in the investments

(35) 'natural species and protected areas' shall be calculated in accordance with the following formula:

a) share of investments in investee companies whose operations affect threatened species

$$\frac{\sum_{i=1}^n \text{Current value of investment in investee companies whose operations affect threated species}_i}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

b) share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas

$$\frac{\sum_{i=1}^n \left(\begin{array}{c} \text{Current value of investment in investee companies without a biodiversity protection policy} \\ \text{covering operational sites owned, leased, managed in or adjacent to, a protected} \\ \text{area or an area of high diversity value outside protected areas}_i \end{array} \right)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(36) ‘deforestation’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \text{Current value of investment in investee companies without a policy to address deforestation}_i}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(37) ‘share of corporate debt securities not issued under Union legislation on environmentally sustainable bonds’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\begin{array}{c} \text{Current value of investments in corporate debt securities not issued under} \\ \text{Union legislation on environmentally sustainable bonds}_i \end{array} \right)}{\text{current value of all corporate debt securities}}$$

where n is the number of corporate debt securities in the investments

- (38) ‘share of sovereign and supranational debt securities not issued under Union legislation on environmentally sustainable bonds’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\frac{\text{Current value of investments in sovereign and supranational debt securities not issued under Union legislation on environmentally sustainable bonds}_i}{\text{current value of all sovereign and supranational debt securities}} \right)}{\text{current value of all sovereign and supranational debt securities}}$$

where n is the number of sovereign and supranational debt securities in the investments

- (39) ‘GHG emissions’ in real estate shall be calculated in accordance with the following formula:

For $x = \{1,2,3,Total\}$

$$\sum_{i=1}^n \left(\frac{\text{current value of investment in real estate asset}_i}{\text{current value of real estate asset}_i} \times \text{scope}(x) \text{ GHG emissions generated by real estate asset}_i \text{ (tCO}_2\text{eq)} \right)$$

where n is the number of real estate assets in the investments

- (40) ‘energy consumption intensity’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of real estate asset}_i}{\text{current value of all investments in real estate assets}} \times \frac{\text{energy consumption (in GWh) of real estate asset}_i}{\text{surface area of real estate asset}_i \text{ (in square meters)}} \right)$$

where n is the number of real estate assets in the investments

(41) ‘waste production in operations’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \frac{\text{(current value of real estate asset not equipped with facilities for waste sorting, and not covered by a waste recovery or recycling contract}_i)}{\text{current value of all investments in real estate assets}}$$

where n is the number of real estate assets in the investments

(42) ‘raw materials consumption for new construction and major renovations’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of newly constructed or renovated real estate asset}_i}{\text{current value of all newly constructed or renovated real estate assets}} \right) \times \frac{\text{Weight of raw building materials by real estate asset (in tonnes)}_i}{\text{Weight of building materials by real estate asset (in tonnes)}_i}$$

where n is the number of new construction or major renovations of real estate assets

(43) ‘land artificialisation’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of real estate asset}_i}{\text{current value of all investments in real estate assets}} \right) \times \frac{\text{non vegetated surface area of real estate asset}_i \text{ (in square meters)}}{\text{surface area of real estate asset}_i \text{ (in square meters)}}$$

where n is the number of real estate assets in the investments

- (44) ‘investments in companies without workplace accident prevention policies or management systems’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies with no publicly available policy or management system in place preventing accidents that occur as part of the exercise of labour activities}_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

- (45) ‘rate of recordable work-related accidents shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{investee company's rate of recordable work related accidents} \right)$$

where n is the number of investee companies in the investments; and

where rate of recordable work related accidents =

$$\frac{\text{number of accidents occurring as part of the exercise of labour activities in company}_i}{\text{number of employees in company}_i}$$

(46) 'number of days lost to work-related injuries, accidents, ill health and fatalities' shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \right) \times \text{investee company's workdays lost to work related injuries, accidents, ill health and fatalities occurring as part of the exercise of labour activities}_i)$$

where n is the number of investee companies in the investments

(47) 'insufficient coverage of total employees by collective bargaining agreements' shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{employees covered by a collective bargaining agreement in investee company}_i}{\text{number of employees in investee company}_i} \right)$$

where n is the number of investee companies in the investments

(48) 'lack of supplier code of conduct' shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies without supplier code of conduct}_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(49) ‘lack of grievance/complaints handling mechanism related to employee matters’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies with no grievance and complaints handling mechanisms related to employee matters})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(50) ‘insufficient whistleblower protection’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \text{current value of investment}_i \text{ in investee companies without whistleblower protection policy}}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(51) ‘incidents of discrimination related to any type of discrimination leading to monetary and non-monetary sanctions’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{number of incidents relating to any type of discrimination leading to monetary and non monetary sanctions in company}_i \right)$$

where n is the number of investee companies in the investments

(52) ‘excessive CEO pay ratio’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{total annual compensation of highest paid individual in investee company}_i}{\text{median annual total compensation for all other workers in investee company}_i} \right)$$

where n is the number of investee companies in the investments

(53) ‘excessive non-guaranteed-hour workers in investee companies’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of non – guaranteed – hour workers in investee company}_i}{\text{number of workers in investee company}_i} \right)$$

where n is the number of investee companies in the investments

- (54) ‘excessive temporary contract employees in investee companies’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of temporary contract workers in investee company}_i}{\text{number of employees in investee company}_i} \right)$$

where n is the number of investee companies in the investments

- (55) ‘excessive number of non- employee employees in the investee companies’ own workforce’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of non – employees in the investee company's}_i \text{ own workforce}}{\text{number of e workers in investee company}_i} \right)$$

where n is the number of investee companies in the investments

- (56) ‘insufficient employment of persons with disabilities within the workforce’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \frac{\text{number of persons with disabilities in investee company}_i}{\text{number of employees in investee company}_i} \right)$$

where n is the number of investee companies in the investments

- (57) ‘lack of processes and compliance mechanisms to monitor compliance with the OECD Guidelines for Multinational Enterprises or the UN Guiding principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and in the International Bill of Human Rights’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies without processes and compliance mechanisms to monitor compliance with at least one international guideline or principle})}{\text{current value of all investments}}$$

Where the international guidelines or principles are either OECD guidelines for multinational enterprises or the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and in the International Bill of Human Rights; and

where n is the number of investee companies in the investments

- (58) ‘lack of human rights policies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies without adherence to a human rights policy})}{\text{current value of all investments}}$$

where n is the number of investee companies in the portfolio

(59) ‘lack of processes and measures for preventing trafficking in human beings’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies with no publicly available policy in place that prevents trafficking in human beings chain}_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(60) ‘operations and suppliers at significant risk of incidents of child labour’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies exposed to operations and suppliers at significant risk of incidents of child labour}_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(61) ‘operations and suppliers at significant risk of incidents of forced or compulsory labour’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies exposed to operations and suppliers at risk of incidents of forced or compulsory labour in terms of geographic areas and/or type of operations }_i)}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

(62) ‘number of identified cases of severe human rights issues and incidents’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{number of severe human rights issues and incidents connected to the investee company}_i \right)$$

where *n* is the number of investee companies in the investments

- (63) ‘lack of remediation mechanism for affected communities in relation to the operations of the investee companies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies with a lack of remediation mechanism for affected communities})}{\text{current value of all investments}}$$

where *n* is the number of investee companies in the investments

- (64) ‘lack of remediation handling mechanism for consumers/end-users of the investee company’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment}_i \text{ in investee companies without a remediation handling mechanism for consumers or end users of the investee company})}{\text{current value of all investments}}$$

where *n* is the number of investee companies in the investments

- (65) ‘lack of anti-corruption and anti-bribery policies’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee companies without anticorruption and antibribery policies})}{\text{current value of all investments}}$$

where n is the number of investee companies in the investments

- (66) ‘lack of action taken to address breaches of standards of anti-corruption and anti-bribery’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n \left(\text{current value of investment in investee companies with no action taken to address breaches in international and national procedures and standards of anticorruption and antibribery}_i \right)}{\text{current value of all investments}}$$

- (67) ‘number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws’ shall be calculated in accordance with the following formula:

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{investee company's number of convictions for violations of anti - corruption and anti - bribery laws according to international or national laws} \right)$$

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current value of all investments}} \times \text{total amount of fines for violations of international or national anticorruption laws} \right)$$

where n is the number of investee companies in the investments

(68) ‘investments in non-cooperative tax jurisdictions’ shall be calculated in accordance with the following formula:

$$\frac{\sum_{i=1}^n (\text{current value of investment in investee countries or supranationals on the EU list of noncooperative jurisdictions for tax purposes}_i)}{\text{current value of all investments}}$$

where n is the number of investee countries or supranationals in the investments

Table 1

Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant <i>[Name and, where available, LEI]</i>
Summary <i>[Name and, where available, LEI]</i> considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of <i>[name of the financial market participant]</i> <i>[where applicable, insert “and its subsidiaries, namely [list the subsidiaries included]”]</i> . This statement on principal adverse impacts on sustainability factors covers the reference period from <i>[insert “1 January” or the date on which principal adverse impacts were first considered]</i> to 31 December <i>[year n]</i> . <i>[Summary referred to in Article 5 provided in the languages referred to in paragraph 1 thereof]</i>
Description of the principal adverse impacts on sustainability factors

[Information referred to in Articles 6 and 7 in the format set out below]

Indicators applicable to investments in investee companies

Adverse sustainability indicator	Description	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
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CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions of investee companies expressed in tonnes of CO2 equivalent				
		Scope 2 GHG emissions of investee companies emissions expressed in tonnes of CO2 equivalent				
		Scope 3 GHG emissions of investee companies expressed in tonnes of CO2 equivalent				
		Total GHG emissions of investee companies expressed in tonnes of CO2 equivalent				
	2. Carbon footprint	Total GHG emissions expressed per million EUR invested				
	3. GHG intensity of investee companies	GHG emissions per million EUR of revenue of investee companies				

	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as share of total energy intensity				
	6. Energy consumption intensity per high impact climate sector	Energy consumption in MWh per million EUR of revenue of investee companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of				

		those investee companies negatively affect those areas				
Water	8. Pollution of water	Tonnes of pollution emitted into water generated by investee companies per million EUR invested				
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested				
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Non-respect of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the	Share of investments in investee companies that have been involved in non-respect of the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the				

	International Bill of Human Rights	International Bill of Human Rights				
	11. Unadjusted gender pay gap between female and male employees	Average gender pay gap between female and male employees of investee companies				
	12. Management and supervisory board gender diversity	Average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members				
	13. Amount of accumulated earnings in non-cooperative tax jurisdictions applying to investee companies where the total consolidated revenue on their balance sheet date for each of the	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				

	last two consecutive financial years exceeds a total of EUR 750 M	years exceeds total of EUR 750M in jurisdictions that appear on the revised EU list of non-cooperative jurisdictions for tax purposes				
	14. Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				
	15. Exposure to companies active in the cultivation and production of tobacco	Share of investments in investee companies active in the cultivation and production of tobacco				
	16. 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				
Indicators applicable to investments in sovereigns and supranationals						

Adverse sustainability indicator		Description	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental	17. Sovereign GHG intensity	GHG intensity of investee countries as a ratio of investee country's PPP-adjusted GDP				
Social	18. Investee countries subject to social violations	Investments in investee countries subject to social violations from international treaties and conventions, United Nations principles and where applicable national laws or principles				
Indicators applicable to investments in real estate assets						

Adverse sustainability indicator		Description	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil fuels	19. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport, trade or manufacture of fossil fuels				
Energy efficiency	20. Exposure to energy inefficient real estate assets	Share of investments in energy inefficient real estate assets				

Other indicators for principal adverse impacts on sustainability factors

[Information on the principal adverse impacts on sustainability factors referred to in Article 6(1), point (a) in the format in Table 2]

[Information on the principal adverse impacts on sustainability factors referred to in Article 6(1), point (b), in the format in Table 3]

[Information on any other adverse impacts on sustainability factors used to identify and assess additional principal adverse impacts on a sustainability factor referred to in Article 6(1), point (c), in the format in Table 2 or Table 3]

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

[Information referred to in Article 7]

Engagement policies

[Information referred to in Article 8]

References to international standards

[Information referred to in Article 9]

Historical comparison

[Information referred to in Article 10]

Table 2

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Description
Indicators applicable to investments in investee companies		
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Emissions	1. Emissions of inorganic pollutants	Tonnes of inorganic pollutants equivalent per million EUR invested
	2. Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested
	3. Emissions of ozone-depleting substances	Tonnes of ozone-depleting substances equivalent per million EUR invested

	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
Energy performance	5. Breakdown of energy consumption by type of non-renewable sources of energy	Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source
Water, waste and material emissions	6. Water usage and recycling	a) Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies b) Percentage of water recycled and reused by investee companies
	7. Investments in companies without water management policies	Share of investments in investee companies

		without water management policies
	8. Exposure to areas of high water stress	Share of investments in investee companies with sites located in areas of high water stress without a water management policy
	9. Investments in companies producing pesticides and other agrochemical products	Share of investments in investee companies the activities of which fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006
	10. Land degradation, desertification, soil sealing	Share of investments in investee companies the activities of which cause land degradation, desertification or soil sealing
	11. Investments in companies without sustainable land/agriculture practices or policies	Share of investments in investee companies, the activities of which involve land/agricultural activities without

		sustainable land/agriculture practices or policies
	12. Investments in companies without sustainable oceans/seas practices or policies	Share of investments in investee companies, the activities of which involve oceans, seas, coasts or inland water activities without sustainable oceans/seas practices or policies
	13. Non-recycled waste ratio	Tonnes of non-recycled waste generated by investee companies per million EUR invested
	14. Radioactive waste ratio	Tonnes radioactive waste generated by investee companies per million EUR invested
	15. Natural species and protected areas	a) Share of investments in investee companies whose operations affect threatened species

		b) Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas
	16. Deforestation	Share of investments in companies without a policy to address deforestation
Green securities	17. Share of corporate debt securities not issued under Union legislation on environmentally sustainable bonds	Share of securities in investments not issued under Union legislation on environmentally sustainable bonds
Indicators applicable to investments in sovereigns and supranationals		

Green securities	18. Share of sovereign and supranational debt securities not issued under Union legislation on environmentally sustainable bonds	Share of bonds not issued under Union legislation on environmentally sustainable bonds
Indicators applicable to investments in real estate assets		
Greenhouse gas emissions	19. Real estate GHG emissions	a) Scope 1 GHG emissions generated by real estate assets expressed in tonnes of CO2 equivalent
		b) Scope 2 GHG emissions generated by real estate assets expressed in tonnes of CO2 equivalent
		c) Scope 3 GHG emissions generated by real estate assets

		expressed in tonnes of CO2 equivalent
		d) Total GHG emissions generated by real estate assets expressed in tonnes of CO2 equivalent
Energy consumption	20. Energy consumption intensity	Energy consumption in GWh of owned real estate assets per square meter
Waste	21. Waste production in operations	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract
Resource consumption	22. Raw materials consumption for new construction and major renovations	Share of raw building materials (excluding recovered, recycled and biosourced) compared to the total weight of building materials used

		in new construction and major renovations
Biodiversity	23. Land artificialisation	Share of non-vegetated surface area (surfaces that have not been vegetated in ground, as well as on roofs, terraces and walls) compared to the total surface area of the plots of all assets

Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Description
Indicators applicable to investments in investee companies		
Social and employee matters	1. Investments in companies without workplace accident prevention policies or management systems	Share of investments in investee companies without a workplace accident prevention policy or management system
	2. Rate of recordable work-related accidents	Rate of recordable work-related accidents in investee companies
	3. Number of days lost to work-related injuries, accidents, ill health and fatalities	Number of workdays lost to work-related injuries, accidents, ill health or

		fatalities of investee companies
	4. Low coverage of collective bargaining agreements	Share of employees in investee companies not covered by collective bargaining agreements
	5. Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, child labour and forced labour)
	6. Lack of grievance/complaints handling mechanism related to employee matters	Share of investments in investee companies without a grievance/complaints handling mechanism related to employee matters
	7. Insufficient whistleblower protection	Share of investments in entities without policies on the protection of whistleblowers

	<p>8. Incidents of discrimination and incidents of discrimination related to any type of discrimination leading to monetary and non-monetary sanctions in investee companies</p>	<p>a) Number of incidents of discrimination</p> <p>b) Number of incidents of discrimination related to any type of discrimination leading to monetary and non-monetary sanctions in investee companies</p>
	<p>9. Excessive CEO pay ratio</p>	<p>Ratio within investee companies of the annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest-compensated individual)</p>

	10. Excessive use of non-guaranteed-hour employees in investee companies	Share of non-guaranteed hour employees in investee companies as share of total employees
	11. Excessive use of temporary contract employees in investee companies	Share of temporary contract employees in investee companies as share of total employees

	12. Excessive use of non-employee employees in investee companies	Share of non-employee employees in investee companies as share of total employees
	13. Insufficient employment of persons with disabilities within the workforce	Share of persons with disabilities within the workforce of investee companies
Human Rights	14. Lack of processes and compliance mechanisms to monitor compliance with OECD Guidelines for Multinational Enterprises or the UN Guiding principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights	Share of investments in investee companies without policies to monitor compliance with or grievance/ complaints handling mechanisms to address violations of the OECD Guidelines for Multinational Enterprises

		or the UN Guiding principles, including the principles and rights set out in the eight fundamental conventions identified in the ILO Declaration and the International Bill of Human Rights
	15. Lack of human rights policies	Share of investments in entities without human rights policies
	16. Lack of processes and measures for preventing trafficking in human beings	Share of investments in investee companies without policies against trafficking in human beings
	17. Operations and suppliers at significant risk of incidents of child labour	Share of investments in investee companies exposed to operations and suppliers at significant risk of incidents of child labour in terms of geographic areas and/ or type of operation

	18. Operations and suppliers at significant risk of forced or compulsory labour	Share of investments in investee companies exposed to operations and suppliers at significant risk of incidents of forced or compulsory labour in terms of geographic areas and / or the type of operation
	19. Number of identified cases of severe human rights issues and incidents	Number of cases of severe human rights issues and incidents connected to investee companies
	20. Lack of remediation mechanism for affected communities relating to the operations of the investee companies	Share of investments in investee companies without remediation mechanism for stakeholders materially affected by the operations of the investee companies
	21. Lack of remediation handling mechanism for consumers/end-users of the investee company	Share of investments in investee companies without remediation mechanism for

		consumers/end-users of the investee companies
Anti-corruption and anti-bribery	22. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption
	23. Lack of action taken to address breaches of standards of anti-corruption and anti-bribery	Share of investments in investee companies with no action taken to address breaches in procedures and standards of anti-corruption and anti-bribery
	24. Convictions and fines for violation of anti-corruption and anti-bribery laws	Share of investments in investee companies with convictions or fines for violations of anti-corruption and anti-bribery laws

Indicators applicable to investments in sovereigns and supranationals

Social	25. Average income inequality score	The distribution income and economic inequality among the participant in a particular economy including a quantitative indicator explained in the explanation column
	26. Average freedom of expression score	Measuring the extent to which political and civil society organisations can operate freely including a quantitative indicator explained in the explanation column
	27. Average human rights performance	Measure of the average human right performance of investee countries using a quantitative indicator explained in the explanation column

Human rights	28. Average corruption score	Measure of the perceived level of public sector corruption using a quantitative indicator explained in the explanation column
Governance	29. Investments in non-cooperative tax jurisdictions	Investments in jurisdictions on the EU list of non-cooperative jurisdictions for tax purposes
	30. Average political stability score	Measure of the likelihood that the current regime will be overthrown by the use of force using a quantitative indicator explained in the explanation column
	31. Average rule of law score	Measure of the level of corruption, lack of fundamental rights, and the deficiencies in civil and criminal justice using a quantitative indicator

		explained in the explanation column
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Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: [complete]

Legal entity identifier: [complete]

Pre-contractual information: Is this product sustainable?

This product has limited sustainability characteristics, certain investments could be harmful for the environment or people. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product has and which ones it does not have.



[specify the environmental and/or social characteristic(s) promoted by the product and the [X]% of the product's investments that promote those characteristics – 500-character limit with spaces]



[if a%>0 use text:] This product commits to make minimum of [a, calculated according to Article 17a of this regulation]% sustainable investments.

[if a%=0 use text:] This product does not commit to making sustainable investments.

a %



[if b%>0 use text:] This product commits to make a minimum of [b, calculated according to Article 17 of this Regulation] % EU Taxonomy-aligned investments. The higher this number is, the more this product protects the environment.

[if b%=0 use text] This product does not commit to making EU Taxonomy-aligned investments.

b %



This product [insert as applicable: **does not commit to consider/ commits to consider**] the most significant negative impacts of its investments on the environment and people.



This product aims to decrease the **greenhouse gas emissions** that results from the activities the product will invest in. It intends to lower these emissions by ___% by year ____ [the date of achievement of the target] compared to year ____ [baseline year]". [Replace this statement with "This product does not have a green house gas emissions reduction target" where the product does not have a GHG emissions reduction target]

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the EU **Taxonomy-aligned investments**, ensuring that such investments protect the environment.

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the investee companies, for example to make them more eco-friendly.

The following pages provide more details about the way this product promotes sustainability characteristics. You might be able to access them by clicking on the boxes below. Additional information is also available here at [link].



What are the environmental and/or social characteristics of this product and how are they achieved?

[indicate the environmental and/or social characteristics promoted by the financial product and explain the sustainability aspects of the investment strategy to which the financial product is bound, indicating how the strategy is implemented in the investment process on a continuous basis. Where there is a commitment to reduce the scope of investments by a minimum rate, indicate the committed minimum rate of reduction of investments according to the investments strategy]

- **How does this product measure how each of the environmental or social characteristics will be met?** *[specify the sustainability indicators used]*
- **How are good governance practices, such as tax compliance or employee matters, assessed for companies the product invests in?** *[include a short description of the policy to assess good governance practices of the investee companies]*



Has a reference benchmark been designated for the purpose of ensuring consistency with the environmental and/or social characteristics of the product and how the consistency is monitored?

[include this section only for financial products where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product. Specify how the index is continuously aligned with each of the environmental or social characteristics promoted by the financial product. Specify also how the alignment of the investment strategy with the methodology of the index is ensured on a continuous basis and indicate where the methodology used for the calculation of the index can be found]

- **How does the benchmark used differ from a relevant broad market index?**



What type of investments does this product make? *[include a narrative explanation of the investments of the financial product in the context of their sustainability features, including the minimum proportion of the investments of the financial product used to meet the environmental or social characteristics promoted by the financial product in accordance with the binding elements of the investment strategy. This includes the the minimum proportion of sustainable investments of this product where the product commits to making sustainable investment, and the purpose of the remaining proportion of the investments, including a description of any minimum environmental or social safeguards]*



What is the minimum proportion of sustainable investments?

[include this section only for financial products that commit to make sustainable investments]

This product commits to make a minimum of [a]% sustainable investments, measured by *[complete, as required by article 17a, specify clearly if the measurement is performed in accordance with point (a) or (b) of Article 17a(1)]*

- **What are the objectives of the sustainable investments?** *[include a description of the objectives and how the sustainable investments contribute to the sustainable investment objective. For the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributes]*

[include note for financial products where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product]

Reference benchmarks are indices that show how well a product performs compared to an index with similar objectives or features.

Indices are used to measure the average performance of a group of investments like stocks or bonds.

A **broad market index** provides a snapshot of how the overall market is performing and is typically composed of a diverse selection of stocks, bonds, or other financial

- **How is significant harm to the environment and people avoided by the sustainable investments made?** [describe how the indicators in Table 1 of Annex I and any relevant indicators in Tables 2 and 3 of Annex I are taken into account to ensure that the sustainable investments do not cause significant harm to any sustainable objective and indicate briefly which criteria or thresholds are being used for the assessment]

- Link where detailed information is provided:



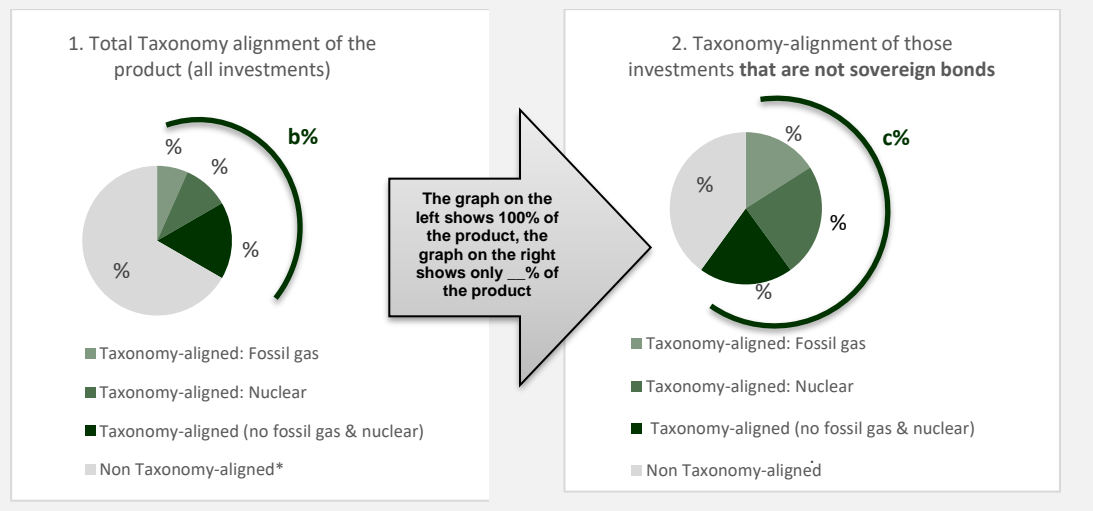
What is the minimum proportion of EU Taxonomy-aligned investments?

[include this section only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 and include the graphical representation referred to in Article 15(1), point (a), of this Regulation, the description referred to in Article 15(1), point (b), of this Regulation, a clear explanation as referred to in Article 15(1), point (c), of this Regulation, a narrative explanation as referred to in Article 15(1), point (d), of this Regulation and the information referred to in Article 15(2) and (3) of this Regulation]

This product commits to make a minimum of [b]% EU Taxonomy-aligned investments measured by [[turnover or capital expenditure or operational expenditure, in accordance with Article 15(3)(a) of this Regulation] from which [...]% in enabling and [...]% transitional activities.

[Include box only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 that make EU Taxonomy-aligned investments. Do not include this box for products with 0% EU Taxonomy-alignment. For financial products that make EU Taxonomy-aligned investments where the two graphs would show identical data, include only the left graph that shows “b” and remove the right graph that shows “c”, to avoid redundancy, and do not include text below]

[only if the financial product makes investments in fossil gas and/or nuclear energy EU Taxonomy-aligned economic activities, include the figures for EU Taxonomy-aligned fossil gas and/or nuclear energy and the corresponding legend, as well as the following text in bold above the graphs: **Most fossil fuels are environmentally harmful, but a minority of fossil gas and nuclear activities are classified under the EU Taxonomy as sustainable and eco-friendly. The graph shows whether the product invests in sustainable fossil gas and nuclear activities. For fossil gas and nuclear activities to be sustainable, they must meet strict criteria to demonstrate that they contribute to climate change mitigation or adaptation and not significantly harm any EU Taxonomy objective.**]



[include note for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852.

Enabling activities are not sustainable in themselves, but make it possible for other activities to be environmentally sustainable.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

[include from the list below only the applied methodology for financial products referred to in Article 6 of Regulation (EU) 2020/852 and remove the non-applicable ones]

EU Taxonomy-aligned activities of companies are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities
- **capital expenditure (CapEx)** showing the green investments made by them, e.g. for a transition to a green economy.
- **operational expenditure (OpEx)** reflecting their green operational activities.

The two graphs above show in green the minimum percentage of EU Taxonomy-aligned investments:

- The first graph shows the alignment of the product's investments with the EU Taxonomy. The "Non Taxonomy-aligned*" part, presented in grey, might also include government bonds, for which it is difficult to assess whether the investments are Taxonomy aligned or not. 'Sovereign bonds' consist of exposures to central governments, central banks and supranational issuers.
- The second graph shows only part of the product covering only the alignment of the investments that are not sovereign bonds, because it is difficult to determine if those investments meet EU Taxonomy criteria.

[Include the following statement only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 that commit to not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy]

This product commits to not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy¹.

[Include the following statement only for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852]

The EU Taxonomy sets out a "do not significant harm" principle by which EU Taxonomy investments should not significantly harm the environment and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Other sustainable investments, which are not EU Taxonomy investments, must also not significantly harm the environment and people.



Does this product commit to consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?

[if the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available. The explanation shall include both a description of the adverse impacts and the procedures put in place to mitigate those impacts. If the financial product does not consider principal adverse impacts on sustainability factors where the financial market participant applies point (a) of Article 4(1) or Article 4(3) or (4) of the above mentioned Regulation, explain the reasons for doing

¹ Most fossil fuels are environmentally harmful, but a minority of fossil gas and nuclear activities are classified under the EU Taxonomy as sustainable and eco-friendly. For fossil gas and nuclear activities to be sustainable, they must contribute to climate change mitigation and not significantly harm any EU Taxonomy objective.

[include notes only for financial products that consider PAI]

Principal adverse impacts are the most significant negative impacts on the environment and people including employee matters, human rights, corruption and bribery.

so. If the financial market participant does not consider principal adverse impacts according to Article 4(1), point (b), of Regulation (EU) 2019/2088 indicate the reasons for doing so.]



Does this product aim to decrease the greenhouse gas (GHG) emissions from the activities the product invests in?

Yes: [if the financial product has a GHG emission reduction target that aims to reduce financed GHG emissions, tick the box(es) below as relevant and disclose the below information]

by investing in assets (e.g. companies, projects or sovereigns) that are expected to lower the GHG emissions of their activities.

by engaging with investee companies to influence their business decisions to lower the GHG emissions.

by selling investments in assets (e.g. companies, projects or sovereigns) to instead buy investments with lower GHG emissions. In that way the product avoids providing capital to highly emitting assets.

other, please explain: _____
[any approach that is not already listed above]

Further details: [Provide a brief narrative explanation about the way the target will be achieved and where relevant, explain how the strategies are combined]

No [if the financial product does not have a GHG emission reduction target that aims to reduce financed GHG emissions, do not include any subsequent question in this section]

● **What is the greenhouse gas emission reduction target of the product?** [Fill in the graph and table below, with information on the financed GHG emissions, the final and where relevant intermediate targets and the corresponding years. The baseline financed GHG emissions and the targets shall be calculated and presented in accordance with Article 14a of this Regulation.]



Greenhouse gas (GHG) emission reduction targets			
Baseline year	Percentage reduction in emissions compared with the baseline year (as a % of the GHG emissions)		
[Baseline year]	[Date of expected achievement of intermediate target]	[Add columns for other intermediate targets, where applicable]	[Date of expected achievement of the final target]
[Financed GHG emissions expressed in tCO ₂ -eq/€M, not including GHG removals and storage and credits,	-[x]%	-[y]%	-[z]%

[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 main cause of global warming. There are different ways in which investing can aim to reduce the emissions of companies.

[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].**

Given scientific evidence, greenhouse gas emissions need to be urgently reduced to limit **climate warming to 1,5 °C**, in order to avoid the worst consequences of global warming such as intense heatwaves, sea-level rise or extreme ocean acidification.

A product's target is **compatible with limiting global warming to 1.5 °C**, when the expected emissions trajectories of the investments it makes are compatible with a world where global warming is limited to 1.5 °C above pre-industrial levels.

<p><i>investments excluding sovereign bonds]</i></p> <p><i>[VALUE] tonnes of CO₂ emissions per million of euro invested excluding sovereign bonds</i></p>			
<p><i>[Sovereign bonds only, not including carbon removals and storage and carbon credits]</i></p> <p><i>[VALUE] tonnes of CO₂ emissions per million of euro invested in sovereign bonds</i></p>	<p><i>-[x]%</i></p>	<p><i>-[y]%</i></p>	<p><i>-[z]%</i></p>

**For the purpose of this table, 'sovereign bonds' consist of exposures to central governments, central banks and supranational issuers*

- Is the final greenhouse gas emission reduction target of the product compatible with the objective to limit global warming to 1.5 °C?** *[Tick the relevant box below. Or, where this was not assessed, replace this disclosure with the following text "The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C."]*
 - Yes** *[Provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*
 - No**, the target of this financial product is not compatible with limiting global warming to 1.5 °C. *[Provide a short description of the results of that assessment and of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*

ANNEX III

Template pre-contractual disclosure for the financial products referred to in Article 9, paragraphs 1 to 4a, of Regulation (EU) 2019/2088 and Article 5, first paragraph, of Regulation (EU) 2020/852

Product name: [complete]

Legal entity identifier: [complete]

Pre-contractual information: How sustainable is this product?

This product has sustainable investment as its objective. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product has and which ones it does not have.



[Specify the product's sustainable investment objective – 500-character limit with spaces]



This product commits to make minimum of [a, calculated according to Article 17a of this Regulation]% sustainable investments.

a %



[if b%>0 use text:] This product commits to make a minimum of [b, calculated according to Article 17 of this Regulation] % EU Taxonomy-aligned investments. The higher this number is, the more this product protects the environment.

b %

[if b%=0 use text] This product does not commit to making EU Taxonomy-



This product [insert as applicable: does not commit to consider/ commits to consider] the most significant negative impacts of its investments on the environment and people.



This product aims to decrease the **greenhouse gas emissions** that results from the activities the product will invest in. It intends to lower these emissions by __% by year ____ [the date of achievement of the target] compared to year ____ [baseline year]. [Replace this statement with "This product does not have a green house gas emissions reduction target" where the product does not have a GHG emissions reduction target]

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the **EU Taxonomy-aligned investments**, ensuring that such investments protect the environment.

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the investee companies, for example to make them more eco-friendly.

The following pages provide more details about how this product achieves its sustainable investment objective. You might be able to access them by clicking on the boxes below. Additional information is also available here at [link].



What is the sustainable investment objective of this product? *[indicate*

the sustainable investment objective[s] pursued by the financial product, describe how the sustainable investments contribute to those sustainable investment objectives. For financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributes. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate that the financial product has the objective of reducing carbon emissions and explain that the reference benchmark qualifies as an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark under Title III, Chapter 3a, of Regulation (EU) 2016/1011 and indicate where the methodology used for the calculation of that benchmark can be found. Where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark as qualified in accordance with Regulation (EU) 2016/1011 is available, describe that fact, how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the objectives of the Paris Agreement and the extent to which the financial product complies with the methodological requirements set out in Commission Delegated Regulation (EU) 2020/1818. Include a short description of the policy to assess good governance practices of the investee companies]

- **How does this product measure that the sustainable investment objective will be met?** *[specify the sustainability indicators used]*
- **What investments are not sustainable, what is their purpose and are there any minimum environmental or social safeguards?** *[specify whether investments that are not sustainable are used for hedging or liquidity purposes and any minimum environmental or social safeguards used]*



Has a reference benchmark been designated for the purpose of ensuring consistency with the sustainable investment objective of the product and how the consistency is monitored? *[include section only for the financial products referred to in Article*

9(1) of Regulation (EU) 2019/2088. Specify how the reference benchmark takes into account sustainability factors in a way that is continuously aligned with the sustainable investment objective. Specify how the alignment of the investment strategy with the methodology of the index is ensured on a continuous basis and indicate where the methodology used for the calculation of the designated index can be found. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 whose investment objective is to track an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark, provide a summary of how ESG factors are reflected in the benchmark]

- **How does the benchmark used differ from a relevant broad market index?**



What type of investments does this product make and what is the minimum proportion of sustainable investments? *[include a narrative explanation of the investments of*

the financial product including the minimum proportion of the investments of the financial product used to meet the sustainable investment objective in accordance with the binding elements of the investment strategy, indicating how the strategy is implemented in the investment process on a continuous basis]

[include note for financial products where an index has been designated as a reference benchmark for the purpose of attaining the sustainable investment objective of the financial product]

Reference benchmarks are indices that show how well a product performs compared to an index with similar objectives or features.

Indices are used to measure the average performance of a group of investments like stocks or bonds.

A broad market index provides a snapshot of how the overall market is performing and is typically composed of a diverse selection of stocks, bonds, or other financial assets, representing various sectors.

This product commits to make a minimum of [a]% sustainable investments, measured by *[as required by article 17a, clearly specify if the measurement is performed in accordance with point (a) or (b) of Article 17a(1)]*

- **What are the objectives of the sustainable investments?** *[include a description of the objectives and how the sustainable investments contribute to the sustainable investment objective.]*
- **How is significant harm to the environment and people avoided by the sustainable investments made?** *[describe how the indicators in Table 1 of Annex I and any relevant indicators in Tables 2 and 3 of Annex I are taken into account to ensure that the sustainable investments do not cause significant harm to any sustainable objective and indicate briefly which criteria or thresholds are being used for the assessment]*
 - *Link where detailed information is provided:*
- **How does the use of derivatives contribute to the sustainable investment objective?** *[for financial product that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain their sustainable investment objective, describe how the use of those derivatives attains that sustainable investment objective]*



What is the minimum proportion of EU Taxonomy-aligned investments? *[include the section for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 and include the graphical representation referred to in Article 19(1), point (a), of this Regulation, the description referred to in Article 19(1), point (b), of this Regulation, the clear explanation referred to in Article 19(1), point (c), of this Regulation, the narrative explanation referred to in Article 19(1), point (d), of this Regulation]*

This product commits to make a minimum of [b] % EU Taxonomy-aligned investments measured by *[turnover or capital expenditure or operational expenditure, in accordance with Article 15(3)(a) of this Regulation]* **from which [...]% in enabling and [...]% transitional activities.**

[include note for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852.

Enabling activities are not sustainable in themselves, but make it possible for other activities to be environmentally sustainable.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

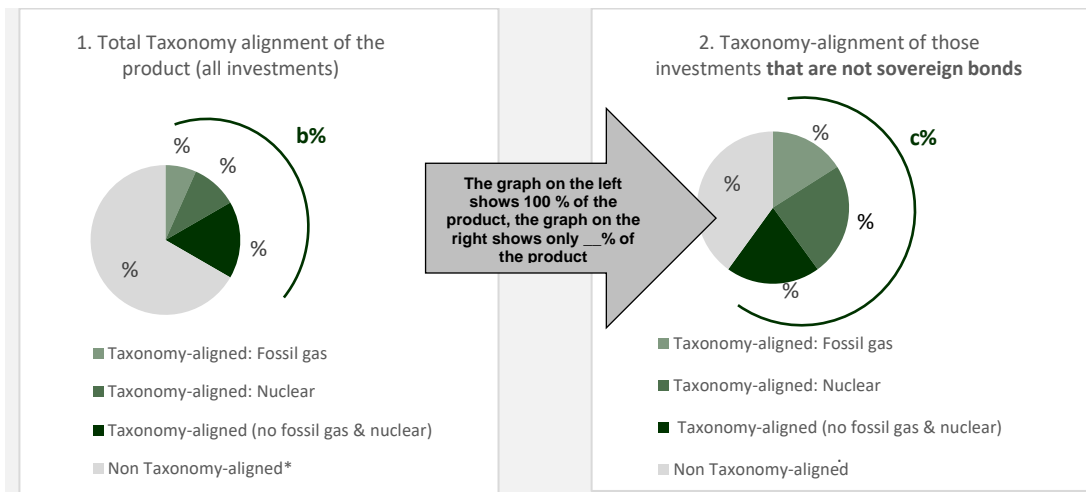
[Include box only for financial products referred to in Article 5 of Regulation (EU) 2020/852 that make EU Taxonomy-aligned investments. Do not include this box for products with 0% EU Taxonomy-alignment. For financial products that make EU Taxonomy-aligned investments where the two graphs would show identical data, include only the left graph that shows “b” and remove the right graph that shows “c”, to avoid redundancy, and do not include text below]

*[only if the financial product makes investments in fossil gas and/or nuclear energy EU Taxonomy-aligned economic activities, include the figures for EU Taxonomy-aligned fossil gas and/or nuclear energy and the corresponding legend, as well as the following text in bold above the graphs: **Most fossil fuels are environmentally harmful, but a minority of fossil gas activities are classified under the EU Taxonomy as sustainable and eco-friendly. There are also some nuclear activities that are classified under the Taxonomy in that way. The graphs show whether the product invests in sustainable fossil gas and nuclear activities. For fossil gas and nuclear activities to be sustainable, they must meet strict criteria to demonstrate that they contribute to climate change mitigation or adaptation and not significantly harm any EU Taxonomy objective.**]*

[include from the list below only the applied methodology for financial products referred to in Article 5 of Regulation (EU) 2020/852 and remove the non-applicable ones]

EU Taxonomy-aligned activities of companies are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities
- **capital expenditure** (CapEx) showing the green investments made by them, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting their green operational activities.



The two graphs above show in green the minimum percentage of EU Taxonomy-aligned investments:

- The first graph shows the alignment of the product’s investments with the EU Taxonomy. The “Non Taxonomy-aligned”* part, presented in grey, might also include government bonds, for which it is difficult to assess whether the investments are Taxonomy aligned or not. ‘Sovereign bonds’ consist of exposures to central governments, central banks and supranational issuers.
- The second graph shows only part of the product covering only the alignment of the investments that are not sovereign bonds, because it is difficult to determine if those investments meet EU Taxonomy criteria.

[Include box only for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 that commit to not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy]

This product commits to not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy².



Does this product commit to consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?

[if the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available. This explanation shall include both a description of the adverse impacts and the procedures put in place to mitigate those impacts. If the financial product does not consider principal adverse impacts on sustainability factors where the financial market participant applies point (a) of Article 4(1) or Article 4(3) or (4) of the above mentioned Regulation, explain the reasons for doing

1 Most fossil fuels are environmentally harmful, but a minority of fossil gas and nuclear activities are classified under the EU Taxonomy as sustainable and eco-friendly. For fossil gas and nuclear activities to be sustainable, they must contribute to climate change mitigation and not significantly harm any EU Taxonomy objective.

[include notes only for financial products that consider PAI]

Principal adverse impacts are the most significant negative impacts on the environment and people including employee matters, human rights, corruption and bribery.

so. If the financial market participant does not consider principal adverse impacts according to Article 4(1), point (b), of Regulation (EU) 2019/2088 indicate the reasons for doing so]



Does this product aim to decrease the greenhouse gas (GHG) emissions from the activities the product invests in?

Yes: *[if the financial product has a GHG emission reduction target that aims to reduce financed GHG emissions, tick the box(es) below as relevant, and disclose the below information in accordance with Article 14a of this Regulation. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 instead include information referred to in Article 42a(2).]*

by investing in assets (e.g. companies, projects or sovereigns) that are expected to lower the GHG emissions of their activities.

by engaging with investee companies to influence their business decisions to lower the GHG emissions.

by selling investments in assets (e.g. companies, projects or sovereigns) to instead buy investments with lower GHG emissions. In that way the product avoids providing capital to highly emitting assets.

other, please explain: _____
[any approach that is not already listed above]

Further details: *[Provide a brief narrative explanation about the way the target will be achieved and where relevant, explain how the strategies are combined]*

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 in this section]*

● **What is the greenhouse gas emission reduction target of the product?** *[Fill in the graph and table below, with information on the baseline financed GHG emissions, the final and where relevant intermediate targets and the corresponding years. The baseline financed GHG emissions and the targets shall be calculated and presented in accordance with Article 14a of this Regulation.]*



Greenhouse gas (GHG) emission reduction targets			
Baseline year	Percentage reduction in emissions compared with the baseline year (as a % of the GHG emissions)		
<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>
<i>[Financed GHG emissions weexpressed in tCO₂-eq/€M, not including GHG removals and</i>	<i>-[x]%</i>	<i>-[y]%</i>	<i>-[z]%</i>

[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 main cause of global warming. There are different ways in which investing can aim to reduce the emissions of companies.

[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].

<p><i>storage and carbon credits, investments excluding sovereign bonds]</i></p> <p><i>[VALUE] tonnes of CO₂ emissions per million of euro invested excluding sovereign bonds*</i></p>			
<p><i>[Sovereign bonds only, not including GHG removals and storage and carbon credits]</i></p> <p><i>[VALUE] tonnes of CO₂ emissions per million of euro invested in sovereign bonds</i></p>	-[x]%	-[y]%	-[z]%

*For the purpose of this table, 'sovereign bonds' consist of exposures to central governments, central banks and supranational issuers

Given scientific evidence, greenhouse gas emissions need to be urgently reduced to limit **climate warming to 1,5 °C**, in order to avoid the worst consequences of global warming such as intense heatwaves, sea-level rise or extreme ocean acidification.

A product's target is **compatible with limiting global warming to 1.5 °C**, when the expected emissions trajectories of the investments it makes are compatible with a world where global warming is limited to 1.5 °C above pre-industrial level.

- **Is the greenhouse gas emission reduction target of the product compatible with the objective to limit global warming to 1.5 °C?** [Tick the relevant box below. Or, where this was not assessed, replace this disclosure with the following text "The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C."]
 - Yes [Provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]
 - No, the target of this financial product is not compatible with limiting global warming to 1.5 °C. [Provide a short description of the results of that assessment and of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]

ANNEX IV

Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: [complete]

Legal entity identifier: [complete]

Reference period:
[add reference
period]

Periodic information: Is this product sustainable?

This product has limited sustainability characteristics, certain investments could be harmful for the environment or people. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product had during the reporting period and which ones it did not have.



[specify the environmental and/or social characteristic(s) promoted by the product and the percentage of the product's investments that promote those characteristics – 500-character limit with spaces]



[if a%>0 use text:] This product made [a, calculated according to Article 17a of this Regulation]% sustainable investments.

[if a%=0 use text:] This product did not make sustainable investments.

a %



[if b%>0 use text:] This product made [b, calculated according to Article 17 of this Regulation] % EU Taxonomy-aligned investments. The higher this number is, the more this product protected the environment.

[if b%=0 use text] This product did not make EU Taxonomy-aligned investments.

b %



This product *[insert as applicable: considered/ did not consider]* the most significant negative impacts of its investments on the environment and people.



*This product aims at decreasing the **greenhouse gas emissions** resulting from the activities in which it is invested. By year _____ [reporting year] the product emissions were reduced by ___% compared to year _____ [baseline year]. [Replace this statement with "This product does not have a greenhouse gas emissions reduction target." where the product does not have a GHG emissions reduction target]*

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the **Taxonomy-aligned investments**, ensuring that such investments protect the environment.

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the invested companies, for example to make it more eco-friendly.

The following pages provide more details about the way this product promoted sustainability characteristics. You might be able to access them by clicking on the boxes below. Additional information is also available here at [\[link\]](#).



What are the environmental and/or social characteristics of this product and how were they achieved? *[include the information referred to in Article 51]*

- **How did the product measure how each of the environmental or social characteristics were met?**
- **How did the environmental and social characteristics indicators perform compared to previous periods?** *[include for products where at least one previous periodic report was provided]*



Was a reference benchmark designated for the purpose of ensuring consistency with the environmental and/or social characteristics of the product and was this consistency monitored? *[include the information referred to in Article 57]*

- **How did the benchmark used differ from a relevant broad market index?**
- **How did this product perform compared with the reference benchmark and the broad market index in terms of sustainability?**



What were the largest investments of this product? *[include information referred to in Article 52]*

Largest investments	Sector	% Assets	Country
during: <i>[reference period]</i>			



What type of investments did this product make? *[include information referred to in Article 53]*

- **In which economic sectors were the investments made?** *[include information referred to in Article 54 of this Regulation]*

[include note for financial products where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product]

Reference benchmarks are indices that show how well a product performs compared to an index with similar objectives or features.

Indices are used to measure the average performance of a group of investments like stocks or bonds.

A broad market index provides a snapshot of how the overall market is performing and is typically composed of a diverse selection of stocks, bonds, or other financial assets, representing various sectors.



What was the proportion of sustainable investments? *[include this section only for financial products that made sustainable investments and include information referred to in Article 54a]*

This product made [a]% sustainable investments, measured by *[include information referred to in Article 54a]*

- **What were the objectives of the sustainable investments?**
- **How was significant harm to the environment and people avoided by the sustainable investments made?** *[include information referred to in Article 54a]*
 - *Link where detailed information is provided:*



What was the proportion of EU Taxonomy-aligned investments? *[include information referred to in Article 55]*

This product made [b]% Taxonomy-aligned investments measured by *[[turnover or capital expenditure or operational expenditure, in accordance with Article 15(3)(a) of this Regulation]* **from which [...]% in enabling and [...]%transitional activities.** *[include the information referred to in Article 55(b)(v)]*

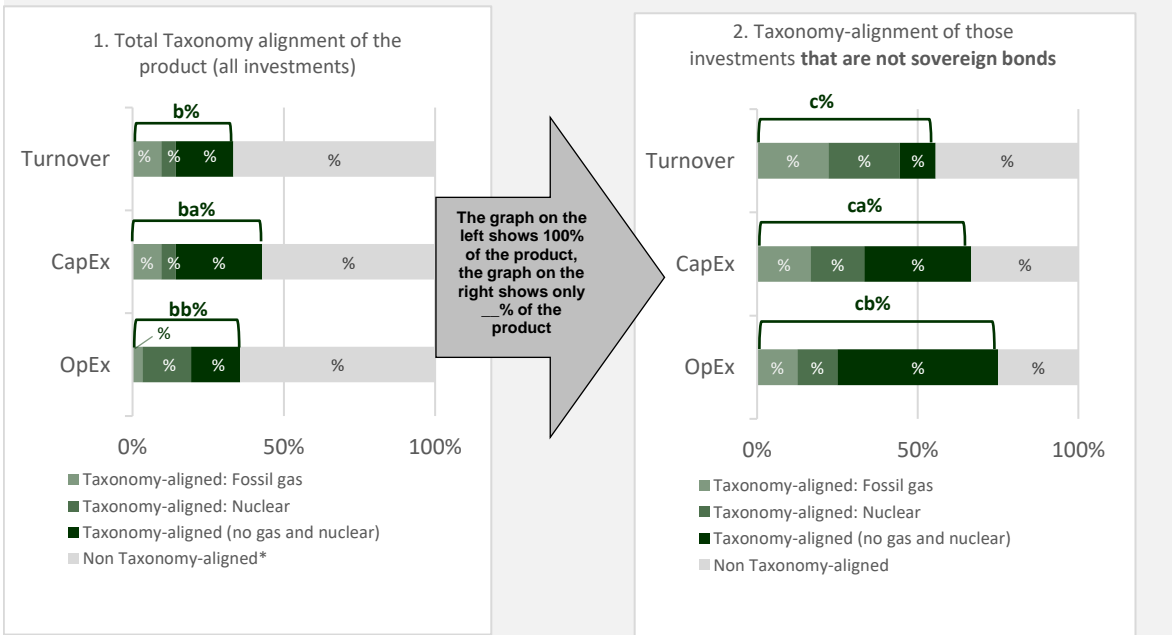
[include note for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852.

[Include box only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 that made EU Taxonomy-aligned investments. For financial products that made EU Taxonomy-aligned investments but did not invest in sovereign bonds, include only the left graph that shows "b" and remove the right graph that shows "c", to avoid redundancy]

*[only if the financial product makes investments in fossil gas and/or nuclear energy EU Taxonomy-aligned economic activities, include the figures for EU Taxonomy-aligned fossil gas and/or nuclear energy and the corresponding legend, as well as the following text in bold above the graphs: **Most fossil fuels are environmentally harmful, but a minority of fossil gas activities are classified under the EU Taxonomy as sustainable and eco-friendly. There are also some nuclear activities that are classified under the Taxonomy in that way. The graphs show whether the product invests in sustainable fossil gas and nuclear activities. For fossil gas and nuclear activities to be sustainable, they must meet strict criteria to demonstrate that they contribute to climate change mitigation or adaptation and not significantly harm any EU Taxonomy objective.**]*

Enabling activities are not sustainable in themselves, but make it possible for other activities to be environmentally sustainable.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



[include from the list below only the applied methodology for financial products referred to in Article 6 of Regulation (EU) 2020/852 and remove the non-applicable ones]

EU Taxonomy-aligned activities of companies are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities
- **capital expenditure** (CapEx) showing the green investments made by them, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting their green operational activities.

The two graphs above show in green the minimum percentage of EU Taxonomy-aligned investments:

- The first graph shows the alignment of the product's investments with the EU Taxonomy. The "Non Taxonomy-aligned*" part, presented in grey, might also include government bonds, for which it is difficult to assess whether the investments are Taxonomy aligned or not. 'Sovereign bonds' consist of exposures to central governments, central banks and supranational issuers.
- The second graph shows only part of the product covering only the alignment of the investments that are not sovereign bonds, because it is difficult to determine if those investments meet EU Taxonomy criteria.

[Include statement only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852]
The EU Taxonomy sets out a "do not significant harm" principle by which EU Taxonomy investments should not significantly harm the environment and is accompanied by specific EU criteria.

[Include box only for financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 that did not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy]

This product did not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy¹.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic

- **How did the percentage of EU Taxonomy-aligned investments compare with previous reference periods?** *[include where at least one previous periodic report was provided]*



Did this product consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?

[Include information referred to in Article 51(e). If the financial product considered principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considered principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available. This explanation shall include both a description of the adverse impacts and the procedures put in place to mitigate those impacts. If the financial product does not consider principal adverse impacts on sustainability factors where the financial market participant applies point (a) of Article 4(1) or Article 4(3) or (4) of the above mentioned Regulation, explain the reasons for doing so. If the financial market participant does not consider principal adverse impacts according to Article 4(1), point (b), of Regulation (EU) 2019/2088 indicate the reasons for doing so.]



Did this product decrease the greenhouse gas (GHG) emissions from the activities in which the product invested? *[include information referred to in Article 51a]*

Yes: *[if the financial product had a GHG emission reduction target that aims to reduce financed GHG emissions, tick the box(es) below as relevant and disclose the below information]*

by investing in assets (e.g. companies, projects or sovereigns) that lowered lower the GHG emissions of their activities;

by engaging with investee companies to influence their business decisions to lower the GHG emissions.

by selling investments in assets (e.g. companies, projects or sovereigns) to instead buy investments with lower GHG emissions. In that way the product avoided providing capital to highly emitting assets.

other, please explain: _____
[any approach that is not already listed above]

Further details: *[include information referred to in Article 51a(b) and (c)]*

No *[if the financial product did not have a GHG emission reduction target that aims to reduce financed GHG emissions in accordance with Article 14a(1) of this Regulation, do not include any subsequent question in this section]*

● **What greenhouse gas emissions reduction has been achieved to date and is it in line with the targets?** *[include question only for financial products that had a GHG emission reduction target. Include information referred to in Article 51a(b) and (c).]*



Greenhouse gas (GHG) emission reduction targets and progress monitoring			
Baseline year	Percentage reduction in emissions compared with the baseline year (as a % of the GHG emissions)		
<i>[Baseline year]</i>	<i>[Reporting year]</i>	<i>[Date of achievement of next intermediate and/or final target]</i>	<i>[Date of achievement of final target]</i>
<i>[Financed GHG emissions expressed in tCO₂-eq/€M, not including GHG removals and storage and carbon credits,</i>	<i>-[fill in with reduction achieved by the reporting year and, where a target had been set for the reporting year, disclose the target]</i>	<i>-[y]% [fill in with target to be achieved by the date]</i>	<i>-[z]% [fill in with target to be achieved by the date]</i>

[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 main cause of global warming. There are different ways in which investing can aim to reduce the emissions of companies.

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

Given scientific evidence, greenhouse gas emissions need to be urgently reduced to limit **climate warming to 1,5 °C**, in order to avoid the worst consequences of global warming such as intense heatwaves, sea-level rise or extreme ocean acidification.

A product's target is **compatible with limiting global warming to 1.5 °C**, when the expected emissions trajectories of the investments it makes are compatible with a world where global warming is limited to 1.5 °C.

<i>investments excluding sovereigns]</i> <i>[VALUE]</i> tonnes of CO ₂ emissions per million of euro invested excluding sovereign bonds*	<i>next to the progress achieved]%</i> .		
<i>[Sovereign bonds only, not including GHG removals and storage and carbon credits]</i> <i>[VALUE]</i> tonnes of CO ₂ emissions per million of euro invested in sovereign bonds	<i>-[fill in with reduction achieved by the reporting year and, where a target had been set for the reporting year, disclose the target next to the progress achieved]%</i>	<i>-[y]% [fill in with target to be achieved by the date]</i>	<i>-[z]% [fill in with target to be achieved by the date]</i>

Carbon credits purchased and cancelled during the reference period		
<i>[Reporting year]</i>	<i>[total volume of carbon credits cancelled]</i> tonnes of CO ₂ emissions	<i>[x]% [share of the carbon credits that have been certified by recognised quality standards for carbon credits]</i>

- **Is the final greenhouse gas emission reduction target of the product compatible with the objective to limit global warming to 1.5 °C?** *[Tick the relevant box below. Or, where this was not assessed, replace this disclosure with the following text "The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C.". Include the information referred to in Article 51a(d)]*
 - Yes *[Provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*
 - No, the target of this financial product is not compatible with limiting global warming to 1.5 °C. *[Provide a short description of the results of that assessment and of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*

ANNEX V

Template periodic disclosure for the financial products referred to in Article 9, paragraphs 1 to 4a, of Regulation (EU) 2019/2088 and Article 5, first paragraph, of Regulation (EU) 2020/852

Product name: [complete]

Legal entity identifier: [complete]

Reference period:
[add reference]

Periodic information: How sustainable is this product?

This product has sustainable investment as its objective. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product had during the reporting period and which ones it did not have.



[Specify the product's sustainable investment objective – 500-character limit with spaces]



This product made [a, calculated according to Article 17a of this Regulation]% sustainable investments.

a %



[if b%>0 use text:] This product made [b, calculated according to Article 17 of this Regulation] b % EU Taxonomy-aligned investments. The higher this number is, the more this product protected the environment.

b %

[if b%=0 use text] This product did not make EU Taxonomy-aligned



This product [insert as applicable: **considered/ did not consider**] the most significant negative impacts of its investments on the environment and people.



This product aims at decreasing the **greenhouse gas emissions** resulting from the activities in which it is invested. By year _____ [reporting year] the product emissions were reduced by ___% compared to year ____ [baseline year]". [Replace this statement with "This product does not have a greenhouse gas emissions reduction target" where the product does not have a GHG emissions reduction target]

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the EU **Taxonomy-aligned investments**, ensuring that such investments protect the environment.

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the invested companies, for example to make it more eco-friendly.

The following pages provide more details about how this product achieves its sustainable investment objective. You might be able to access them by clicking on the boxes above. Additional information is also available here at [link].



To what extent were the sustainable investment objectives of this product met? *[[provide the information referred to in Article 59 of this Regulation, list the sustainable investment objective[s] of this financial product, and describe how the sustainable investments contributed to those sustainable investment objectives and include the relevant information required under Art. 59 of this Regulation. For the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, indicate to which environmental objectives set out in Article 9 of Regulation (EU) 2020/852 to the investment underlying the financial product contributed to. For the financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate how the objective of a reduction in carbon emissions was aligned with the Paris Agreement. For financial product that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain their sustainable investment objective, describe how the use of those derivatives attains that sustainable investment objective]*

[[provide the information referred to in Article 59 of this Regulation, list the sustainable investment objective[s] of this financial product, and describe how the sustainable investments contributed to those sustainable investment objectives and include the relevant information required under Art. 59 of this Regulation. For the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, indicate to which environmental objectives set out in Article 9 of Regulation (EU) 2020/852 to the investment underlying the financial product contributed to. For the financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate how the objective of a reduction in carbon emissions was aligned with the Paris Agreement. For financial product that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain their sustainable investment objective, describe how the use of those derivatives attains that sustainable investment objective]

- **How did this product measure how the objectives of the sustainable investments were met?** *[Provide the information referred to in points (a) point (i) of Article 59 of this Regulation.]*
- **How did the environmental and social characteristics indicators perform compared to previous periods?** *[include for products where at least one previous periodic report was provide the information referred to in points (d) of Article 59 of this Regulation]*



Was a reference benchmark designated for the purpose of ensuring consistency with the sustainable investment objective of the product and how was this consistency monitored? *[include the information referred to in Article 63]*

- **How did the benchmark used differ from a relevant broad market index?**
- **How did this product perform compared with the reference benchmark and with the broad market index in terms of sustainability?**



What were the largest investments of this financial product? *[include information referred to in Article 60]*

[include note for financial products where an index has been designated as a reference benchmark for the purpose of attaining the sustainable investment objective of the financial product]

Reference benchmarks are indices that show how well a product performs compared to an index with similar objectives or features.

Indices are used to measure the average performance of a group of investments like stocks or bonds.

A broad market index provides a snapshot of how the overall market is performing and is typically composed of a diverse selection of stocks, bonds, or other financial assets, representing various sectors.

Largest investments

Sector

% Assets

Country

during:[*reference period*]



What type of investments did this product make and what was the proportion of sustainable investments? [*include information referred to in Article Article 61 of this Regulation*]

This product made [q]% sustainable investments, measured by [*include information referred to in Article 54, first paragraph, point a*]

- **What were the objectives of the sustainable investments?** [*include information referred to in Article 61(a)*]
- **How was significant harm to the environment and people avoided within the sustainable investments made?** [*include information referred to in Article 61(c)*]
 - *Link where detailed information is provided:*
- **In which economic sectors were the investments made?** [*include information referred to in Article Article 61(c) of this Regulation*]
- **How did the use of derivatives contribute to the sustainable investment objective?** [*for financial product that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain their sustainable investment objective, describe how the use of those derivatives attains that sustainable investment objective*]



What was the proportion of EU Taxonomy-aligned investments? [*include information referred to in Article 62*]

This product made [r]% EU Taxonomy-aligned investments measured by [*indicate which indicator is used, turnover or capital expenditure or operational expenditure, in accordance with Article 15(3)(a) of this Regulation*] **from which [...] % in enabling and [...] % transitional activities.** [*include the information referred to in Article 62(b)(v)*]

[include note for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852.

Enabling activities are not sustainable in themselves, but make it possible for other activities to be environmentally sustainable.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

[include from the list below only the applied methodology for financial products referred to in Article 5 of Regulation (EU) 2020/852 and remove the non-applicable ones

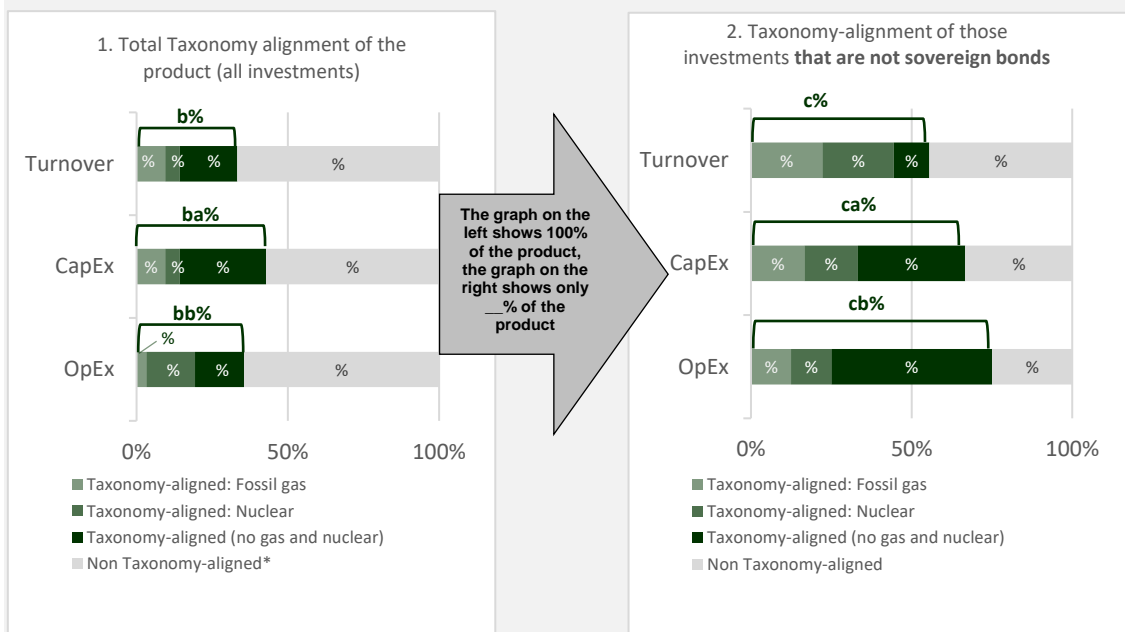
EU Taxonomy-aligned activities of companies are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities
- **capital expenditure** (CapEx) showing the green investments made by them, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting their green operational activities.

[Include box only for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 that make EU Taxonomy aligned investments. Do not include this box for products with 0% EU Taxonomy-alignment. For financial products that make Taxonomy-aligned investments where the two graphs would show identical data, include only the left graph that shows "b" and remove the right graph that shows "c" to avoid redundancy, and do not include text below]

The two graphs below show in green the percentage of EU Taxonomy-aligned investments. The first graph shows the alignment of the product's investments with the EU Taxonomy. The second graph shows only part of the product covering only the alignment of the investments that are not sovereign bonds*, because it is not possible to determine if sovereign bonds meet EU Taxonomy criteria.

[only if the financial product makes investments in fossil gas and/or nuclear energy EU Taxonomy-aligned economic activities, include the figures for EU Taxonomy-aligned fossil gas and/or nuclear energy and the corresponding legend, as well as the following text in bold above the graphs: **Most fossil fuels are environmentally harmful, but a minority of fossil gas activities are classified under the EU Taxonomy as sustainable and eco-friendly. There are also some nuclear activities that are classified under the Taxonomy in that way. The graphs show whether the product invests in sustainable fossil gas and nuclear activities. For fossil gas and nuclear activities to be sustainable, they must meet strict criteria to demonstrate that they contribute to climate change mitigation or adaptation and not significantly harm any EU Taxonomy objective.**]



The two graphs above show in green the minimum percentage of EU Taxonomy-aligned investments:

- The first graph shows the alignment of the product's investments with the EU Taxonomy. The "Non Taxonomy-aligned*" part, presented in grey, might also include government bonds, for which it is difficult to assess whether the investments are Taxonomy aligned or not. 'Sovereign bonds' consist of exposures to central governments, central banks and supranational issuers.
- The second graph shows only part of the product covering only the alignment of the investments that are not sovereign bonds, because it is difficult to determine if those investments meet EU Taxonomy criteria.

[Include the following box only for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 that did not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy]

This product did not invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy³.

- **How did the percentage of EU Taxonomy-aligned investments compare with previous reference periods?** *[include where at least one previous periodic report was provided]*



What actions have been taken to attain the sustainable investment objective during the reference period? *[include the information referred to in Article 62(a) of this Regulation]*



Did this product consider the most significant negative impacts of its investments on the environment and people (principal adverse impacts)?

[Include information referred to in Article 59(f). If the financial product considered principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considered principal adverse impacts on sustainability factors. . Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available. This explanation shall include both a description of the adverse impacts and the procedures put in place to mitigate those impacts. If the financial product does not consider principal adverse impacts on sustainability factors where the financial market participant applies point (a) of Article 4(1) or Article 4(3) or (4) of the above mentioned Regulation, explain the reasons for doing so. If the financial market participant does not consider principal adverse impacts according to Article 4(1), point (b), of Regulation (EU) 2019/2088 indicate the reasons for doing so.]

[include notes only for financial products that consider PAI]

Principal adverse impacts are the most significant negative impacts on the environment and people including employee matters, human rights, corruption and bribery.



Did this product decrease the greenhouse gas (GHG) emissions from the activities in which the product invested? *[include information referred to in Article 59a. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088 instead include information referred to in Article 59a(2).]*

[include only for financial products that had a GHG emission reduction target] **Information on progress**

towards additional targets will be available in the periodic reports *[add link to periodic reports where available]* **and additional details are available here** *[add link to website].*

³Most fossil fuels are environmentally harmful, but a minority of fossil gas and nuclear activities are classified under the EU Taxonomy as sustainable and eco-friendly. For fossil gas and nuclear activities to be sustainable, they must contribute to climate change mitigation and not significantly harm any EU Taxonomy objective.

Yes: *[if the financial product had a GHG emission reduction that aims to reduce financed GHG emissions, tick the box(es) below as relevant and disclose the below information in accordance with Article 14a(1) of this Regulation]*

by investing in assets (e.g. companies, projects or sovereigns) that lowered lower the GHG emissions of their activities;

by engaging with investee companies to influence their business decisions to lower the GHG emissions.

by selling investments in assets (e.g. companies, projects or sovereigns) to instead buy investments with lower GHG emissions. In that way the product avoided providing capital to highly emitting assets.

other, please explain: _____
[any approach that is not already listed above]

Further details: *[include information referred to in Article 51a (b) and (c)]*

No *[if the financial product did not have a GHG emission reduction target that aims to reduce financed GHG emissions, do not include any subsequent question in this section]*

What greenhouse gas emissions reduction has been achieved to date and is it in line with the targets? *[include question only for financial products that had a GHG emission reduction target. Include information referred to in Article 59(b) and (c).]*



[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 main cause of global warming. There are different ways in which investing can aim to reduce the emissions of companies.

Greenhouse gas (GHG) emission reduction targets and progress monitoring			
Baseline year	Percentage reduction in emissions compared with the baseline year (as a % of the GHG emissions)		
<i>[Baseline year]</i>	<i>[Reporting year]</i>	<i>[Date of achievement of next intermediate and/or final target]</i>	<i>[Date of achievement of final target]</i>
<i>[Financed GHG emissions expressed in tCO₂-eq/€M, not including GHG removals and storage and carbon credits, investments excluding sovereign bonds]</i> [VALUE] tonnes of CO ₂ emissions per million of euro invested excluding sovereign bonds*	<i>-[fill in with reduction achieved by the reporting year and, where a target had been set for the reporting year, disclose the target next to the progress achieved]%</i>	<i>-[y]% [fill in with target to be achieved by the date]</i>	<i>-[z]% [fill in with target to be achieved by the date]</i>

<i>[Sovereign bonds only, not including GHG removals and storage and carbon credits] [VALUE] tonnes of CO₂ emissions per million of euro invested in sovereign bonds</i>	<i>-[fill in with reduction achieved by the reporting year and, where a target had been set for the reporting year, disclose the target next to the progress achieved]%</i>	<i>-[y]% [fill in with target to be achieved by the date]</i>	<i>-[z]% [fill in with target to be achieved by the date]</i>
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**For the purpose of this table, 'sovereign bonds' consist of exposures to central governments, central banks and supranational issuers*

Carbon credits are a way for investee companies to contribute to emissions reduction or removals outside their value chain. When they purchase carbon credits, companies provide funding to emissions reduction or removal projects.

Carbon credits purchased and cancelled during the reference period		
<i>[Reporting year]</i>	<i>[total volume of carbon credits cancelled] tonnes of CO₂ emissions</i>	<i>[x]% [share of the carbon credits]</i>

- **Is the final greenhouse gas emission reduction target of the product compatible with the objective to limit global warming to 1.5 °C?** *[Tick the relevant box below. Or, where this was not assessed, replace this disclosure with the following text "The degree of alignment of this financial product with global objectives for climate change mitigation was not assessed. Therefore, the target of this financial product may not be compatible with the objective to limit global warming to 1.5 °C.". Include the information referred to in Article 59a(d)]*

Yes *[Provide a short description of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*

No, the target of this financial product is not compatible with limiting global warming to 1.5 °C. *[Provide a short description of the results of that assessment and of the methodology used to conduct the assessment and a hyperlink to a more detailed description of that methodology, including underlying assumptions and scenarios, data sources.]*

Given scientific evidence, greenhouse gas emissions need to be urgently reduced to limit **climate warming to 1,5 °C**, in order to avoid the worst consequences of global warming such as intense heatwaves, sea-level rise or extreme ocean acidification.

A product's target is **compatible with limiting global warming to 1.5 °C**, when the expected emissions trajectories of the investments it makes are compatible with a world where global warming is limited to 1.5 °C.

ANNEX VI

Template pre-contractual and website disclosure for financial products with underlying investment options that promote environmental and/or social characteristics

Product name: [complete]

Legal entity identifier: [complete]

Is this product sustainable?

This product has limited sustainability characteristics, certain investments could be harmful for the environment or people. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product had during the reporting period and which ones it did not have.

___ out of ___ options offered in this product promote environmental and/or social characteristics, which represents ___% of all the options offered



___ out of ___ options offered in this product have a sustainable investment objective, , which represents ___% of all the options offered

[list the investment options referred to in paragraph 3 of article 20, presented in accordance with the categories of investment options referred to in points (a) and (b) of that paragraph, and indicate the proportions of investment options within each of the categories referred to in paragraph 3 of article 20, points (a) and (b), relative to the total number of investment options offered by the financial product. Where the derogation provided for in Art.20(5) is applied, include the following sentence: "A list of all investment options with sustainability characteristics is available here: [add link]" Where applicable, add: "The disclosed information on sustainability does not include [list the instruments referred to in article 20(6) that are applicable]. That information is provided separately."

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.



From those options that promote environmental and/or social characteristics or have a sustainable investment objective, ___ [fill in with number of options] commit to make sustainable investments. The range of minimum sustainable investments of those options goes **from A1 to A2** [replace A1 and A2 with minimum and maximum values of minimum share of committed sustainable investment of the options offered].

___ options:

From A1 to A2 %

[or if no option makes sustainable investments: This product does not commit to making sustainable investments]

The EU has developed strict criteria only for the **EU Taxonomy-aligned investments**, ensuring that such investments protect the environment.



From those options that promote environmental and/or social characteristics or have a sustainable investment objective ___ [fill in with number of options] commit to make EU Taxonomy-aligned investments. The range of minimum EU Taxonomy-aligned investments of those options goes **from B1 to B2** [replace B1 and B2 with minimum and maximum values of minimum share of Taxonomy alignment of the options offered]. The higher this number is, the more this product protects the environment.

___ options:

From B1 to B2 %

[or if no option makes Taxonomy-aligned investments: This product does not commit to making EU Taxonomy-aligned investments.]

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the investee companies, for example to make them more eco-



___ Options of this product consider the most significant negative impacts of their investments on the environment and people. [fill in the number of options that consider principal] or

[where relevant, replace with: This product does not commit to consider the most significant negative impacts of their investments on the environment and people.]



___ Options of this product that aim to decrease the greenhouse gas emissions that results from the activities the product will invest in. [fill in the number of options that have a decarbonisation target or objective].

[Replace this statement with "This product does not have a green house gas emissions reduction target" where the product does not have a GHG emissions reduction target]

Template pre-contractual and website disclosure for financial products with underlying investment options that all have sustainable investment as their objective

Product name: [complete]

Legal entity identifier: [complete]

How sustainable is this product?

This product has sustainable investment as its objective. On this page, you can read about the key sustainability attributes that financial products can have, and assess which of them this product has and which ones it does not have.



All the options offered in this product have a sustainable investment objective. *[Where the derogation provided for in Art.21(5) is applied, include the following sentence: “A list of all investment options is available here: [add link]”. Where applicable, add: “The disclosed information on sustainability does not include [list the instruments referred to in article 21(6) that are applicable]. That information is provided separately.”*



The range of minimum sustainable investments of the options offered goes **from A1 to A2** *[replace A1 and A2 with minimum and maximum values of minimum share of committed sustainable investment of the options offered].*

— options:
From **A1** to **A2** %



___ *[fill in with number of options]* commit to make EU Taxonomy-aligned investments. The range of minimum EU Taxonomy-aligned investments of those options goes **from B1 to B2** *[replace B1 and B2 with minimum and maximum values of minimum share of Taxonomy-alignment of the options offered]. The higher this number is, the more this product protects the environment.*

— options:
From **B1** to **B2** %

[or if no option makes Taxonomy-aligned investments: This product does



___ Options of this product consider the most significant negative impacts of their investments on the environment and people. *[fill in the number of options that consider principal] or*

[where relevant, replace with: This product does not commit to consider the most significant negative impacts of their investments on the environment and people.]



___ Options of this product that aim to decrease the greenhouse gas emissions that results from the activities the product will invest in. *[fill in the number of options that have a decarbonisation target or objective].*

[Replace this statement with “This product does not have a green house gas emissions reduction target” where the product does not have a GHG emissions reduction target]

Sustainable investments contribute to environmental or social objectives and do not cause significant harm to environment and people. Taxonomy-aligned investments are a type of sustainable investments.

The EU has developed strict criteria only for the **EU Taxonomy-aligned investments, ensuring that such investments protect the environment.**

When a product considers the **most significant negative impacts**, it means that for example it could seek to reduce the negative impact of the investee companies, for example to make them more eco-friendly.

4. Impact assessment and feedback statement

4.1 Impact assessment

This section contains an assessment of impacts of the proposals in this Final Report.

According to the ESA Regulations, the ESAs conduct analysis of costs and benefits when drafting RTS. The analysis of costs and benefits is undertaken according to an Impact Assessments methodology assessing pros and cons of various options. The draft RTS and its impact assessment have been subject to public consultation.

Review of the RTS adopted by the Commission as SFDR Delegated Regulation on 6 April 2022

1. Problem definition

The area of sustainable finance disclosures is a fast and revolving area, and to reflect the increased demand for high quality sustainability-related information the Commission has deemed necessary to invite the ESAs to review the RTS submitted by the ESAs on 4 February 2021 and on 22 October 2021 and adopted by the Commission as SFDR Delegated Regulation on 6 April 2022.

To meet the request, the ESAs have proposed the following changes:

- Extension of the list of universal social indicators for principal adverse impacts (PAI);
- Disclosure of GHG emissions reduction targets, including consideration of whether the financial products making taxonomy-aligned investments (referred to in Articles 5-6 of the Taxonomy Regulation) sufficiently address the disclosure information on taxonomy-aligned economic activities.

In addition to what was explicitly requested by the Commission, the ESAs have considered further changes to the SFDR Delegated Regulation based on experience shared by stakeholders and National Competent Authorities. Those proposed changes relate to:

- Technical revision to the PAI indicators;
- DNSH disclosure design options;
- Simplification of the templates; and
- Other technical changes, including the definition of denominator for PAI calculations, MOP provisions extension and the harmonisation of sustainable investment calculations.

2. Objectives

The amendments proposed in this Final Report are designed to enhance the quality of the sustainability-related information disclosed under the SFDR Delegated Regulation for more transparent and comparable disclosures.

Policy options

Policy Issue 1: Extension of the list of new universal social principal adverse impact (PAI) indicators

Option 1.1: Maintaining the status quo

This option consists of maintaining the social indicators already developed under the ESAs' approval. The current social indicators would be deemed sufficient to ensure comprehensive transparency about the negative consequences of investment decisions on social factors.

Option 1.2: The development of new social indicators based on existing corporate reporting

Under this option, new PAI indicators related to social factors would be proposed that are consistent with current corporate reporting under the CSRD.

Option 1.3: The development of a broader set of new social PAI indicators

The ESAs could develop additional social PAI indicators outside the scope of corporate reporting (ESRS) to ensure a comprehensive enclosure of social adverse impacts.

Policy Issue 1 - Option 1.1: Status Quo

Pros	Cons
FMPs would benefit from continuity in the disclosure making process of the existing PAI indicators.	The ESAs would fail to meet the Commission's request in the mandate to expand on the list of social indicators.
Allows for a longer time period to consider whether the original SFDR indicators captured accordingly social adverse impacts.	The current mandatory social indicators are considered limited in number and in the extent of their ability to provide a comprehensive coverage for PAI purposes.
	Maintaining the <i>status quo</i> would not further the overarching SFDR goal of enhancing transparency about the negative consequences of investment decisions on social factors.

Policy Issue 1 – Option 1.2: The development of new social indicators based on existing corporate reporting (ESRS) (preferred option)

Pros	Cons
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<p>FMPs would benefit from less burdensome disclosure requirements as they could rely on ESRS data.</p>	<p>The existing corporate reporting framework may fail to include sufficient number of social indicators.</p>
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Ensures consistency with existing policy provisions.

Mitigates the risk of missing data for PAI indicators.

Policy Issue 1 – Option 1.3: The development of a broader set of new social PAI indicators.

Pros	Cons
<p>Opportunity to include novel social indicators not previously included in the current corporate reporting framework.</p>	<p>Considerably enhances the disclosure burden placed on FMPs.</p>
	<p>Discrepancy between SFDR and ESRS leads to data gap for SFDR disclosures.</p>
	<p>If ESRS are later changed to conform to SFDR PAI requirements, would increase reporting burden on real economy.</p>

Policy Issue 2: Definition of Denominator

Option 2.1: Maintaining the status quo

The definition of the denominator for the purposes of PAI disclosure has raised issues for the ESAs as FMPs provided split opinions on whether the definition should include “all investments” or “relevant investments”. Under this option, the underlying methodology would be maintained while awaiting more consensus provided by a Level 1 review.

Option 2.2: Change to relevant investment

This option consists of changing the underlying methodology for all PAI indicators so that the denominator is limited to investments in “relevant” entities.

Option 2.3: Adopt a mixed approach

Change to only certain indicators (through amending the denominator in the formulae) to be calculated on the basis of “relevant investments” in the denominator.

Policy Issue 2 – Option 2.1: Maintaining the status quo (preferred option)

Pros	Cons
A cautious approach may be warranted considering the split stakeholder feedback.	Potentially losing an opportunity to review the Level 2 framework considering the forthcoming Level 1 focus. Should the opinion solidify that a “relevant investments” approach was better all along, the opportunity to change this would be lost for the upcoming years.
In light of the anticipated Level 1 SFDR review, maintaining the framework is an optimal decision.	An approach focusing on all investments entrenches the PAI-related disparity between FMPs depending on what kind of investments they focus on. An FMP with high sovereign investments will have comparatively “lower” investee company PAIs and vice versa.
Maintaining the status quo enables the possibility for a more thorough assessment of the benefits and drawbacks.	
Avoiding major changes, which would burden the FMPs ahead of the anticipated Level 1 review of the SFDR.	

Policy Issue 2 - Option 2.2: Change to relevant investment

Pros	Cons
A small majority of those who took a position in the ESAs’ public consultation supported changing the approach to be based on “relevant investments”.	Lack of consensus among stakeholders, thus enforcing this change would trigger burdensome requirements for unwilling FMPs to change the basis of their PAI calculations.

Would provide a more comparable PAI assessment between different types of FMPs.	Uncertainty and lack of evidence about the extent to which this option represents the suitable approach.
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Could be considered to go against agnostic “investment decisions” language of Article 4(1)(a) SFDR which does not differentiate impacts by what types of investment decisions are made.

Policy Issue 2 - Option 2.3: Adopt a mixed approach

Pros

Cons

Offers a more targeted change in the framework which would potentially improve the accuracy of PAI assessments.

Difficult to determine which indicators would be relevant to be considered under a mixed approach and therefore the risk of unintended consequences is higher.

Potential benefit for FMPs who favoured relevant investments, while maintaining the comprehensive approach overall.

Further burdening FMPs with changes in the PAI calculations ahead of an anticipated Level 1 SFDR review.

Policy Issue 3 – DNSH disclosure design options

Option 3.1: Maintaining the status quo

This option would mean that the current disclosures in the SFDR Delegated Regulation, which consist of a simple instruction to show “how the PAI indicators have been taken into account” would remain unchanged.

Option 3.2: Disclosure of PAI thresholds or criteria, if used

Under this option, FMPs making DNSH disclosures related to their sustainable investments would be asked to show what thresholds or criteria they use, if they are using them to determine that the sustainable investments respect the DNSH principle. In other words, the disclosure obligation would only apply if the FMP used thresholds and criteria.

Option 3.3: Mandatory use and disclosure of PAI thresholds for DNSH

Under this option FMPs would not only be required to disclose the PAI-related DNSH thresholds or criteria, they would be explicitly required to develop them also.

Policy Issue 3 – Option 3.1: Maintaining the status quo

Pros	Cons
Eliminates market disruption and significant implementation costs by FMPs.	Wide degree of discretion given to FMPs to design the DNSH methodology.
FMPs would benefit from no application burden.	Higher likelihood of greenwashing under the “sustainable investments” definition in Article 2(17) SFDR.
FMPs could benefit from some flexibility in tailoring DNSH practices to the specificities of products’ requirements.	Reduced comparability among “sustainable investments” as applied criteria may diverge from one FMP to another.

Policy Issue 3 – Option 3.2: Disclosure of PAI thresholds, if used

Pros	Cons
Reduce the wide FMP discretion in defining what constitutes significant harm and improve disclosure levels.	Additional transparency alone is not expected to prevent the risk the DNSH test is applied by FMPs in a way that is not considered to prevent harmful investments being considered sustainable.
PAI threshold disclosures by FMPs would allow for better transparency and comparability between financial products.	This concept still allows for full FMP discretion on the methodology used to assess DNSH compliance, thus not ensuring full comparability.

Policy Issue 3 – Option 3.3: Mandatory use and disclosure of PAI thresholds or criteria for DNSH (preferred option)

Pros	Cons
Enhanced degree of disclosure on the FMPs DNSH methodology.	Increases the disclosure burden and implementation costs for FMPs.
Allows FMPs to continue to design their own PAI DNSH-related thresholds tailored to their needs.	Does not eliminate discrepancies since FMPs still have the ability design their own thresholds.

Mandatory use and disclosure improve comparability among financial products.

Policy Issue 4 – GHG emissions reduction targets disclosures

Option 4.1: Yes/No disclosure on templates followed by voluntary disclosure

This option consists of minimal disclosure of GHG emissions reduction (or decarbonisation) targets. It would only require FMPs to identify whether they have or do not have GHG emissions reduction target in a template.

Option 4.2: Simple disclosure on templates with details on website

This option requires the inclusion of some basic information of target intervals in the templates about the existence of a target, and, if so, what kind of target the financial product had and how it intended to meet it. Additionally, more methodological details would be required to be made available on the website.

Option 4.3: Mandatory GHG emissions reduction targets disclosure

Under this option, significant details about target removals and carbon credits would be mandatory. This option would require all financial products to disclose their level of success in meeting a GHG emissions reduction target, so that if financial products did not have a target they would have to create one.

Policy Issue 4 – Option 4.1: Yes/No disclosure on templates followed by voluntary disclosure

Pros	Cons
Ensures comprehensibility and easy access to basic indication on GHG emissions reduction targets.	Reduced level of information provided on the basis of a simple question.
No additional disclosure needed for financial products without GHG emissions reduction targets.	Lacking an explanation on how GHG emissions reduction targets are achieved if the financial product has a target.
	Unlikely to satisfy the Commission’s mandate to the ESAs.

Accurate comparability of financial products would not be achievable under this framework.

Policy Issue 4 – Option 4.2: Simple disclosure on templates with details on website (preferred option)

Pros

Cons

Increased level of disclosure provided by the FMPs which enables a more accurate comparison and transparency of financial products.

Limited information on GHG emissions reduction available on templates.

Understandable and straightforward indication for end-investor of pursuit of any GHG emissions reduction targets.

Investors may not read the detailed information available on websites.

Availability of additional, detailed information on GHG emissions reduction targets on website for greater transparency and rigour.

GHG emissions reduction target disclosure would not create an additional burden for products without such targets.

Policy Issue 4 – Option 4.3: Mandatory GHG emissions reduction targets disclosure

Pros

Cons

Ensure standardisation of GHG emissions reduction disclosures among FMPs.

Unlikely to be legally possible to design disclosures having a target mandatory for all Article 8 and 9 SFDR financial products.

Highly informative, qualitative level of disclosures supporting informed investment decisions.

Significant burden in terms of time and cost for FMPs making available sustainable financial products.

Risk of information overload for end investors, thus not justifying the potential added value.

Policy Issue 5 – Template simplification

Option 5.1: Status quo

Under this option, The ESAs would not make any changes to the presentation and language of information in the SFDR financial product templates.

Option 5.2: Dashboard summaries with no change to the language

Under this option, the ESAs would separate the dashboards referred to in Option 5.3 from the templates entirely to make them additional to the templates.

Option 5.3: Dashboard summaries replacing tick-box and language simplification

The ESAs are considering replacing the current tick-boxes in the financial product templates with dashboards summarising the key information in the templates, especially the three key commitments in the pre-contractual templates: (1) investments used to meet the characteristics or sustainable objectives of the financial product, (2) sustainable investments and (3) taxonomy aligned investments.

Policy Issue 5 - Option 5.1: Status quo

Pros	Cons
Ensure continuity and comparability with current reporting templates.	The excessive length of templates and complexity of the information presented would remain unaddressed. Opportunity to address proven shortcomings in templates would be lost for many years.
Would allow more time to consider the benefits and drawbacks of the current SFDR financial product templates, bearing in mind the forthcoming Level 1 review.	During consumer testing of the original templates the ESAs found that consumers experienced information overload, which would remain unaddressed under this option.
	Investor and adviser confusion regarding the actual sustainability ambition of financial products could continue to contribute to greenwashing risk.

Policy Issue 5 - Option 5.2: Dashboard summaries with no change to the language

Pros	Cons
Enhanced visibility of simplified summary (dashboard).	Risk that investors do not read the full information provided in the templates.
	No simplification of current disclosure templates.

Policy Issue 5 - Option 5.3: Dashboard summaries replacing tick-box and language simplification (preferred option)

Pros	Cons
Enhance the comprehensibility of the information to retail investors by providing key information in a more easily accessible format.	Change of the templates currently in use by FMPs could increase reporting burden.
Possibility to verify the key information with the detailed information provided in the template in a more simplified, comprehensible way.	
Ensure simplification of current templates and language to reduce information overload.	

Policy Issue 6 – Expansion of MOPs provisions

Option 6.1: Status quo

Option 6.2: New disclosures on the website and cross referencing in periodic disclosures

Under this option, financial products with investment options referred to in Article 8(1) or 9(1), (2) and (3) SFDR should disclose the following items: (1) a list of the investment options that qualify the financial product as a financial product, (2) a summary of the underlying investment options that qualify the financial product as a financial product referred to in one of the above articles and (3) additional details should be disclosed at the underlying investment option level. Where relevant, the information can be provided by cross-references to the specific section on the website of the specific

underlying investment option to the relevant Annex containing the SFDR disclosure or to the stand-alone SFDR disclosure, where it is provided separately.

Option 6.3: New website disclosures, cross referencing periodic disclosures and extensions to options that are not financial products

This option includes the measures mentioned in Option 6.2 alongside the requirement to include templates for options that are not SFDR products, allowing cross referencing periodic disclosures and extending the requirement to show summaries of what the product does for options underneath the MOP.

Policy Issue 6 - Option 6.1: Status quo

Pros	Cons
FMPs would benefit from continuity in the current disclosure framework for multi-option products.	Incomplete level of information provided to investors in MOPs.
FMPs would not be additionally burdened by further disclosure requirements for multi-option products.	

Policy Issue 6 - Option 6.2: New disclosures on the website and cross referencing in periodic disclosures

Pros	Cons
Increased clarity and transparency disclosed about the financial product.	Level of disclosure could still be considered insufficient as MOPs may offer options outside the scope of financial product disclosures.
Better comparability available to end investors as a result.	

Policy Issue 6 - Option 6.3: New website disclosures, cross referencing periodic disclosures and extensions to options that are not financial products (preferred option)

Cons

Pros

Qualitative level of disclosures supporting informed investment decision.	Significantly higher burden of disclosure and implementation costs for FMPs.
Increased comparability for MOP investors who would have a fuller picture of the sustainability features of more options.	The legal basis for the extension of disclosures to financial instruments that are not financial products defined in Article 2(12) SFDR may be questionable.
Would increase the level playing field between MOPs offering options that are not financial products compared to those that only offer options that are financial products.	

Policy Issue 7 - Harmonised calculation of sustainable investment.

Currently there is no specification on the calculation of sustainable investment. FMPs have complete discretion about what to include in this calculation (i.e. cash, etc.). There is a need for a harmonised calculation on sustainable investments.

Option 7.1: Status quo

Option 7.2: Harmonised calculations that can be either pass-fail or activity based

Under this option, “activity-based” means that only the turnover from sustainable activities of a company is counted proportionally as a sustainable investment. “Pass-fail” signifies classifying 100% of an investment as sustainable investment in the sense of the SFDR, if only a certain threshold of the turnover comes from sustainable activities or is linked to sustainability goals. There are considerable differences in results, depending on where the relevant threshold is set. Given that the Commission’s Q&A from April 2023 confirmed that sustainable investments can be calculated at activity or company level, there would have be two calculations: (1) covering activity based calculations on the basis of the current Article 17 SFDR Delegated Regulation calculation for taxonomy-aligned investments, and (2) a pass-fail calculation but likely without any thresholds which would be difficult to mandate at Level 2 given the Commission’s Q&A.

Option 7.3: Limit sustainable investment only to activity-based calculations

This option implies that only the turnover from sustainable activities of a company is counted proportionally as sustainable investment. Sustainable investment calculations would be performed in accordance with Article 17 SFDR Delegated Regulation.

Policy Issue 7 - Option 7.1: Status quo

Pros	Cons
Eliminates market disruption and removes significant implementation costs by FMPs associated with the introduction of new requirements.	Renders accurate financial product comparability unattainable for end investors.
Ensures continuity and comparability with current reporting templates.	Does not address the current vagueness of the sustainable investments and the need for specific calculation rules.
	There is a lack of foreseeable future opportunities to provide legal certainty in technical standards on how to calculate sustainable investments

Policy Issue 7 - Option 7.2: Harmonised calculations that can be either pass/fail or activity based (preferred option)

Pros	Cons
Eliminates the current wide discretion level that FMPs have to calculate sustainable investments.	Does not fully provide the introduction of minimum criteria or an alignment to the sustainable investment definition to the EU Taxonomy.
Ensures increased comparability of financial products and allows advisers to recommend financial product that better match investors sustainability preferences.	
Addresses the need for more specific calculation rules demanded by FMPs.	

Policy Issue 7 – Option 7.3: Limit sustainable investment only to activity-based calculations

Pros	Cons
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The consideration of sustainable investments contributing to environmental or social objectives would be placed on a similar analytical framework to the Taxonomy Regulation.

Very questionable approach under Level 1 and SFDR Q&A II.1, which indicate that sustainable investments are not limited to an activity-based analysis only.

Provides maximum comparability between financial products that make sustainable investments.

Could contribute to the current confusion in the sustainable investment framework.

Does not fully provide the introduction of a minimum criteria.

Policy Issue 8 – machine readability of SFDR disclosures

Option 8.1: Status quo

Under this option, the format of the disclosures would stay as it is currently in the SFDR Delegated Regulation, i.e. “searchable electronic format”.

Option 8.2: iXBRL for all disclosures

Under this option, pre-contractual and periodic template and website disclosures will be prepared in inline XBRL format.

Option 8.3: mandating a machine-readable format for all disclosures without specifying a particular format

Under this option, period disclosures and template disclosures will be prepared in a machine-readable format but the Joint Committee will leave flexibility as to which specific format to use.

Policy Issue 8 – Option 8.1: status quo

Pros

Cons

Removes any implementation costs by FMPs associated with the introduction of new requirements.

Renders large-scale analysis and comparability of disclosures burdensome and heavily manual.

Suboptimal for the purpose of ESAP since disclosures would be made available in a format which is not easily consumable in large-scale analysis

Increases costs for investors since it renders it more complex to reconcile CSRD disclosures and SFDR disclosures due to the different format used.

Policy issue 8 – Option 8.2: iXBRL for all disclosures

Pros	Cons
Significant benefit for users of SFDR disclosures as they become easier to analyse using automated tools	Some initial compliance cost
Significant benefit for ESAP as SFDR disclosures can be made accessible and usable on a large scale into the ESAP framework under iXBRL format	
Consistency in format with CSRD disclosures, leading to enhance ease of use across the sustainability reporting value chain	

Policy issue 8 – Option 8.3: mandating a machine-readable format for all disclosures without specifying a particular format

Pros	Cons
Easier analysis of SFDR disclosures using machine tools	Similar compliance cost to mandated iXBRL but without benefit of harmonised format
	Divergence in machine readability format could lead to additional costs and burdens
	Machine-readable formats other than iXBRL may not be also human readable, leading to data quality issues and accessibility issues for retail investors

3. Analysis of Impact

The ESAs' approach in terms of extension of the list of universal social indicators for principal adverse impacts is to rely primarily on the Delegated Act on the European Sustainability Reporting Standards (ESRS) published by the European Commission in August 2023 under the CSRD. The ESRS were chosen as they will be applied by all companies under the scope of CSRD, thus reducing the burden of disclosure and ensuring coherence between legislation. As the expansion of the social indicators is part of the mandate by the Commission to the ESAs, the ESAs did not consider sticking to the status quo of the current list of social indicators. The ESAs agreed with the Commission that the current list of social indicators is insufficient and considered how to align the list of social indicators to those in the draft ESRS, with the intention to facilitate the reporting and ensuring consistency throughout

existing sustainable finance legislative provisions. Finally, the ESAs have reached the conclusion that in addition to the social indicators reported in the ESRS, certain additional mandatory indicators currently not reported under ESRS, but required under BMR or available in financial reporting, may be useful for the purpose of PAI disclosures.

The ESAs regard the definition of denominator as a highly difficult area to find a way forward given the split of opinion in the sub-group and among stakeholders. While catering to a small majority in the ESAs' public consultation, changing to "relevant investment" would still imply an option lacking stakeholder consensus and evidence as to suitability. The third option is a mixed approach which would favour relevant investments while maintaining a comprehensive approach overall. Considering there are good arguments on both sides, a cautious approach would be to stick with the current approach while awaiting more consensus about better solutions. Such an approach could be supported by the general response by many industry representatives to wait for the Level 1 review to be completed before any major changes were contemplated.

The ESAs' goal concerning the amendments of the pre-contractual and periodic disclosures of GHG emissions reduction targets is to enhance the transparency of such disclosures driven by the potential increase in the supply of products featuring targets and investment strategies aimed at climate change mitigation. This was also a request by the Commission in its mandate to the ESAs. The ESAs rejected a simple yes/no question in the templates clarifying whether the financial product has GHG emissions reduction targets or not as being insufficiently transparent, potentially giving rise to greenwashing. Because such information would be limited (and potentially misleading) in content, the ESAs' preferred option would be to require basic information about a potential GHG emissions reduction target in the financial product templates and then require more details in the website financial product disclosures. A further option that was considered was a mandatory GHG emissions reduction target disclosure. This option, while providing a granular disclosure for all financial products on such targets, would be legally questionable in a disclosure-based framework.

The ESAs' starting point for the proposed DNSH design options is the concern that in the current version FMPs benefit from a wide discretion when designing the DNSH test for sustainable investments. This would increase the risk of greenwashing as a result of the application of differing DNSH test methodologies among FMPs. A first option would be to keep the status quo, thus not changing the Level 2 requirements. This option could be complemented by addressing the Commission on the need of a Level 1 review. However, this would mean that the discretion in the current framework will not be addressed for several years. The ESAs' preferred option is to require the disclosure of the thresholds for environmental PAI indicators used to design the DNSH test. The published thresholds would allow a certain degree of comparability among financial products while the safe harbour would allow satisfying the DNSH test for those environmental PAI indicators complying with the technical screening criteria of the EU taxonomy. The ESAs are aware that this option would not fully address the issues of comparability and greenwashing, but it would enhance transparency. The ESAs also seek feedback about the benefits of an optional safe harbour for environmental DNSH for taxonomy-aligned economic activities. The ESAs further discussed the longer-term consideration of a full alignment with the EU Taxonomy, meaning full compliance with the Taxonomy technical screening criteria for all Taxonomy-eligible economic activities of investee companies in order to pass the DNSH test for the environmental PAI indicators. While addressing the risk of greenwashing and eliminating the inconsistency between the SFDR definition of environmental

significant harm and that of the Taxonomy (to the benefit of the latter), this consideration was rejected in the short term as it would require more fundamental Level 1 reform of SFDR before disclosure-related changes could be enacted in the Delegated Regulation.

The ESAs further discussed the opportunity to simplify the current reporting templates to enhance comprehensibility for retail investors. At first, the ESAs were reluctant to undertake such changes as the current reporting templates have just started to be used. However, the importance of providing key information in a more easily accessible format to investors has driven the ESAs to consider as preferable the option of developing a “dashboard” for both pre-contractual and periodic disclosures providing the most important information to investors and possibly using a simpler language and terminology. This dashboard would replace the current tick-box. The ESAs are of the opinion that this option would best serve the goal of increasing comprehensibility and simplification. The use of a dashboard has spurred further considerations by the ESAs to use them as a separate, additional information from the current templates. This would allow having a summary of the key features of the financial product while keeping the current reporting templates unchanged. This option has its merit in providing an easy-to-go source of information together with the current full disclosures. However, it would not serve the purpose of simplifying the current reporting templates, in fact adding an additional information panel that may even create confusion for retail investors.

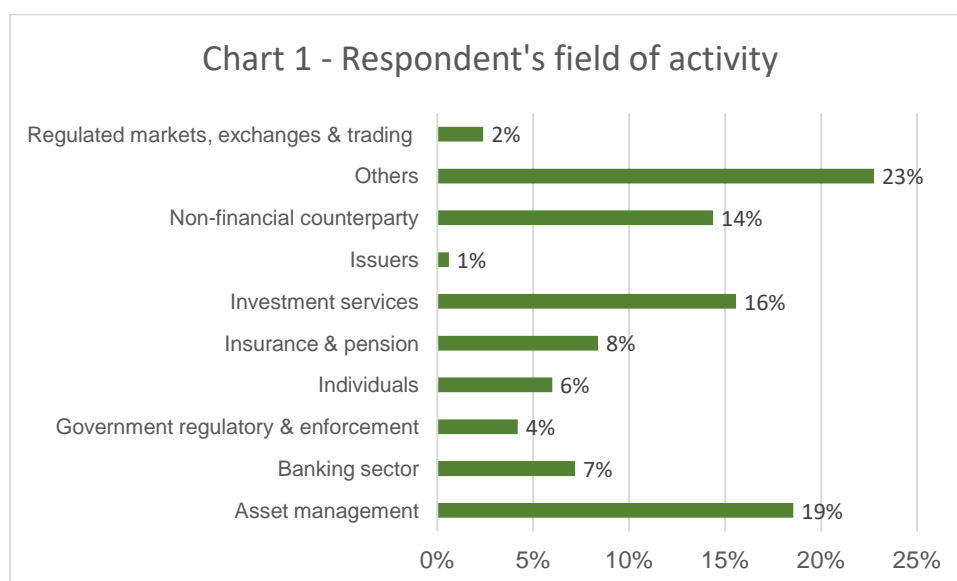
The ESAs consider the MOP provisions as a matter of further development and expansion. The first option would be to maintain the status quo; however, this action would not address the incomplete level of information currently provided to investors. Consequently, the second option implying new website disclosures and cross referencing in periodic disclosures also provides an insufficient level of disclosure. The main reason for this is the possibility of MOPs offering options outside the scope of financial product disclosures. The third option would provide an adequate and qualitative level of disclosures supporting an informed investment decision. Thus, by extending disclosure for MOPs to options that are not financial products, increased comparability for investors would be ensured.

The ESAs’ starting point for the proposed harmonised sustainable investment calculation is the urgency for clear guidance on the calculation. This would help avoiding greenwashing as a result of the current discretion FMPs have and would help comparability of products. Simultaneously, the ESAs acknowledge the split result in respondent answers on whether there is a need to set out specific rules on the calculation of the proportion of sustainable investments of financial products. Maintaining the status quo would not address the current vagueness of the sustainable investment calculation guideline. Consequently, limiting sustainable investment only to activity-based calculations alone would not cater to the overarching SFDR goal. Thus, the second option remains the most desirable as it eliminates the current wide discretion level that FMPs have to calculate sustainable investments and ensures higher comparability between financial products.

4.2 Feedback from public consultation

1. Background

The ESAs launched a Consultation Paper on 12 April 2023, with the period for comments ending on 4 July 2023. In total, the ESAs received 185 responses to the consultation. Respondents included industry participants and associations from all sectors, including consumer representative organisations, NGOs, the ESAs stakeholder groups, and public sector authorities and bodies, as represented in Chart 1.



2. Summary of responses

General comments

Many respondents included in their responses a broad introductory overview to the consultation questions.

As a general remark, the majority of respondents supported the ESAs attempt to simplify and streamline the SFDR framework. This common attitude reflected the overarching need for efforts to simplify the disclosure framework and to provide concise and clear information to end-investors. Additionally, respondents supported the broadening of the disclosure framework to improve transparency and comparability of sustainable financial products.

Industry respondents highlighted the challenging timeline FMPs would be facing under a level 2 review of the SFDR RTS. Many respondents commented on the anticipated Level 1 assessment of the SFDR framework, highlighting the challenging effect this development would have on the ESAs' Level 2 review. Industry respondents noted the costs of expanded disclosure requirements and changes to the disclosure templates. Some respondents called modifications of SFDR Level 2 as counterproductive, considering that Level 1 changes were coming in a few years.

On the social PAI indicators, industry respondents noted that from an operational perspective, SFDR changes would prove administratively burdensome. While some recognised the benefits of a more comprehensive approach, others regarded changing the formulae used to calculate certain PAI indicators as generating disclosure inconsistencies. Many recommended an opt-in PAI framework to mirror the European Sustainability Reporting Standards (ESRS) developments. Respondents additionally mentioned the challenging task of data collection in respect of certain PAI indicators for non-EU jurisdictions. Many therefore requested clearer guidance and clarity for investments in non-EU based investee companies. Nonetheless, the ESAs' effort to align the information required in the PAI calculation with the ESRS was appreciated.

On the DNSH disclosure, some respondents preferred to maintain the status quo at this stage, considering that imposing quantitative thresholds would not be adequate due to the lack of available data. Additionally, some respondents considered that the DNSH long-term considerations should be part of the level 1 assessment of the SFDR.

Concerning template simplification and standardisation, both industry and NGO respondents supported it. Improved readability, simplicity and usability of the SFDR templates were supported against the current backdrop characterised by a high level of details and complexity. Some respondents encouraged the ESAs to cut down the size and the level of detail required in the templates. There was a general support for enhanced consistency and strengthened transparency through clearer guidelines from supervisors.

Notwithstanding the criticism noted above, some respondents welcomed the ESAs proposals to review the SFDR Delegated Regulation, regarding it as an initiative to improve the usability, transparency, and coherence of the current SFDR framework. The proposed revisions in the consultation paper were endorsed by a majority of NGO respondents, including the additional social PAI indicators, enhanced DNSH disclosure, the additional product-level narrative disclosures on GHG emission reduction targets, the simplification of precontractual and periodic documentation templates. Simultaneously, these respondents agreed with the ESAs' broader approach to the Level 2 review stemming from the European Commission's mandate. In their view this was ultimately promoted by the urgent need for a framework enabling relevant product disclosure for non-sophisticated investors. At the same time, these respondents stressed the overarching need for a level 1 SFDR review in order to address the more fundamental issues.

ESAs' response: The ESAs acknowledge the feedback received, noting that the time lag for the level 1 review of the SFDR to take place is several years and that this Level 2 review responds to the European Commission's specific mandate to broaden the disclosures of PAI indicators and to amend the RTS in relation to product transparency for decarbonisation targets. The ESAs do not believe it is a viable option to do nothing, as some respondents suggested. Because it was not known when the ESAs would have another opportunity to evaluate certain sections in the original delegated regulation, some of them were amended in this specific final report.

Question 1: 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)?

While broadly agreeing with the increased emphasis on social PAI indicators, the majority of industry respondents disagreed with the proposed list, the main reasons being that it is premature to add new indicators given the current challenge in reporting against the existing one, and that social PAIs might be better grounded with the release of a social taxonomy. Some respondents have also pointed to the struggle with poor data quality resulting from use of estimates and extrapolations by ESG data vendors, data gaps, and to the fact that the consideration of social indicators may create unintended consequences and create additional barriers to providing investors with exposure to certain markets (i.e., emerging markets). For those reasons, a few respondents have asked the ESAs to consider the inclusion of social indicators as opt-in ones so that asset managers can select social indicators with the best data coverage available for the purpose of PAI reporting.

All respondents (including industry, trade associations and NGOs) noted that the main criterion for the addition of new PAI indicators should be whether they are captured under the ESRS, and there should be full alignment in terms of scope, definition, materiality and timing between ESRS and PAI indicators and welcomed the ESAs effort to use the draft ESRS as basis for the definition of PAI social indicators. The need for direct sourcing of the underlying data from companies' report is raised by the majority of respondents as being a key element in the consideration of additional social indicators. A few respondents however stated that it is important that these social indicators remain mandatory, regardless of the outcome of the ESRS discussion.

Most respondents encouraged the ESAs to adopt clear guidance to clarify how FMPs will have to deal with situations when the information is not reported by undertakings considering that materiality does not apply and by those not under the scope of the CSRD.

Specific comments on the indicators, shared by the majority of respondents:

Amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million: respondents noted a timing challenge, as the Accounting Directive will become applicable in 2025 and this should be reflected in the indicator to become mandatory only as of 2026. In addition, the list of non-cooperative tax jurisdictions is a dynamic one, and it should be specified at which point in time the list has to be used in the calculation consider the information 'profit before tax' which could be more relevant. A few respondents also considered that 'net profits' would be a more relevant information than accumulated earning.

Exposure to companies involved in the cultivation and production of tobacco: supported by the majority of respondents and considered feasible – although guidance on the meaning of 'involvement' would be appreciated. Some respondents however noted that there are also questions on how to deal with tobacco distributors and retailers and suggest the following revised indicator: 'exposure to companies directly involved in the cultivation and production of tobacco'. There is however a group of respondents did not agree with this blank exclusion, considering it not proportional and against the EU transition principle of not leaving anyone behind (Tobacco companies are actively investing in the development of non-combustible products in response to changing consumer needs).

Interference with the formation of trade unions or election worker representatives: for the majority of respondents, as this is not required in the ESRS, the indicator raises the issue of data availability from underlying undertakings. In addition, the definition of 'interference' would be challenging. A few respondents noted that trade-unionisation varies across countries and it is not up to the ESAs to implement a single prescriptive approach to unionisation. Some respondents noted that this data point not reported by EU or non-EU corporates and thus FMPs would need to rely on controversy-

related products to identify non-compliance and suggested that the use of the ‘formal commitment to non-interference in the formation of trade unions or election worker representatives’ could be a compromise.

Share of employees earning less than the adequate wage: respondents considered that the concept of adequate wage is insufficiently defined, need to clarify the distinction between adequate and living wage and it is up to member states to establish whether employers are paying the adequate wage and need to clarify the definition of employees. A few respondents also noted that for the private market and outside the EU, data is not necessarily reported and dependency on estimates and proxies will be high.

ESAs’ response: The ESAs are aware of the challenge of introducing new mandatory social indicators under SFDR without corresponding reporting standards being applicable for EU investee companies under the ESRS. Nonetheless, given that the mandate from the Commission requested new social indicators, the ESAs will include some new indicators in the PAI disclosures.

Question 2: Would you recommend any other mandatory social indicator or adjust any of the ones proposed?

The majority of respondents from individual companies and industry associations considered that there is no need to add any other social mandatory indicators. The most common reasons are the current data gap and the fact that adding new indicators will overstrain investors who are currently struggling to relate PAI entity-level disclosures. Very few respondents from public sector have made comments that other elements from the European Pillar of Social Rights could be integrated such as the average number of training hours per employee and the percentage of contracts covered by collective bargaining; in addition, a few respondents from NGOs have suggested to move the following indicators from opt-in to mandatory: Excessive use of non-employee workers in investee companies; Excessive use of non-guaranteed hour contracts in investee companies; and Excessive use of temporary contract employees in investee companies as those are considered critical to risks to workers’ human rights, implications for inequality, and related risks to the business. The indicator related to child labour is also suggested by a few respondents to be made into a mandatory one.

A number of respondents also pointed out to the fact that there is no health and safety indicator, and that it would be useful to introduce those indicators, as long as they are aligned with ESRS. Others suggested reflecting on the addition of number of identified cases of work-related discrimination and severe human rights cases, as well as indicators related to freedom of association and the right to collective bargaining. Finally, for some respondents, clarifications are needed on the meaning of ‘involvement’ related to PAI 15 (exposure to controversial weapons), as well as on terms such as ‘inadequate’ and ‘insufficient’.

ESAs’ response: The ESAs take note of the feedback received with regards to adding or adjusting any previously proposed mandatory social indicator. The ESAs have made the decision not to incorporate additional indicators from the proposed ones, including the health and safety indicators that were mentioned in the summary of responses.

Question 3: 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)?

Respondents from consumer associations broadly supported the introduction of the opt-in indicator but feared that making them voluntary means they will be never used.

The majority of the respondents were however sceptical for a number of reasons: the indicators are very EU specific and the level of protection for employee rights can vary significantly across jurisdictions, it can be difficult to get this type of information outside the EU, and the lack of definition and quantification could negatively impact socio-economically disadvantaged groups. All respondents agreed that opt-in indicators should be based on ESRS, based on materiality and included as mandatory ESRS.

Respondents also made specific comments on the indicators, and a high number of them noted that the term 'insufficient' is not clear enough, leaving too much discretion for FMPs, and that the indicator on the inclusion of people with disabilities will likely have poorer data coverage given the national differences on the topic.

Several respondents disagreed with the two indicators about lack of grievance / complaints mechanisms as even if a company has a grievance mechanism, it does not mean that it is known, trusted and effective, nor whether it has in practice proven to be a means of identifying and addressing stakeholder concerns, and can just result in a tick the box exercise.

Finally, several respondents noted that non-guaranteed hour employees, temporary contract and non-employee workers are only in scope of ESRS S1 and only applicable for own operations and not downstream value chain, hence contribution would not be reported.

ESAs' response: The ESAs acknowledge the feedback received on the newly proposed opt-in social indicators in Annex I, Table III, likewise, as stated in the ESAs's response to question one, new indicators were called for under the Commission's mandate, therefore, the ESAs will incorporate, in the PAI disclosures, a few new indicators, including opt-in indicators, to ensure a comprehensive coverage of social adverse impacts. In summary, the ESAs are not altering the mandatory indicators based on ESRS and will not delete any of the opt-in indicators.

Question 4: Would you recommend any other social indicator or adjust any of the ones proposed?

The majority of industry responses did not think any other indicator should be added and reiterated the current limitations in data quality, and the need to prioritise a few indicators that are relevant for all assets and strategies.

Other respondents suggested to clearly define what 'policy' means as this would help the consideration of many of the indicators, and to set clear quantifiable formulae (based on % or relative to) for the definition of 'excessive use' and 'insufficient'.

A few respondents from NGOs suggested to add indicators that are currently aligned with the ESRS that provide better insights into the company's culture and diversity, such as expertise on material sustainability matters available to investee company's management, administrative and oversight bodies, climate related incentives, including remuneration policy, to achieve climate targets.

Finally, the minority of respondents suggested to add all other indicators which are included in the new ESG EET data template (<https://findatex.eu/>) under sector-based exclusions. Many of the indicators in this ESG EET data template might be considered more relevant from the retail investor perspective than tobacco (e.g., conventional weapons, animal welfare (animal testing, factory farming, fur), pesticides and palm oil).

ESAs' response: The ESAs take note of the input received from the respondents with regards to adding or adjusting any other social indicators and reaffirm that it has been decided not to incorporate additional indicators from the proposed ones. The ESAs are implementing some linguistic and technical adjustments to align with the European Sustainability Reporting Standards.

Question 5: 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?

The majority of respondents from both industry associations and NGOs agreed with the proposed changes in light of the need for consistency across the various pieces of sustainable finance legislation. A recurrent comment from many respondents call for the ESAs to provide for more guidance on what constitutes a 'violation', the relevant reporting period (i.e. the violation has occurred before the reference year but it only became confirmed or publicly known during the reference year, the violation happens during December of the reference year, but the investor has invested in the company between January and July of the reference year) and what to consider being 'remediation' for violation. In addition, the language of 'remediation mechanism' can be used interchangeably with that of 'grievance mechanism' and this should be clarified. A few respondents also raise the issue of discrepancies among third party data sources in the absence of global consensus on defining violations.

There is a minority of respondents who argued that the changes will have a significant impact on the investment process and that the UN Global Compact had historically been selected because of the good governance amongst data providers.

As more specific comment, a few respondents supported the replacement of the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work, adding the request to clarify the interpretation of violations and ideally even referencing to a publicly available database / assessment.

Some respondents also suggested to delete the "Excessive CEO pay ratio" indicator as it seems that transparency on CEO pay could correlate with increased CEO pay to push for pay levels closer to those of the highest paying companies in the given sector and there is no evidence that this indicator contributes to reducing inequalities.

Finally, respondents also recommended the ESAs to refer to the Platform on Sustainable Finance's guidance clarifying what is understood by compliance with minimum social safeguards, which also refer to the OECD Guidelines for MNEs and UN GPs.

ESAs' response: The ESAs note that there is support for changing the UN Global Compact Principal violations with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work. The ESAs agree with those modifications. Similarly, as indicated in the previous response, the ESAs adjusted some of the other indicators to align with the recently published European Sustainability Reporting Standards.

Question 6: 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?

The majority of industry associations did not consider relevant to apply any PAI indicator related to social matters to the entity in charge of the real estate assets the FMP has invested in. Taxonomy Regulation already covers these matters and PAI indicators related to social matters would duplicate the work, and respondents also pointed out that there is a lack of common understanding on the extent to which KPIs can be collected and how to measure social aspects in the real estate sector in a meaningful way. In addition, respondents argued that the purpose of PAI indicators is to disclose the negative impacts of investments. Social matters related to FMPs should instead be part of the reporting requirements of the CSRD. Finally, some industry representatives motivated their reply by saying that it is too early to assess how social KPIs can be applied to the level of the real estate / building, except for affordable housing, and there is currently no data available.

Respondents mainly from NGOs supported the inclusion of social PAI indicators for real assets, and asked for a clear definition of 'entity in charge of managing the real estate assets. As new indicators, respondents suggested the following: sustainability due diligence process for impacts on vulnerable workers in the value chain, accessibility and mobility (building fully adapted to receive disabled and elderly people, proximity and frequency of public transports, typology, and quantity of surroundings services), health and safety measures within buildings including air quality (during both construction and operational phases), comfort and well-being within buildings (including temperature acoustic comfort).

ESAs' response: The ESAs have carefully assessed the feedback and analysed the potential for new indicators on social adverse impacts from real estate investments. On balance, the ESAs have decided not to propose any new indicators for social adverse impacts from real estate investments due to a lack of sufficient evidence basis for specific indicators that would capture adequately the social adverse impacts reality of real estate.

Question 7: 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?

The majority of respondents (mostly industry and trade associations but also the few NGOs who responded to this question) agreed with the proposed approach, with the caveat that there is a lack

of European homogeneous EPC rating system based on letters and the existence of few detailed and relevant pan-European benchmarks which help define the top 30%, with the risk of excluding from the top 30% high energy efficiency and ESG quality buildings.

Other respondents disagreed with this approach as the nature of PAI under SFDR and DNSH under the Taxonomy is different as SFDR relates to positions in real estate assets while the Taxonomy relates to economic activities. Several respondents from the insurance side suggested using Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathways to address the limitation that EPC labels are not available outside the EU.

Finally, a few respondents supported the adjustment of the definition of the PAI indicator 22 to align it more closely with relevant DNSH criteria under the EU Taxonomy's technical screening criteria for climate mitigation and adaptation.

ESAs' response: The ESAs note that respondents do see merit in adjusting the definition of PAI indicator 22 of Table 1 and will be aligning it with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective under the climate change adaptation objective.

Separate to the question about indicator 22, the ESAs note that many respondents noted that indicator 21 in Table 1 ("Exposure to fossil fuels through real estate assets") may also be problematic for some real estate since the concept of "storage" of fossil fuels was not specific enough. The ESAs would like to draw the respondents' attention to a Q&A issued by the European Commission related to that Taxonomy DNSH criteria for real estate, number 117, which stated that the application of the DNSH criteria depended on the amount of fossil fuels stored and would not be applied if the real estate was dedicated for something different, e.g. residential real estate.¹

Question 8: Do you see any challenges in the interaction between the definition 'enterprise value' and 'current value of investment' for the calculation of the PAI indicators?

Several stakeholders pointed out the need for additional specification in the definitions. For example, the enterprise value should include cash (EVIC) and the definition of current value of investments should specify whether it refers to current market value, current book value or other accounting values. A few respondents explicitly asked for guidance for when the EVIC is negative.

¹ Please see [DRAFT COMMISSION NOTICE on the interpretation and implementation of certain legal provisions of the EU \(europa.eu\)](#) page 51 "**117. In Annex II to the Delegated Act, the DNSH criteria to climate change mitigation of the activity "Construction of new buildings" in Section 7.1. of Annex II provide that "The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels." Is this to be interpreted as excluding the operation of fossil fuel systems?**

The criterion for DNSH to mitigation in Section 7.1. of Annex II means to exclude as Taxonomy-aligned the adaptation activities for buildings that are dedicated to certain activities involving fossil fuels. This criterion does not exclude from fulfilling the DNSH criterion buildings where small quantities of fuels might need to be stored or transported, e.g. for ensuring the functioning of the on-site energy production facilities, but where the building is dedicated to a completely different use (for example, residential building)."

Many respondents emphasised that there is a misalignment in the timing as enterprise value must be calculated at fiscal year-end while the current market value is on a quarterly basis. Moreover, there may be different fiscal year-ends for different companies, and these may not match the reference period of the PAI statement, thus raising a challenge in the interaction between the definition of “enterprise value” and “current value of investments”, especially when calculating the PAI indicators on a quarterly basis.

While many respondents welcomed the clarification provided by the November 2022 ESAs Q&A on how the current value of investment should be determined at the end of each quarter, those respondents recommended modifying the Q&A and, going forward, allowing an approach that relies on a quarterly estimation of the enterprise value based on market prices to calculate the enterprise value in order to reduce the bias in the PAI impact calculation.

Some respondents, however, found the interaction between EVIC and current market value of investments without particular issue in its application.

Finally, some respondents raised the difficulties in using the EVIC for private, not publicly traded companies and for private equity business whose investment structures vary considerably, making the calculation of enterprise value for private companies difficult to apply consistently. Some others feared that data gaps and lag will persist for CSRD-out-of-scope/non- EU companies.

ESAs’ response: The ESAs appreciate all the feedback and technical input provided by respondents. Nonetheless, the ESAs are not planning to change the EVIC definition and note, as confirmed in the November 2022 ESAs Q&A on how the current value of investment should be determined at the end of each quarter, the enterprise value cannot go below zero since cash is not included.

Question 9: Do you have any comments or proposed adjustments to the new formulae suggested in Annex I?

In the consultation paper stakeholders were asked to provide their comments on potential adjustments to the new PAI formulae. The main comments and suggestions from stakeholders are listed below:

PAI 2: Carbon footprint

Some respondents noticed that the notion of “carbon footprint” PAI indicator should be calculated per million EUR invested as it is the case in the current delegated acts (cf formula of “carbon footprint”). In the proposed delegated acts, the notion of ‘current value of all investments’ is indeed expressed in EUR and not in million EUR and the formula should be clear that the denominator should be expressed in million EUR.

PAI 4: Exposure to companies active in the fossil fuel sector

Many respondents asked the ESAs to clarify whether the entire investee company or only the proportion of its exposure to the fossil fuel or the coal sector shall be considered. In the case where it is expected to consider the exposure of the entire investee company, a revenue threshold above which an investee company is considered in its entirety should be set. In particular, FMPs should be given flexibility in defining this revenue threshold which is already used in other reporting (e.g., TCFD

reporting) to avoid treating companies with varying levels of exposure equally provided that any threshold used is disclosed as part of the PAI statement. A further aspect arising from the consultation is the clarification of the expectation regarding treatment of natural gas given that the activity could be taxonomy-aligned. To avoid showing an activity both as a positive and negative, any activity associated with natural gas that is taxonomy-aligned should not be shown within this indicator.

A further point indicated by respondents is to clarify whether investment in specific projects would allow a different treatment. Investments in green projects could support companies active in the fossil fuel sector to transform their business models towards environmentally sustainable activities (beyond environmentally sustainable economic activities referred to in Section 4.29 to 4.31 of Annexes I and II to Delegated Regulation (EU) 2021/2139). Therefore, the proposal is that exposures are excluded in the case the investment is made for environmentally sustainable activities aligned with the Taxonomy Regulation, to the extent the FMPs are able to prove that the proceeds shall not be used for other purposes.

Regarding the coal sector, some respondents asked the ESA to further clarify the definition of coal sector.

PAI 5: Share of non-renewable energy consumption and production

Most respondents welcomed the split between consumption and production for the PAI 5. However, those respondents noted that current wording on the RTS does not seem to indicate a requirement to split between consumption and production, while the proposed amendments to RTS does that.

PAI 6: Energy consumption intensity per high impact climate sector

Many respondents highlighted an issue in obtaining the information needed for the nominator and denominator, especially for conglomerates operating in multiple NACE sectors. In formula 7 for 'energy consumption intensity per high impact climate sector' it is proposed that a company's energy consumption intensity shall be weighted by the company's revenue that falls into the NACE-sector [A-H, L]. However, this data is not readily available. Companies are attributed to a specific NACE-sector as a whole.

These respondents further suggested that as long as there is no reporting obligation of this indicator per NACE sector applicable to the underlying investee company, then the overall energy consumption intensity is allocated to the NACE sector with the highest share in the company's revenues.

Other respondents, suggested switching from GWh to MWh as GWh results in very low values for the indicator.

PAI 8: Emissions to water

Some respondents noted that the definition for emissions to water could be updated to reflect the ESRS.

PAI 9: Hazardous waste and radioactive waste ratio

Some respondents noticed that the consultation paper mentions hazardous waste and radioactive waste as two separate indicators with two different calculation formulae. However, there is only one formula provided in annex I.

As many stakeholders pointed out nuclear waste and other hazardous waste, although both calculated in tonnes, have very different levels of magnitude (nuclear waste often being negligible). Therefore, it is deemed appropriate to separate it from the other hazardous waste and create two separate indicators as proposed in the consultation paper.

PAI 11: "Share of investments in investee companies without policies to monitor compliance with..."

Some respondents noticed that the narrative still mix "and" / "or" in the name and description, likewise the wording still leaves a lot of room for interpretation, which may lead to incomparable disclosures across FMPs.

PAI 12: Gender pay gap:

Many respondents noted that they would like to keep the "unadjusted" specification in to ensure comparability (i.e., for the ESRS equivalent).

Some other respondents noticed that the formula floors the gender pay gap at 0 which may not be the case in the related ESRS. To address the gender gap, companies, where females are paid more than males, should also be taken into consideration. Thus, the formula should allow for negative values in cases where women are paid more.

PAI 13: Management and supervisory board gender diversity

Many stakeholders suggested the calculation and proposed description should be clearer. The calculation provided in formula 14 requires male board members / total board members, which is not the ratio being asked for in the proposed description of PAI 13 'Average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members.

PAI 14: Amount of accumulated earnings in non-cooperative tax jurisdictions

Some respondents stated that they would like to see clarified that (a) the amount of accumulated earning and (b) the list of non-cooperative tax jurisdictions (prevailing in the management report) will be "frozen" on the period, until the next annual management report.

Other respondents noticed that the revised EU list of non-cooperative jurisdictions for tax purposes is a dynamic list with changing jurisdictions. Therefore, they consider it should be specified at which point in time the list should be included in the calculation.

PAI 15: Exposure to controversial weapons.

Some respondents noticed that the definition of 'controversial weapons' should specify which exact activities are to be included in the calculation. The definition provides a list which does not include all weapons usually considered as controversial. It should specify whether this list is exemplary or exhaustive.

PAI 19: Sovereign GHG intensity

Many respondents asked to clarify that the reference to a country's GDP means the PPP-adjusted GDP as recommended by PCAF. The PPP adjustment of GDP allows for comparing the real sizes of the economies and the output by subtracting the exchange rate effect and mitigates the negative effect for countries where production and emissions are concentrated.

PAI 20: Number of investee countries subject to social violations...

Some respondents claimed that there is no consistency in the market or data provided by data vendors, which makes comparability impossible.

Many respondents pointed out that formula 21 for 'investee countries subject to social violations' is defined to be interpreted as a percentage value, same as with other "share of investments..." formulae. However, the new PAI-indicator 20 "Investee countries subject to social violations" is defined as "Number of investee countries subject to social violations,..." which contradicts formula 21.

Some respondents further believed there is a wording mistake since the proposed nominator in formula 21 captures "investee countries under investigation". Clearly, it must not be assumed that mere investigations of potential breaches would be sufficient to generate a principal adverse impact, especially since the equivalent indicator for investee companies (PAI indicator 10 in Table 1) refers to "investee companies in violation of at least one international guidelines or principles". We recommend adapting the wording of the formula for PAI 20 accordingly.

PAI 21: Exposure to fossil fuels through real estate assets

Respondents in the real estate business pointed out that additional guidance is required on what constitutes 'storage' of fossil fuels. Currently, the real estate industry has interpreted this to mean petrol stations. Many buildings (e.g., offices) will, however, have diesel-powered back-up generators and/or diesel-powered sprinkler pumps. Respondents wondered whether this constitutes 'storage of fossil fuels'.

ESAs' response: The ESAs acknowledge and welcome the detailed input given by respondents and have made some technical adjustments to some of the formulae in light of the feedback received.

Question 10: 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?

The majority of respondents agreed, in general, the PAI indicators should have more flexibility and clarifications to assure their reporting. Industry respondents believed the ESAs should address low (or no) data availability, and how to deal with "non-material" ESRS reporting. Many respondents suggested the ESAs to weaken SFDR if the ESRS is not modified. In addition to that, they requested closer alignment between SFDR and CSRD reporting timelines. Some other respondents requested the ESAs to take zero action pending the conclusion of the Level 1 review by the Commission. Moreover, PPP-adjusted GDP was requested by insurers as a measure of sovereign GHG indicators. Additionally, the NGOs urged for more action to combat deforestation and biodiversity.

The ESMA SMSG concluded by stating that in order to calculate enterprise value, it would be more appropriate to calculate market capitalisation based on an average price covering a longer time period (average over the last three months, for example), in order to avoid variations in carbon emissions and footprint that are solely the result of market conditions (for example, market capitalisations of many companies have dropped dramatically in recent weeks as a result of the Covid-19 outbreak).

ESAs' response: The ESAs acknowledge the feedback received and as previously mentioned are currently implementing some linguistic and technical adjustments to align with the recently published delegated European Sustainability Reporting Standards.

Question 11: 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?

The majority of respondents agreed with the proposal to require the disclosure, notably all non-industry respondents believed it was valuable disclosure. Many asked, however, for more details about the breakdown, and many suggested splitting the breakdown between data generated by investee companies and the estimated data.

Many industry respondents on the other hand they suggested that the ESAs should keep the disclosure optional, as recommended in the relevant Q&A from November 2022. Those who did cite administrative burden, and a few recognised that such disclosure could create a hierarchy between the ways in which the data was generated which could mislead investors.

PSF was one of the bodies agreeing with the disclosure but suggesting a more granular split.

Data providers were split: one did not comment or respond to the question at all, while others agreed with the need for the disclosure.

ESAs' response: The ESAs have duly taken note of the views expressed by respondents of 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 and acknowledged it was supported by the significant majority of respondents. Hence, the ESAs will require the disclosure of the breakdown of the share of information based on reported information and estimated information.

Question 12: 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?

Respondents were quite split on this question, with no clear discernible pattern across industry or non-industry respondents.

The most popular choice, but only by a small margin, was to change the approach for PAI disclosures to "relevant investments", but the second choice of "all investments" was not far behind and was quite close. Some respondents urged the ESAs to allow FMPs to choose between one of the two approaches, and one NGO suggested to require both.

Some respondents refused to express a preference, either urging the ESAs to make a choice or to provide even more definitions than the current approach.

Some banking industry respondents asked the ESAs to “mix and match” between the two approaches depending on the type of indicator the PAI was measuring.

While insurance industry respondents supported a “relevant investments” approach, they also asked for the definition of “all investments” in the legal text to be amended for insurers so that property is included but deposits are excluded.

The PSF noted that there are merits and disadvantages for both approaches but stated there was no prevailing opinion in the Platform on which approach is the preferred one. The Platform strongly advised the ESAs to only choose one of the alternatives in line with the principle of proportionality.

ESMA SMSG did not discuss these questions in depth but merely noted that generally it was not in favour of using estimates to increase the coverage of the ratios.

ESAs’ response: The ESAs take note of the feedback received to this question and observe the splits among respondents regarding their view on the approach taken in this consultation paper to define ‘all investments’. On balance, the ESAs prefer to keep the calculation basis on the PAI indicators unchanged, consequently, the denominator will continue to be based on all investments; nevertheless, the meaning of ‘current value of all investments’ will be defined with some technical adjustments.

Question 13: 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?

The first major comment received by many stakeholders concerns the need for transparency about whether or not the value chain is included in the information received.

Respondents were split, as some claimed that the inclusion of those information will not bring any added value, also considering the lack of methodologies for such calculations, while others agreed with the ESA’s proposal albeit with some recommendations.

Many respondents [agreed with the ESA’s proposal but warned about the risk of discrimination against those suppliers that do disclose their PAIs in favour of those that do not do it. Or it may cause some regulatory arbitrage as, to reduce the PAI, investors may be misled into preferring companies that do not report their value chain impacts instead of those that report and mitigate them.

Respondents suggested various solutions, such as an optional disclosure of the value chain only or not to include value chain impacts in the PAI calculation at all unless all companies report them.

Other respondents suggested to publish the PAIs without the value chain data and, separately, the publication of the PAI of the supply chain (when available). This principle should be enriched with the possibility to use estimates when the FMP thinks it is necessary.

ESAs' response: The ESAs acknowledge the feedback with regard to the proposal to only require the inclusion of information on investee companies' value chains in the PAI calculations where the investee company reports them and will accordingly proceed with, as proposed in the consultation paper.

Question 14: Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method? and

Question 15: 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?

A majority of respondents deemed rules on derivatives necessary.

Still, a few respondents considered that further analysis and additional consultations would be required. Some of them considered that treatment of derivatives should be addressed at the level of the sustainable finance framework and not in the RTS of SFDR.

- Other respondents suggested introducing specific disclosures on derivatives, alongside others relating to cash positions (instead of including derivatives to PAI calculations).
- In addition to Taxonomy and sustainable investment calculations, the ESMA MSG supported the incorporation of derivatives in PAI estimates. However, a small portion of its members believed that none of these computations should use derivatives.

A significant number of respondents explicitly asked for the provisions to be similar between PAI, sustainable investment and Taxonomy-alignment. Only some NGOs were explicitly against.

A broad majority of respondents backed the proposal to net the exposures to a single issuer, while introducing a floor to zero (no net short positions).

- Very few respondents questioned the floor to zero.
- Some respondents expressed concern about the challenges of including derivatives that offer exposure to baskets or indices made up of many components. The figure of 10 single names in baskets/indices is mentioned several times.

A broad majority of respondents supported the conversion into equivalent underlying positions. Few respondents expressed preference for the market value and/or the nominal value, among which some considering that the market value could be used in the denominator while the nominal value applies to the numerator. A broad majority of respondent were opposed to the proposal to take into consideration whether or not a derivative results in a physical investment by the counterparty.

With regard to the scope, in addition to the point raised above on baskets and indices, respondents expressed different views on the derivatives that should be netted or even included in the calculations of the PAIs (in the numerator and/or denominator). The following cases are mentioned:

- foreign exchange and interest rate derivatives;

- the use of derivatives for hedging or efficient portfolio management;
- the temporary use of derivatives;
- the non-significant use of derivatives.

On the contrary, some respondents indicated that the inclusion of derivatives in calculations should not depend on intent or use, but on whether they relate to underlying issuers (corporates, sovereigns).

ESAs' response: The ESAs appreciate all the feedback and technical input provided by respondents and have duly taken note of the need to consider several aspects of derivative inclusion. On balance, the ESAs believe their approach proposed in the consultation paper is the right one, therefore, for PAI disclosures, derivatives will be included with netting without the possibility to go below zero.

Question 16: 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?

A broad majority of respondents supported the proposal to extend the scope of these provisions .

There was a consensus on the inclusion of corporate bonds in the scope of these provisions .

Beyond equity, sovereign debt and fixed income, the PSF also suggested expanding these provisions to mortgage and municipal lending.

Complementary information:

- Insurers, including Insurance Europe, mention that there is no methodology for sovereign debt.
- Three respondents (asset managers) and the SMSG (response to question 15) deems specific reference to sectoral rules AIFMD-UCITS necessary.
- Two respondents mention that it would make sense to include credit-default swap in the scope, while another say that it is inappropriate.
- Three respondents propose applying these provisions to all assets that can be shorted.

ESAs' response: The ESAs note that there is support for the approach in the consultation paper of extending 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 and confirms this will be amended in the final report.

Question 17: Do you agree with the ESAs' assessment of the DNSH framework under SFDR?

All respondents except a few agreed with the general analysis of the ESAs in the CP about the shortcomings of the DNSH framework.

While many industry respondents agreed with the ESAs' analysis of DNSH under SFDR, they asked the ESAs to refrain from making any changes until the Commission's Level 1 assessment and review was finished.

Many industry and non-industry respondents noted that despite the shortcomings, the lack of a social taxonomy meant that SFDR DNSH was needed.

Many industry respondents asked for equal guidance on contribution and good governance, not just on DNSH.

Non-industry respondents frequently asked the ESAs to develop common PAI thresholds

Real estate industry respondents asked for specific guidance on real estate assets' eligibility as sustainable investments.

The PSF argued for a formal split between activity and entity-based sustainable investments.

ESAs' response: The ESAs appreciate the responses and the input on the SFDR DNSH framework and acknowledge that the majority of the respondents agreed with it.

Question 18: 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.

Respondents were split on the usefulness of mandatory disclosure of PAI thresholds.

Most industry respondents did not support any new disclosure requirements on PAI thresholds used for DNSH purposes, arguing frequently that the ESAs should wait for the Level 1 review, that thresholds would pose too much of a burden and that such information would overwhelm investors.

Non-industry respondents, including data providers, NGOs and investor representatives typically preferred to agree with the proposed mandatory disclosure of PAI thresholds used for DNSH purposes.

A few industry and non-industry respondents, including the ESMA SMSG, supported the disclosure of thresholds but suggested that it should not be mandatory.

The PSF argued in favour of quantitative thresholds disclosure.

ESAs' response: The ESAs note respondents had differing opinions on the value of mandatory PAI-related DNSH thresholds. Notwithstanding, the ESAs believe that for the purpose of comparability, it is necessary that financial market participants must develop and disclose PAI-related DNSH thresholds or criteria.

Question 19: Do you support the introduction of an optional “safe harbour” for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.

A majority of respondents supported the safe harbour concept outlined in the consultation paper, covering all sectors: both industry, NGOs, data providers, academic.

Some respondents did not take a position, typically because they argued the Commission had already clarified that this safe harbour existed in their 13 June Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation (2023/C 211/01), or because the pros and cons were equally weighted.

Some respondents explicitly opposed the safe harbour because it added too much complexity with not enough benefit, or because they asked the ESAs and the Commission to fix DNSH in Level 1 first.

The PSF supported the safe harbour but asked for more coherence, including replacing the good governance in the longer term with the minimum social safeguards of the taxonomy.

The ESMA SMSG noted that the Commission's FAQ had made the question obsolete.

ESAs’ response: The ESAs acknowledge the support for the “safe harbour” concept for environmental DNSH for taxonomy-aligned activities and note that this was previously delivered by the 13th of June Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation. The ESAs do not believe that any further changes to the financial products under SFDR are required to the disclosures following the Commission’s Q&A.

Question 20: 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.

Views were split between respondents. A slim majority did not support the ESAs' statement that in the long term a single concept based on Taxonomy TSC should be retained. Many industry respondents stated that the taxonomy approach is too restrictive or limited. Many noted that without a social taxonomy this approach is impossible. Others considered that it was premature to make such long-term visions at this juncture. Many noted that an entity-level analysis, as provided in SFDR, is valid and valuable and should not be removed in favour of an exclusively activity-based approach.

One of those who disagreed was the ESMA SMSG. They noted that while confusing, two parallel concepts will persist for a long time until there is a social taxonomy, and different basis of concepts means it is premature to conclude that the taxonomy forms a sole basis for the future.

An almost equally large group of respondents supported the basic concept laid out in the consultation paper of a longer-term single framework based on the taxonomy. Many of those kept their agreement on a theoretical level, while pointing out the drawbacks and practical problems, especially the lack of a social taxonomy.

The PSF was one of those agreeing in principle, while asking for an entity-based concept and a separate activity-based concept of sustainable investment to be developed.

A few respondents did not agree nor disagree, instead asking for either flexibility, or asking for wider consultations in the future to deal with this. Others suggested more specific elements would be needed.

ESAs' response: The ESAs appreciate the helpful feedback provided by respondents to continue with the development of the DNSH initiatives. The ESAs will follow the comprehensive assessment of SFDR by the Commission.

Question 21: Are there other options for the SFDR Delegated Regulation DNSH disclosures to reduce the risk of greenwashing and increase comparability?

Many industry respondents asked for more clarification about the definition of sustainable investment, despite the Commission's April 2023 Q&A. Some respondents commented that addressing greenwashing through legislative change should not be the priority. Others noted that guidance was preferable to new legislation, especially on sustainable investment and DNSH.

Some industry respondents stressed that the ESAs should not view the flexibility inherent in SFDR as a design flaw, but an intended outcome.

Some respondents requested a focus on completing the taxonomy, not only for the environment but especially the social taxonomy.

Many urged the ESAs to focus on increasing the availability of data, harmonisation with the CSRD and the development of the ESAP.

The PSF made two proposals: (1) all products disclosing under Article 8 SFDR should disclose how they consider PAIs and (2) the DNSH disclosure could include an overview table listing all PAIs, specifying whether the indicators were considered, the methodology and the tolerance level.

The ESMA MSG asked for more disclosure under DNSH about actions taken if thresholds are breached, and that disclosure at product level is more important and useful than disclosure at the entity level.

ESAs' response: The ESAs are grateful for the feedback and acknowledge some of the very intriguing proposals given, however, this is an area that will be addressed in comprehensive assessment of the SFDR by the Commission.

Question 22: 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.

A majority of respondents disagreed that a right balance is achieved by the proposed disclosures.

The main objections related to the proposed disclosures were: being highly technical, complex, too detailed, aimed at professional investors and not proportionate for FMPs.

PSF and SMSG agreed overall but improvements could be made (PSF had specific recommendations on the templates).

Many respondents recommended the conduct of user tests and raised the challenge that data and methodologies are not yet available for all asset classes. There was also concern that standardising emissions reduction methodologies may unnecessarily limit product types and stifle innovation

Some suggested to focus on what the relevant commitments for the products in question are, and how the product in question follows its trajectory for GHG emissions reductions. Some also stressed that products without any GHG emission reduction targets should not be required to disclose GHG emissions.

ESAs' response: The ESAs have carefully assessed the feedback with regard to the proposed disclosures. By and large, the ESAs believe the approach presented in the consultation paper is most appropriate for the disclosures of the GHG emission reduction targets, therefore, it will be presented in the final report.

Question 23: 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.

A significant majority of respondents supported simplified disclosures limited to the provision of a hyperlink to the benchmark methodology for products disclosing under Article 9(3) SFDR that passively track an EU Climate Benchmark. They argued it was a proportionate approach which will support enhanced consistency between SFDR and the Benchmark Regulation.

Several respondents underscored the view that the disclosure of the hyperlink is only relevant for funds that passively track climate benchmarks. In case of active ownership, it is important that disclosures related to the investment strategy, in particular the engagement plans, remain available to investors.

Several respondents expressed concerns that hyperlinks would increase the burden on investors, in particular retail investors. They recommended to maintain additional disclosures as part of the pre-contractual template, meant to complement the hyperlink. These could take the form of a brief summary, and would cover the benchmark's strategy, specifying its targets and its level of ambition.

Some of the responses received relate to interpretation questions about SFDR and BMR legislation:

With regards to the distinction between Article 8 and Article 9, several respondents flagged that more clarity was needed from European institutions. Respondents ask for clarity on whether financial products that replicate an EU Climate Transition Benchmark (CTB) or EU Paris-Aligned Benchmarks (PAB) would necessarily have to disclose under Article 9(3). In that context, several respondents highlighted that, with products tracking CTB and PAB disclosing under Article 8, the current Article 8 disclaimer ["This product is not aiming at limiting global warming to 1.5 degree Celsius"] is misleading and should be removed. They also flagged that for such products, the possibility to refer to the CTB /

PAB hyperlink should also be offered. Some respondents flagged that some products may track non-regulated Paris-aligned benchmarks and that such products should also be subject to such provisions.

ESAs' response: The ESAs acknowledge the feedback received on this topic, however, persist in believing that the reference to a hyperlink of the relevant benchmark disclosures is the proper approach to distinguish between article 9(3) SFDR and other financial products with GHG emissions. The ESAs do not believe that such hyperlinks are warranted for any other financial products.

Question 24: 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.

A large majority of respondents supported the distinction introduced by the ESAs. They argued that it would support regulatory certainty and retail investors' financial literacy, as well as mitigate greenwashing risks and potential liability issues by clarifying to investors what they can expect from their investments. The disclosure may also support shareholder engagement and transition finance in general, by giving more visibility to related investment strategies.

Many respondents underscored that in practice decarbonisation targets will be pursued through a mix of approaches, which are not mutually exclusive and often even complementary. A product manufacturer may indeed resort to a mix of screening, divestment and capital reallocation, shareholder engagement actions. Engagement plans would typically involve divestment as a last resort action when investee companies do not implement sufficiently ambitious decarbonisation actions. Respondents also highlighted that the mix of strategies an FMP mobilise would evolve over time depending on the context. Respondents underscored that an ex-ante quantification of the contribution of each approach to the delivery of targets would not be practical. Respondents called for the ESAs to confirm that they shared that understanding. Respondents also proposed that a fourth option labelled "Other, please explain:..." be added in the redline about the narrative explanation in pre-contractual disclosures. In terms of presentation, some respondents also suggested that this be merged with the disclosure on the investment strategy to streamline the template.

Several respondents proposed that an ex-post assessment (including a quantification exercise) is disclosed as part of the periodic disclosures, so that investors have information on the contributions of the various approaches to the overall decarbonisation achieved.

Some respondents expressed concern that narrative disclosures about the way an FMP expects that it would deliver on the GHG emission reduction targets would be too complex for retail investors to understand. They recommended to complement the narrative explanation of how the targets are expected to be met, with a standardised "tick-the-box" disclosure, supporting both comparability and comprehensibility for retail investors.

Some of the comments received related to interpretation questions of SFDR:

Some respondents also supported additional guidance on these disclosures, in particular those related to engagement plans and activities, as this would support effective assurance processes.

Some respondents argue that this same distinction, between various approaches to delivering on GHG emission reduction targets, should more generally be reflected in the overall disclosure framework of SFDR, as relevant to other sustainability topics.

ESAs' response: The ESAs acknowledge the proposed distinction between a product-level commitment to achieve a reduction in financed emissions and the product-level commitment to achieve a reduction in investee undertakings' emissions was supported by the significant majority of respondents. Thus, the ESAs confirm that this distinction will be included in the final report.

Question 25: 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.

Almost half of respondents pushed back against the proposed disclosure, because they did not believe such information would be useful, reliable and/or feasible, due to the lack of consistent and robust methodology.

Respondents thought providing information on the degree of alignment of financial products would ultimately be useful to investors, especially to retail investors. At the same time, many of these respondents argued that the existing methodologies are not sufficiently mature when it comes to providing a robust assessment of the Paris alignment of a portfolio. In addition, building such assessments on a single indicator, such as temperature-alignment metrics, would be misleading and prone to greenwashing, providing a false sense of accuracy and certainty to investors. Respondents argued that the metrics used for such assessments should be sector-specific, that the methodology would also differ per asset class and that public authorities needed to define sectoral decarbonisation pathways for all sectors at both EU and global levels before such assessment could be conducted in a robust way.

A number of approaches and methodologies to be considered in relation to such assessments were mentioned in the responses – some of which are still under development - comparison to CTB/PAB trajectories, ADEME's ACT for Finance, Science-based targets portfolio coverage approach, Temperature Rating approach such as WWF and CDP's, Sectoral Decarbonisation approach, the Carbon Risk Real Estate Monitoring tool for real estate, or 2DII's Paris Agreement Capital Transition Assessment (PACTA) tool.

In the context of this disclosure requirement, respondents also suggested a few adjustments:

- Some respondents argued that, given the absence of a universally accepted methodology for reaching Paris-aligned goals, it is important to focus on ensuring that FMPs are being transparent in relations to their chosen methodology, requesting more details about the scenario and assumptions of the methodologies used for the product.

- Several respondents argued the disclosure as proposed was too binary and that the option “this has not been assessed” should also be offered to FMPs. The ESAs confirm that this is already the case as designed in the templates.
- Several respondents argued that disclosing the degree of Paris alignment should not be restricted to products disclosing under Article 9 but should also be possible for Article 8 products. According to them, a product that has a target aligned with the Paris Agreement, but does not comply with the DNSH principle, would disclose under Article 8. In such case, the disclaimer “The target of this financial product is not compatible with the objective to limit global warming to 1.5 °C.” should not be applicable.
- Several respondents also argued that the wording of the disclosure should be modified from “1.5 °C” to “well below 2 °C”.

ESAs’ response: The ESAs take note of the alternative suggestions given by respondents and consider, reinforced by the consumer testing, that the Paris Agreement alignment remains the most readily understood measurement of GHG reduction targets.

Question 26: Do you agree with the proposed approach to require that the target is calculated on the basis of all investments of the financial product? Please explain your answer.

A majority of the respondents agreed with the proposed approach (48) that the targets should be calculated on the basis of all investments to which the GHG Accounting and Reporting Standard for Financials (“PCAF standards” or “PCAF”) applies (so-called “relevant investments”), as it would support comparability, facilitate comprehensibility for retail investors and help mitigate greenwashing risks. Most respondents therefore considered cash and hedging instruments as not relevant assets in this case and to be excluded from the calculation.

Respondents expressed reservations regarding the achievability of full coverage for all products and data availability for certain jurisdictions and in particular companies not subject to the CSRD or data missing as a result of the recently introduced materiality assessment provisions within CSRD. To reflect such issues, respondents highlighted the need for transparency regarding “missing” data and the use of estimates: FMPs should disclose the share of the “relevant investments” for which data was missing and/or estimated.

Several respondents recommended that additional information on the asset classes involved should be disclosed. Several respondents suggested that FMPs should be allowed to disclose targets at asset class level, given the fact that asset owners’ own strategy are built on asset class level targets and action plans. This last comment was prominently made regarding sovereign bonds, with respondents arguing they should be disclosed separately, in order to avoid double counting. This separation is also supported by the fact that for the calculation of financed emissions, the attribution factor² is based on a measure of GDP (when it is built on a measure of the asset value for all other asset classes). For multi-option products (MOPs) argued the target/indicators should be calculated on each investment option separately.

² Ratio used to determine the share of total annual GHG emissions of the borrower or investee that is allocated to specific loan(s) or investment(s).

ESAs' response: The ESAs note the support for the approach and the alignment with the PCAF and have proposed to additionally require the disclosure of the ratio of relevant investments to total investments for clarity purposes.

Question 27: 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.

A small minority of respondents disagreed with the proposed approach to standardisation. A significant majority of respondents supported the ESAs effort to standardise disclosures related to GHG emission reduction targets. They agreed that it would support comparability and facilitate investors' work. They also appreciated that it would enhance consistency with CSRD ESRS DA and the ISSB climate-related disclosure standard.

Among those respondents who agreed on the general principle, a slight majority supported a requirement to use a single methodology. They confirmed the ESAs view that it would support comparability.

A significant minority argued it was premature to mandate a single methodology, with some arguing for a transitional period. These respondents laid out a number of technical arguments to oppose the requirement to use PCAF, but also arguments related to consistency with other regulatory texts and governance aspects. They generally argued that mandating a single methodology would stifle innovation.

Regarding technical aspects, several respondents first argued that a more open approach should be implemented with regards to the metrics used to disclose targets and progress monitoring. They argued that mandating a single standard would limit their ability to build climate strategies and transition plans reflecting sector specificities or the variety of approaches needed to make progress (e.g., metrics relevant to engagement actions, to the financing of low-carbon activities, etc.). They mentioned that industry best practice guidance supports the use of bottom-up assessment of net-zero alignment of the underlying investments for both asset owners and asset managers, for multiple sectors and asset classes, sometimes building on various metrics. Some respondents underscored the importance of physical intensity metrics ((e.g., tCO₂-eq/MWh for electric utilities, tCO₂-eq/t cement, tCO₂-eq/km for automobile manufacturer, tCO₂-eq/m² for real estate...). Because it would force the use of one single metric ("financed GHG emissions"), mandating the use of PCAF would result in disincentivising transition finance (e.g., provision of finance to sectors with higher emissions with the purpose of enabling their decarbonisation) they argued.

Several respondents also highlighted that for asset classes not covered by PCAF, FMPs need to be able to rely on alternative frameworks. In certain cases, national specificities prevail for asset classes and standards that take such specificities into account are being developed (e.g., the mortgage bonds market in Denmark).

Regarding regulatory consistency and governance aspects, respondents argued that the ESRS did not itself mandate the use of PCAF when disclosing financed GHG emissions and that SFDR RTS should therefore also adopt an open approach. Some respondents argued that SFDR does not empower the ESAs to restrict FMPs ability to use other commonly accepted approaches. Some respondents expressed concerns that given the current governance structure of PCAF, there is no guarantee that future changes to the methodology will be acceptable and consistent with existing EU legislation, which creates regulatory and litigation risks. Some respondents also highlighted that requiring the use of PCAF would introduce potential discrepancies with existing legislations. The phasing-in of scope 3 emissions under PCAF is not consistent with the phase-in of scope 3 emissions under the Benchmark Regulation (BMR): while all sectors are to be covered by 2026 under PCAF, all sectors are covered starting 23 December 2024 under the BMR. Last, under PCAF scope 3 emissions are not subject to the same materiality assessment as introduced in the adopted CSRD ESRS DA.

On the topic of scope 3 emissions, respondents argued that disclosures should distinguish between scope 1 and 2 on the one hand, and scope 3 GHG emissions on the other. They argued that scope 3 data is less reliable and less accessible (under the ESRS adopted by COM on 31 July, undertakings with fewer than 750 employees may omit scope 3 emissions data during the first year of sustainability reporting) and the difference in influence investee companies have over the various scopes. They argued that disclosures related to scope 3 emissions should be either voluntary or mandated only after a phase-in period.

In their response, respondents also challenged the proposed disclosures in terms of which metric is most appropriate to disclose targets and monitor progress in terms of GHG emissions reductions at product level. Some respondents challenged the idea that a ratio of financed GHG emissions over the value of the investments (or assets under management (AuM)) was a sensible metric. It would be subject to fluctuations due to finance-only factors: all other things being equal, growing market valuations would artificially translate into progress against the GHG emissions reduction target. While they recognised that it would support consistency with the Benchmark Regulation and PAI indicators under the SFDR, respondents also expressed concerns regarding the use of an EVIC-based calculation because such metrics are subject to market volatility and corporate capital structure elements which are beyond the control of FMPs.

ESAs' response: The ESAs acknowledge the feedback to this question regarding 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 and note the majority of respondents agreed on the general principle. On balance, the ESAs believe that the harmonised approach based on PCAF methodologies is the right one, furthermore, the ESAs consider that the disclosures on the GHG reduction targets should encompass scopes 1,2 and 3 GHG emissions.

Question 28: 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.

A large majority of respondents supported the idea that targets should be expressed in gross terms and that carbon credits and removals should not be used as means to achieve progress against the

targets. Respondents agreed that consistency with sustainability reporting obligations for investee companies was critical on that matter. They supported an approach consistent with the disclosure requirements contained in the ESRS. They also mentioned that, at the international level, the International Sustainability Standards Board (ISSB) had adopted the same approach to carbon credits and climate target-setting within climate-related disclosure standards S2. They also highlighted some of the reasons usually used to explain why the use of carbon credits should be accounted separately from gross GHG emissions reduction targets: potentially diverting attention from actual decarbonisation actions and issues related to potentially low environmental integrity (in particular: double counting, lack of permanence, overestimation, lack of additionality).

In addition, several respondents concluded that separate disclosures about GHG removals and storage and carbon credits was burdensome for both FMPs and investors, while not being useful to investors, or potentially a source of confusion. Many respondents did not see added value in setting specific targets for GHG removals and storage and for carbon credits at product-level or see such targets as particularly unreliable. From their point of view, the related rows of the table should be removed. This is also consistent with the conclusions of the consumer testing exercise, which showed a non-professional audience was not familiar with the concepts of GHG removals and storage and with carbon credits. These additional disclosures proved to cause confusion, in the absence of more detailed technical information. Some of them suggested that reporting on carbon credits would be useful where FMP declares resort to them in order to offset residual and hard-to-abate emissions at product.

Several respondents expressed concerns about the availability of the data necessary to disclose targets in gross GHG emissions terms. Investee companies not subject to the CSRD and to the ISSB S2 may not be required to disclose GHG emissions and emissions reduction targets in gross terms. In such cases, disclosures may be netted from GHG removals and storage, as well as carbon credits, without transparency about the topic. Respondents highlighted that this would make disclosures of gross GHG emissions at financial product level challenging and would expose FMPs to undue liability risks. They suggested that FMPs should clearly explain the share of the eligible investments for which gross GHG emissions data was available, verified and/or estimated.

Respondents also argued that for any disclosure about the use of carbon credits, information was necessary regarding the quality of the carbon credits at stake, to support high environmental integrity (e.g. information could comprise the serial number in the registry, certification status, certification standards involved, etc.).

Going forward, some respondents suggested that additional guidance be provided on the use of carbon credits: providing of list of recognised certification regimes, guidelines on the information that should be disclosed regarding quality standards for voluntary carbon credits.

ESAs' response: The ESAs take note of the feedback received and observe the resistance expressed by the respondents to the disclosures on the issue of GHG removals, storage and carbon credits. The ESAs agree that the approach in the consultation paper could risk readers being confused by those disclosures and for this reason it has been decided that those disclosures will be removed from the final report, including the optional ones.

Question 29: 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.

A minority of respondents supported the proposal, arguing that consistency is critical and that such disclosures would help mitigate greenwashing. A large majority of respondents, on the other hand, disagreed with the proposed disclosure regarding the consistency between product-level and entity-level targets. Notably, consumers associations are split, with BEUC disagreeing. Respondents considered that these disclosures would translate into a significant burden for the FMPs while not creating any major value for investors. In the case of retail investors in particular, the information provided would prove too difficult to understand, creating a context prone to misleading statements.

Many respondents pointed out that explaining the relationship between the products targets and an FMP's entity-level targets could prove extremely complex, especially given that the two levels may build on differing methodologies, which could be difficult to reconcile. Therefore, conveying their consistency in a comprehensible way would be extremely challenging. The complexity of the information to be provided may therefore increase greenwashing risks.

Respondents highlighted that retail investors buy products, not entities, and that they are primarily interested in the sustainability performance of the products. They further propose that such disclosures should be reconsidered in the future, once the robustness and reliability of the methodologies have improved and FMPs have acquired more experience in developing and communicating their transition plans – as reported under disclosure requirement ESRS E1-1.

Some respondents expressed the view that it is not appropriate to link product-level objectives for sustainable products to entity-level objectives when at the entity level there may be a fiduciary responsibility to their non-sustainable product investors – potentially increasing conflict of interest risks. Also, the disclosure does not appear relevant for multi-option products, where clients can choose out of a multitude of differently focused funds with multiple funds managers.

Regarding the way forward, some respondents argued that information on the consistency between product and entity-level commitments, while critical, should be reported as part of the entity-level disclosures. Others suggested that this disclosure is given on a voluntary basis.

ESAs' response: The ESAs appreciate all the feedback and technical input provided by respondents. On balance, the ESAs believe their approach proposed in the consultation paper is the right one.

Question 30: 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?

Most respondents agreed or partially agreed with the inclusion of a dashboard at the top of Annexes II-V, and that the dashboard helps consumers better understand the essential information.

Industry representatives that agreed or partially agreed noted that a change in templates so close to the January 2023 template implementation and to a SFDR level 1 review could be burdensome and cost inefficient for them. Hence, they would like to see a cost/benefit analysis. Many felt that the two hundred and fifty characters box at the beginning of the dashboard is too short, it should either be lengthened or removed. On the icons, some felt that the “conditionality” (i.e., green/grey icons) is too burdensome to implement and favour a black and white approach. Lastly, some others respondents stated that they would like to remove the new icons.

Industry representatives that did not agree with the inclusion of the dashboard. Some stated that it would not add clarity for consumers, and that the ESAs should focus on contributing to SFDR level 1 review rather than proposing changes to the templates. Moreover, they believe the dashboard discourages consumers from reading the rest of the template.

Consumer representatives and NGOs – all of which agree with the new dashboard – noted that the difference between ‘sustainability characteristics’ and ‘sustainable investment objective’ should be clearer. A few asked for a box highlighting investments that do not promote E/S (art 8) or are not sustainable (art 9). Some expressed that the use of green in art. 8 template could be misleading.

Many industry representatives, consumer representatives, and NGO agreed on the need to consumer test. PSF broadly agreed that the PRIIPs review should be aligned with the SFDR dashboard. Many PSF also did not like the bracket linking sustainable investment and Taxonomy-aligned investments. PSF also asked for guidance on how to fill the two hundred and fifty characters box and for explanatory text on the difference of denominators between Taxonomy-aligned and sustainable investments.

ESAs’ response: The ESAs acknowledge the support for the inclusion of the dashboard in the financial product template. The ESAs note that this support was also confirmed by the consumer testing exercises. Based on the feedback from the consumer testing exercises the dashboards will be slightly modified to ensure greater comprehension of the disclosures. To dispel any uncertainties, the tick box in the old templates will be replaced by the dashboard.

Question 31: 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?

Some respondents raised concerns on the language in the templates which is complicated and hard to understand for people without specific expertise on sustainable finance. They suggest rewriting sentences in a clearer and more direct manner, avoiding unnecessary passive voice usage. They also point out the presence of financial jargon and the use of "Brussels Bubble English".

Asset management, insurance and private equity industry associations suggest to simply further the templates as they are excessively long and detailed. It is essential that the content of the templates is significantly reduced. Make the dashboard the main point of disclosure and put the remaining annex content in web-based disclosures. Remove or consolidate questions where possible. Industry suggested to reorganise the structure of the templates to put together pieces of information that cover the same concepts but were previously split.

Industry representatives made specific suggestions on the wording (see below) and in particular to remove the questions that are not applicable (such as Taxonomy ones)

Some respondents suggested using a typology of sustainable investment approaches - exclusion, positive screening, pushing for transition through stewardship - in the templates with tick-the-boxes so that consumers can understand there are other options, highlighting that this could be done in the three sections of dashboard, GHG emissions and investment strategy where it should be included for better clarity and comparability of products.

Asset managers suggested simplifying the language and sections of the dashboard by extending the summary with increased character limit to improve the practical usefulness of the dashboard. They also point out an inconsistency in the phrasing of GHG emissions reduction (The use of the word "atmosphere" could potentially be interpreted as a general reduction of GHG emissions or as the reduction of emissions already present in the atmosphere. In contrast, the GHG section of the template does not employ the term "atmosphere," but rather focuses on whether the product has a greenhouse gas emission reduction target).

Asset management industry representatives recommended streamlining the templates to improve readability for retail investors by removing the question "What is the asset allocation and the minimum share of sustainable investments?", arguing that it creates misunderstanding, distinguishing between the technical concepts of "asset allocation" and "minimum share of sustainable investments" which can be challenging for investors. They also asked to remove the concepts of 'socially sustainable investments' and 'other environmental sustainable investments',

Some respondents noted that firms that do not intend to allocate a minimum level of sustainable investments in taxonomy-aligned investments should be allowed to skip the graph and provide a brief explanation instead. This would further shorten the Annex.

Asset managers noted that "Does the financial product invest in fossil gas and/or nuclear energy-related activities that comply with the EU Taxonomy?" – should be rephrased to "Does the financial product commit to investing a minimum proportion of its assets in fossil gas and/or nuclear energy-related activities that comply with the EU Taxonomy?"

Many respondents called for consistent wording throughout the templates. Currently, they noted that the template uses various phrases such as 'remove,' 'include only,' 'do not include,' 'include a section where,' and 'include section only' to express the same concept.

The PSF suggested that the ESAs align the structure with new dashboard to make it easier to navigate through the template and allow to provide the description on the characteristics / sustainable investment objective and the strategy together and allow to use the dashboard elements as extendable on click, improving the navigation through the template.

ESAs' response: The ESAs note and share the concerns raised by the respondents to this question. The ESAs have attempted to simplify some of the terminology, however, ultimately, it needs to be considered that for instance, the overlap between sustainable investments and taxonomy among investments arises from the complexity of Level one legislation.

Question 32: Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?

Several respondents provided different suggestions on how to further simplify or enhance the legibility of the current templates. Some respondents stated that the proposal includes scattered information on concepts, and they seek clear guidance on removing or keeping non-applicable sections in the template. SMSG noted that the Dashboard is an improvement aligned with MiFID sustainability preferences and greenhouse reduction targets, however, could benefit from clearer explanations of environmental and social characteristics for investors. Insurance stakeholders asked to address inconsistencies in requirements and timelines on the side of the insurer and the asset manager. In addition, asset managers recommend avoiding colour usage, simplifying existing questions, and allowing the deletion of sub-questions when the main questions are not answered and to eliminate the requirement to produce two graphs associated with taxonomy alignment. Apart from that, some stakeholders favoured the removal of the asset allocation graph, while industry representatives requested the execution of large-scale testing activities. Lastly, a few respondents proposed simplifying pre-contractual templates to avoid duplication, addressing confusion over whether to include environmental/social characteristics or products' usual strategy.

ESAs' response: The ESAs acknowledge the suggestions and concerns raised by the respondents to this question and, consequently, the ESAs will make an effort to simplify some of the terminology, nevertheless, as mentioned in the previous query, consideration must be given to the fact that some of the complexity arises from Level one legislation.

Question 33: Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?

Most respondents preferred to remove the asset allocation tree , while some others preferred to keep it.

Some industry representatives, including PSF and the ESMA SMSG believed the tree should be removed because for the following reasons:

- Different regulators have divergent expectations on how to complete the asset allocation tree.;
- It gives a misleading impression that some types of investments are a subset of others (e.g. sustainable investments and Taxonomy-aligned investments);
- By getting rid of tree no need to split environmental sustainable investments and social sustainable investments, which was causing issues;
- New dashboard would now cover the information presented by the tree; and
- Reduces the amount of information that the consumer needs to go through.

However, some industry representatives preferred to keep the tree because:

- The tree serves an educational purpose - consumer-friendly way to get detailed information on the different investment categories and how these are interlinked;
- Financial advisors find the asset allocation tree useful when advising on products and explaining sustainability aspects to consumers; and
- Considerable effort was already made by FMPs to implement the tree.

ESAs' response: The ESAs acknowledge and appreciate the feedback received by the respondents in this Consultation Paper. It was noted that most respondents preferred to remove the investment tree and as the ESAs agree with this approach, it will be removed from the financial product templates in the final report.

Question 34: Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?

Most respondents agreed with the mandatory colouring in all templates. However, most industry representatives disagreed with the mandatory colouring because they believed that printing is usually done in black and white, rendering the colouring obsolete. And printing in colour would be too costly for FMPs and not environmentally conscious. Apart from that, they considered that it would not be inclusive with colour-blinded people and that is inconsistent with PRIIPs KID Regulation.

On the other hand, some industry representatives, all consumer representatives and all NGOs agreed that using colours would help consumer understand the disclosure better. PSF also agreed with the use of colours but noted that the different shades of green are hardly identifiable for very small percentage in certain graphs, and the editable icons in grey/green should be made available to FMPs. Lastly, SMSG agrees with the need for consistency, but points to the risk of greenwashing whereby products with 1% and 99% SI or Taxonomy-aligned investments would both have the green colour.

ESAs' response: The ESAs note the support for the harmonized use of colours in all the templates. Based on the feedback from the consumer testing exercises, the templates will be shifted to black and white as the colours were misinterpreted during the testing exercises, therefore, it will be essentially used black and white colours only.

Question 35: Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?

Stakeholders supported ESAs' extended electronic display of pre-contractual and periodic disclosures for improved readability, simplicity, and visual presentation. However, some support optional use, layered approaches, and electronic versions alongside PDFs, not replacing existing requirements. Some stakeholders suggested conducting consumer research to ensure its effectiveness. Insurers

agreed to the option as long as it remains optional but highlighted the potential costs and the need for sufficient implementation time.

ESAs' response: The ESAs acknowledge the support to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically and confirm it will be allowed in the final report.

Question 36: Do you have any feedback with regard to the potential criteria for estimates?

A significant majority of respondents were in favour of the replacement of “equivalent information” with “estimates”. A significant majority of respondents supported the use of estimates. Nevertheless, some respondents argued against it, including the ESMA SMSG.

The PSF stated that there are still data gaps, therefore, estimation of the missing data points would be misleading. Some respondents expressed concerns about the difficulty to find metrics and implement the EU Taxonomy to non-EU undertakings and EU SMEs.

Finally, a few respondents considered that companies/activities located in the European Union should be considered as fulfilling systematically the DNSH criteria of the EU Taxonomy.

ESAs' response: The ESAs acknowledge and appreciate the feedback received by the respondents in this Consultation Paper. The ESAs noted that the majority of respondents supported replacing “equivalent information” with “estimates”, however, will not propose harmonised criteria for those estimates. The ESAs will hold off for further work to be done from the PSF and potential broader guidelines from the EC on criteria for estimates.

Question 37: 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?

A slight majority of the respondents were in favour of a definition of this concept of “key environmental metrics” and indicated that the definition could refer to PAI indicators, build upon the objectives laid down in the EU climate law as well as the six environmental objectives of the EU Taxonomy, they could be expressed in physical units and be accessible to private-equity and lastly to be science-based.

Among the respondents against such specifications, few explained that a change should be made to the level 1 of SFDR or, on the contrary, that these metrics should be defined out of the framework of SFDR. Few others also claimed that the transparency offered by the EU framework.

ESAs' response: The ESAs note the feedback, nevertheless, as the ESAs will no longer propose harmonised criteria for estimates, there will be no further specific definition of the concepts of key environmental thresholds. The ESAs await further work from the PSF and potential broader guidelines from the Commission on criteria for estimates.

Question 38: Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.

Respondents were evenly split in their answer. Yet, a significant number of contributors who replied against interpreted the question as a proposal from the ESAs to develop in the RTS a precise definition of sustainable investment, specifying what would fall within it and what would be excluded from it.

Many respondents called for a review of the level 1, consisting in the introduction of minimum criteria and/or the alignment of the sustainable investment definition to the EU Taxonomy.

A couple of respondents make technical comments about the scope of the denominator, some calling to consider all investments while others asking for the exclusions of some derivatives and cash. Others urged NAV for the valuation.

Some insurance representatives mentioned that the calculation of the proportion of sustainable investments made by a product should rely on the percentage of sustainable activities of undertakings (and not on a binary approach at entity-level).

ESAs' response: The ESAs note the split among respondents between those who support a harmonised calculation of sustainable investments on those who oppose it. On balance, the ESAs have decided to propose a harmonised calculation of the two methods of sustainable investment measured at the activity level and company level.

Question 39: Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?

The majority of respondents were in favour of cross-referencing in periodic disclosures of financial products with investment options to address information overload. However, insurers noted that it should be possible to include a single link to the website page that includes all the relevant annexes. Indeed, providing a link for each annex does not seem operationally feasible and will also be clearer for the customer who is likely to receive the periodic information on a paper format.

Insurers noted that while they agree that it should be as easy as possible for consumers to access the information on the investment options and therefore that hyperlinks should not redirect to the asset manager website main page, it is in many cases not feasible to provide a link which leads directly and exclusively to the relevant SFDR information. The reason for this is that under the current RTS, UCITS management companies and AIFM are not required to publish the information under Articles 8, 9 and 11 SFDR as stand-alone documents. In many cases, the SFDR information would therefore have to be

extracted manually from the relevant prospectuses, which is extremely costly but has a low added value for clients who can easily identify the annexes in the prospectus pdf. As a result, they asked the ESAs to use their mandate under Article 10 (2) SFDR to specify the presentation requirements referred to in the second subparagraph of Article 10 (1) SFDR in order to ensure that the SFDR information of the underlying investment options are available as separate electronic documents.

Some respondents from the Insurance sector opposed replacing "product" and "financial product" with "investment option" in templates. This requires a significant redefinition of processes and manual amendments. An alternative solution allows insurers to include a general disclaimer in pre- and post-contractual documentation and website disclosure, stating that references to "product" and "financial product" should be considered "investment option". They also noted that a large number of investment managers belonging to the same group as the custodian bank of the policy chose electronic submission of reports over paper or electronic submission. The limited accessibility to the internet banking system, which is only available to insurance companies, burdens the insurance business. To ensure that insurers operating under an open-architecture model have a fair playing field, ESAs are asked to evaluate the periodic report requirements.

The ESMA SMSG suggested the following conditions: (i) the cross-references should be identifiable in a straightforward way; (ii) there must be a minimum degree of available information. Situations where investors are cross-referred to another document and then need to extensively through the document to find the required information must be avoided.

ESAs' response: The ESAs' note the support for the cross-referencing and will retain this approach in the final report.

Question 40: Do you agree with the proposed website disclosures for financial products with investment options?

The majority of stakeholders agreed partially with the proposal, as stakeholders agreed with the inclusion of a list of investment options and providing access to pre-contractual annexes through hyperlinks as a practical and informative solution , however, some insurers disagreed with the proposal to include a general summary of the financial product with underlying investment options .

Insurers noted that the new obligation to publish a "summary" referred to the sustainability-related investment strategies requires the usage of data that the insurer does not normally manage and process since, as already mentioned above, this analysis is carried out and provided by investment managers/investment fund issuers. However, the current wording used by the ESAs does not suggest any obligation in this sense on the investment manager/investment fund issuer and, therefore, would de facto result in an unsustainable burden on the insurers.

The PSF saw merit in structuring the website disclosure in line with the dashboard. In general, website disclosure contains some inconsistencies with pre-contractual disclosure. For instance:

- The sentence under "no sustainable investment objective" should be aligned with the sentence in the dashboard. For Article 9 products, the Section could also begin with the statement in the dashboard.

- The explanation under “no sustainable investment objective” and “no significant harm to the sustainable investment objective” is part of the section “what is the asset allocation” in the pre-contractual disclosure.
- The sequencing of the information is different, e.g. investment strategy on the website is before and in the template after the GHG emission information. We suggest using exactly the same sequencing as in the pre-contractual template.
- Headings are different, e.g. the information on asset allocation in the pre-contractual disclosure should be part of the website section headed “proportion of investments”. The heading does not easily allow for that recognition.

ESAs’ response: The ESAs note the support for the enhanced website disclosures for products with underlying investment options and will retain the regime proposed in the consultation paper.

Question 41: 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 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?

Most respondents agreed with the proposal. They believed this would ensure transparency and comparability across products.

Some stakeholders were of the view that the templates should only apply to investment options are identifiable named products with sustainability related features. Where the investment options are not identifiable named products, it is unlikely to be possible to prepare a SFDR annex with disclosures that would be specific and therefore meaningful to the potential investor. A few respondents disagreed.

However, some institutions expressed concerns about information overload, costs outweighing benefits for retail investors, and the exclusion of certain financial instruments mentioned in Annex III of MiFID.

ESAs’ response: The ESAs note the support for the proposals in the consultation paper and will retain this approach in the final report.

Question 42: 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?

From the responses received to this query, a significant majority of respondents are in favour of SFDR disclosures being machine-readable, a few respondents have no views and a minority are not in favour.

Of the ones in favour of machine readability, the relative majority recommended specifically iXBRL in order to align with the format requirements in sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) and in order to ensure that disclosures are at the same time human-readable and machine-readable.

ESAs' response: The ESAs note the support from respondents to require the machine-readable format of the SFDR disclosures. The ESAs will propose, in the final report, that information required from the ESAP should be provided iXBRL format. In the context of the ESAP project, ESMA intends to make available to FMP XBRL taxonomy files and the related implementation support, which will facilitate compliance with this format requirements.

Question 43: Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?

Many respondents commented on the preliminary impact assessment, but only one respondent could provide estimates of costs.

Many respondents specifically admitted they could not provide cost estimates.

The PSF noted that changes to calculation methods lead to implementation efforts including changes in the systems. The changes might also lead to a decrease of comparability.

The ESMA MSG raised concerns of a decoupling of disclosure requirements under SFDR and disclosure requirements for investee companies. For financial market participants, the need for estimates has been made more compelling by the draft Delegated Act on ESRS as the data points required for PAI indicators under SFDR have been subjected to the materiality principle under the ESRS.

ESAs' response: The ESAs note that only one respondent provided estimates, therefore, it is insufficient in order to assess the overall effects of the suggested changes. Nonetheless, the ESAs believe that within the mandate they have been provided by the European Commission, the proposals in the Final Report are proportionate and targeted to the request by the Commission.

5. Annex: ESMA SMSG Advice

Advice to ESMA

SMSG advice to the ESAs' Joint Consultation Paper on Review of SFDR Delegated Regulation regarding PAI and financial product disclosures

Executive Summary

The SMSG's advice is set against a context of uncertainty emanating from the draft Delegated Act on European Financial Reporting Standards (ESRS). The SMSG is concerned that this draft Delegated Act results, in particular through the materiality principle, in a decoupling of disclosure requirements for investee companies and for financial market players.

As a result, there are within the SMSG divergent insight with regard to the inclusion of new social PAI indicators. While not disputing the relevance of these indicators, the divergence relates to the feasibility and timing of the inclusion, some argue that no new indicators should be introduced before the ESRS is implemented and stabilised and before inconsistencies in Level 1 legislation (SFDR, Taxonomy Regulation, MiFID Sustainability Preferences, Climate Benchmark Regulation) are remedied. Others argue that no such revision is currently envisaged and that postponement risks to be sine die and hence, that for the sake of investors who are sustainability-minded, these indicators should be included now.

The SMSG is not in favour of an approach where derivatives are treated differently whether they relate to the degree of sustainability or to PAI indicators. It prefers an approach where the net long exposure is taken into account, be it floored to zero. However, as engagement through voting is not possible in case of derivatives (contrary to direct investment in equity), this must be disclosed appropriately in precontractual information on engagement. However, there was a minority view, held by particularly consumer representatives, that derivatives should not be included, neither for sustainability ratio, nor for PAI. The divergence rested mainly on different assumptions regarding the role of derivatives in financing the real economy.

Concerning quantitative PAI thresholds, the SMSG considers mandatory disclosure of quantitative PAI thresholds useful, where such thresholds are used by financial market participants. However, an obligation to set quantitative thresholds for each PAI indicator would be a bridge too far. Moreover, if quantitative thresholds are mentioned, it should be disclosed what consequences are given to these thresholds. The SMSG also considers transparency on the prioritisation of PAI indicators to be relevant, and as such agrees with the textual amendment of article 7.1c of Delegated Regulation EU 2022/1288.

The SMSG believes it is premature to say that "if two concepts of sustainability are retained, then the TSC should form the basis of DNSH assessment". The TSC defined under the Taxonomy Regulation, is often very sector specific. To the contrary, the assessment of DNSH under SFDR today in most cases rests on generic criteria. Hence, a switch to TSC would mean a major shift in methodologies. At the same time, the TSC are still incomplete.

The SMSG is of the opinion that a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR is useful to avoid lengthy disclosures on technicalities of the benchmark. While this refers to the technicalities, the SMSG believes that the precontractual information needs to provide, alongside the hyperlink, some general information about the benchmark, with focus on why a specific benchmark is chosen.

For products that focus on GHG reduction, 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. The SMSG believes that this distinction is useful because the investor has the right to know how the product intends to achieve the GHG reduction it aims for. However, a reduction target at product level may not be actionable when it requires aggregation over asset types which imply different definitions of GHG emission (for example govies vs equity). In case of a commitment through reduction targets in investees' emission engagement should ideally be aligned with the reduction targets.

For art 9 products that focus on GHG reduction, it is useful to disclose the (degree of) Paris-alignment in pre-contractual information because it helps retail investors understand how meaningful the product's reduction target is. The Paris agreement is the obvious reference because it is the globally agreed yardstick against which reduction targets must be measured. Also, the reduction target must come from effective reduction and not from netting with carbon credits.

Although the GHG Protocol's standards are the most popular globally, it could be difficult to impose a unique standard also for issuers outside the EU. Taking into account that many investment products have a global scope, the SMSG believes that alternative standards should not be forbidden. In any case, disclosure about which standard is used and why, is important.

Disclosure on the alignment of product-level target and entity-level commitment is not a priority, as investors by a product, not an entity and as product-level target could differ from entity-level targets. Something that could be useful in the future is to include information about the consistency between product level targets and the entity's transition plan for climate change mitigation under disclosure requirement ESRS E1-1.

As far as the visualisation and the presentation of sustainability information is concerned, the SMSG agrees with most of the proposals of the ESA's.

The SMSG considers the proposed dashboard to be an improvement because of its conciseness and its alignment to MiFID sustainability preferences. With hindsight, there is no longer any need to maintain the 'investment tree.'

The SMSG also agrees with the proposal of ensuring consistency in colour coding. Nevertheless, it warns against potential misunderstandings that can result by using colouring to attract attention. For example, a green colour, without percentage to denote taxonomy-alignment does not differentiate between 1% and 99%.

With regards to digital precontractual information, the SMSG suggests a two-steps approach where the most relevant information is visible at first glance and additional information can be obtained by clicking.

The SMSG is not in favour of estimates. The need for estimates arises because of the requirement to provide aggregate information, where in particular the entity level requires proxies but at the same time is of little relevance. With regard to cross-referencing in the context of investment products with investment options, the SMSG understands the need to address information overload and to avoid duplication of information. However, this is subject to the following conditions: (i) the cross-references should be identifiable in a straightforward way; (ii) there must be a minimum degree of available information. Situations where investors are cross-referred to another document and then need to extensively through the document to find the required information must be avoided.

On the costs of the ESA's proposal, the SMSG voices the concern of a decoupling of SFDR on the one hand and the draft Delegated Act on ESRS on the other. It points at costs that could arise because of parallel reporting requirements. This refers in particular to investee companies, but also to the costs and uncertainties for financial market players, in particular when it comes to estimates. The dependence on primary data and the partial reversal of the draft Delegated Act on ESRS exposes the financial sector to a trade-off between relevance for the investor on the one hand and practical challenges on the other.

General remarks

1. On 9 June 2023, the European Commission published its draft Delegated Act on set 1 of European Financial Reporting Standards. This draft Delegated Act reverses to a certain extent the EFRAG proposals. Apart from changes to particular indicators, it allows the disclosure requirements for investee companies to be subjected to the materiality principle. This is relevant for all the data points that are needed for disclosure of PAI indicators under SFDR. For financial market participants, this creates two problems. First of all, they will not be able to get the data they need. Secondly, it makes the European Single Access Point to a large extent redundant. This was to become an easy access point to obtain the primary data needed for PAI disclosure.
 2. The draft Delegated Acts also created uncertainty for the SMSG in the preparation of its advice. What will be the final version of the Delegated Act and will the required data ever be available? This uncertainty is reflected in some of the viewpoints of the SMSG. Where no consensus could be reached, the SMSG considered it useful to present the different positions and the reasoning behind it.
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- I. **Question 1: 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) ?**
 - II. **Question 2: Would you recommend any other mandatory social indicator or adjust any of the ones proposed?**
 - III. **Question 3: 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)?

3. In answering these questions, the SMSG took into account but also differentiated relevance, feasibility and timing.
4. With regard to relevance, the SMSG did not discuss each proposed indicator separately, be it the mandatory or optional ones. However, given the fact given the fact that SFDR is not only about E, but covers E+S+G, the SMSG understands the rationale behind adding these indicators.
5. However, there were different insight with regard to feasibility and timing. Some believed that now is not the time to add new indicators. Before adding something new, the relevant Level 1 legislation (Sustainable Finance Disclosure Regulation, Taxonomy Regulation, MiFID sustainability preferences, Climate Benchmark Regulation) should be evaluated, harmonised, and simplified. Also, given data problems, new indicators should not be added before ESRS is in force and stabilised. Indicators de-fined differently in ESRS or not maintained in ESRS should be avoided.
6. Others, however, pointed at the fact that no review of the relevant Level 1 legislation is currently envisaged. Neither do the ESA's have a mandate for another consultation at a later stage. Also, it is far from certain that the social taxonomy will ever be realised. In other words, things being as they are, postponing carries with it the risk that it would be sine die. On the other hand, the proposed indicators are relevant from a social point of view. The focus on the disclosure problems for financial market participants is one side of the coin. The other side is the information needs of sustainability-minded retail investors.

IV. Question 4: Would you recommend any other social indicator or adjust any of the ones proposed?

7. Since the ESA's initiated their consultation paper on SFDR Delegated Regulation regarding PAI and financial product disclosures, the Commission published a draft Delegated Act on European Sustainability Reporting Standards. The SMSG believes that congruence between EU legislations (here: ESRS and SFRD) is key to limit investee companies' reporting burden. For example: an opt-in indicator relating to ESRS S1-12 Persons with disabilities. While the ESRS lay the focus of this indicator on employees, the proposed addition to the SFDR alters the scope for this requirement to the own workforce, which also include non-employee workers. This would require companies to report two version of the same KPI with different scopes. Furthermore, reporting on non-employee workers poses a much greater challenge with regards to data availability as for own employees. Deviations and alterations from existing ESRS KPIs pose an unnecessary increase in the reporting burden on the investee company's side.

8. The example above also reflects the impact of the draft Delegated Act on ESRS. The ESA's initial proposal was based on EFRAG's draft, which required DR S1-12 to cover a company's entire work force. However, while all share the concern of misalignment between SFDR PAI and ESRS, there are divergent views with regard to conclusions and recommendations. While some believe that the SFDR indicators should be aligned with the draft Delegated Act, other believe that this would be a down-ward alignment and call for an upward alignment. This requires that the Commission's draft is restored to the level of the EFRAG draft.
 9. While this problem is now being raised for this proposed social indicator, it could potentially be of relevance for all SFDR PAI-indicators. Hence, the SMSG calls on the ESAs to verify the congruence of the SFDR PAI indicators with the draft ESRS indicators. This is relevant for all indicators, not only the social ones. Where needed, the indicators should be changed to be congruent with ESRS.
 10. The SMSG also notices that the draft Delegated Act on ESRS introduces a double materiality principle which will apply to all datapoints requires under SFDR. Also, the ESRS will be phased in gradually. It must be avoided that investee companies are required to disclose indicators under SFDR, which they are exempted from under ESRS. Where ESRS allows companies not to disclose an indicator, they should be given the right to also report the immateriality of topics for the sake of SFDR. This prevents investee companies to be required to gather data and report on immaterial topics which would again increase the reporting burden. Moreover, it ensures that the results of an investee company's materiality analysis are not eroded by financial market participants requesting data on immaterial topics. This too refers to all PAI indicators, not only the social ones.
 11. In an earlier advice (ESMA 22-106-2858, 14 September 2020), the SMSG already stated that PAI indicators are mostly relevant at product level, not at entity level. This rested on two principal considerations: (i) the investor buys a product, not an asset manager; (ii) "bad data drive out the goods ones": aggregation over all products means that reliable data are lumped with incomplete data. Although the SMSG is aware that this refers to Level 1 legislation, which is not in scope in this consultation, it believes it is useful to recall the considerations, raised in this earlier advice. Since then, two evolutions have reinforced the SMSG's initial point of view:
 - a) MiFID sustainability preferences (delegated regulation 2017/566) defines as one of the options for sustainability preferences: "a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client". This option links PAI indicators to the product;
 - b) Through the double materiality principle and the phasing in of reporting standards, there will inevitably be incompleteness of data. This makes aggregations even less useful.
- V. **Question 5: 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?**

12. The proposed indicators are also the ones used in the Taxonomy Regulation, as minimum safeguards. As such, the changes improve the alignment between SFDR and Taxonomy Regulation. While some have some reservation due to the fact that the UN Guiding Principles are more difficult to implement, the conclusion is in favour of these changes.

VI. Question 6: 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?

VII. Question 7: 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?

13. The SMSG has no proposals for specific real estate social indicators. The SMSG is in favour of alignment with the Taxonomy Regulation.

VIII. Question 8: Do you see any challenges in the interaction between the definition 'enterprise value' and 'current value of investment' for the calculation of the PAI indicators?

IX. Question 9: Do you have any comments or proposed adjustments to the new formulae suggested in Annex I?

X. Question 10: 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?

14. The SFDR Delegated Regulation defines enterprise value as the sum, at fiscal year-end, of the market capitalisation (including ordinary and preferred shares) and the book value of total debt and non-controlling interests, without deduction of cash or cash equivalents (Annex I). We consider that to determine the enterprise value, it would be more relevant to calculate the market capitalisation based on an average price covering a longer period (average on the last 3 months for instance) to avoid variations of carbon emissions and footprint due only to market conditions (e.g., market capitalisations of many companies have plummeted in a few weeks due to the Covid-19 outbreak). Variations of market capitalisation both up and down should, therefore, be neutralised.

XI. Question 11: 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?

XII. Question 12: 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?

15. The SMSG did not discuss these questions in depth but merely has the general comments that it is not in favour of using estimates to increase the coverage of the ratios.

XIII. Question 13: 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?

16. Generally speaking, the SMSG is not in favour of using estimates to boost the coverage of ratios. Hence, it agrees with the ESA's proposal.

XIV. Question 14: Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?

XV. Question 15: 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?

17. In answering these questions, the SMSG took into account different considerations. These included: (i) consistency and complexity of the regulation, which would be much less the case if different approaches were followed with regard to sustainability ratio and PAI; (ii) consistency with other legislation, in particular the treatment of derivatives under UCITS and AIFMD; (iii) equivalence with other financial products: if one excludes one type of product, then how to ensure consistency with other types of products; (iv) the risk side.

18. However, the principal discussion point referred to the impact of derivatives on the real economy. Here there were divergent insights: on the one hand, there was the view that derivatives do not provide direct finance to investee companies. As such, they cannot be seen as instruments that finance the transition to a sustainable economy and including them can fall short of the expectations of sustainable-minded investors. On the other hand, there was the view that indirectly they contribute to financing the transition. If the underwriter of the derivatives holds a physical position in the underlying assets (equity, bonds), this contributes to financing the transition. In this respect, it was brought to the attention that counterparties in the system need to hedge their positions and they are highly regulated to avoid speculative positions. Also, derivatives can have a beneficial role by influencing other elements, such as liquidity.

19. All members of the stakeholder group prefer consistency irrespective of whether it refers to the sustainability ratio, taxonomy alignment or to PAI. This stemmed from a concern to avoid complexity. However, there were divergent views on whether this unique approach should include or exclude derivatives in the calculation.

20. Taking the different concerns into account, the view prevailed that net long position on derivatives are to be taken into account for both the calculation of sustainability ratio, taxonomy alignment and PAI's, hence inclusion of derivatives. In line with ESMA's proposal, this position is to be floored to zero.

21. However, this view was nuanced by recognising a difference with regard to actual holdings of the assets themselves. Exposure to equity risk through derivatives does not grant voting rights in the shareholders' assembly of an investee company. As such, it may not result in the same degree of engagement as direct holdings of equity. This should be disclosed properly in precontractual information.
22. However, a minority of SMSG members (particularly investor representatives) considered that derivatives should not be taken into account, neither for the calculation of sustainability ratio / taxonomy alignment nor for the calculation of PAI. This view rests on their conviction that most derivatives do not sufficiently contribute to the real economy, as compared to direct investment in shares or bonds. A mere disclosure on engagement does not compensate this difference. However, should the exclusion of derivatives not be possible, those members considered that the asymmetric approach proposed by the ESAs is reasonable to reduce the risk of greenwashing.
23. The remarks on the calculation in this paragraph and the following paragraph, rest on the proposal to include net long positions. For the numerator, derivatives should be integrated at delta equivalent exposure as per the UCITS and AIFMD global risk calculations. These calculations aim at the economical exposures of funds by taking into account the netted equivalent underlying equivalent of derivatives. We agree with ESMA that the net short should be floored to 0. Sectoral rules can therefore be set to take into account derivatives' exposure in a systematic manner as it is the case on the financial case. More detailed, every derivative is not used for ESG exposure purposes, a lot of them are only used for EPM (efficient portfolio management techniques) for liquidity reasons, risk management reasons, time to market reasons, and on a temporary non-structural way or for a negligible proportion. FX and interest rate derivatives for instance should be disregarded: looking through the derivative contracts to the net exposure on the underlying asset class is the reasoning that helps disregard FX and interest-rates since the notions of alignment or PAI are not applicable to the asset class. Therefore, only derivatives whose aim is to contribute to the ESG strategy (or that may distort the ESG strategy, for example by shorting a top ESG name held in portfolio) are taken into consideration. Regarding the denominator, ESMA proposes total assets, understood mostly as the NAV. First, a total assets denominator is not appropriate for all PAIs. These PAIs need an appropriate denominator on the meaningful part of the assets. In addition, actors may choose to use the appropriate part of the portfolio if they stipulate the proportion of this part with regards to total assets. This calculation has the merit of consistency. Other actors, that have limited use of derivatives or small proportion of cash and ESG neutral assets or for operational reasons, the calculation may be done on the NAV.
24. The ecosystem is currently exploring the best ways to deal with derivatives (which derivatives are ESG neutral and should be excluded from the calculations based on a taxonomy-neutral underlying such as FX and interest rates, the question of integrating the delta exposure for both numerator and denominator...), and all agree that consistency is essential. Yes, the netting provisions should be applied to sustainable investment calculations, not only in reference to Article 17(1)(g), but more appropriately calculated consistently with the UCITS and AIFMD global risk netting.

25. The issue of derivatives should also be dealt with consistently amongst all types of retail products. For example, there should be a consistent computation of ESG exposures for retail structured products, both funds and structured notes or other types.

XVI. Question 16: 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?

26. The SMSG did not discuss this question in depth.

XVII. Question 17: do you agree with the ESAs's assessment of the DNSH framework under SFDR?

XVIII. Question 18: 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.

27. The ESAs' assessment refers to how PAI indicators are used to take into account DNSH. It starts from the observation that SFDR introduces disclosure requirements with regard to PAI indicators but at the same time leaves considerable discretion about the criteria that Financial Market Participants use to assess DSNH. As a result, "investors have limited ways to compare financial products, and investee companies have little predictability about how PAI-based DNSH criteria will be applied by FMPs." Hence, "the ESAs are considering more specific disclosure requirements regarding DNSH under PAIs for sustainable investments, in order to increase transparency and support some degree of comparability"

28. The SMSG shares the concerns of the ESA's. There is currently a risk of methodological inconsistency among financial market participants. The SMSG believes that more specific disclosure agreements on PAI based DNSH criteria may contribute to gradually establishing a shared methodology and increase skills, experience and knowledge with regard to DNSH.

29. Nevertheless, the ESA's proposal also has its limitations. More transparency about something as technical as quantitative thresholds relating to PAI's might not be very useful for consumers, especially since that information would also not be included in pre-contractual information. In many cases, the information would be difficult to interpret even for a knowledgeable and diligent retail investor. However, the additional on-line transparency could still be useful to compare how funds are considering PAI's and maybe to incentivise asset managers to apply stricter thresholds, which could on its turn have a spill-over effect onto investee companies to reduce adverse impacts.

30. On the other hand, some members of the SMSG fear that the transparency requirements for quantitative thresholds will mean that the use of quantitative indicators would become mandatory. While mandatory disclosure is useful if such quantitative thresholds are used, this should not be understood as meaning that there should be a mandatory quantitative threshold for every PAI indicator. The concerns are described below.

- a) Too much, too soon? One needs to question whether it is the right moment to set up yet another layer of requirements, when the financial sector is still getting to terms with the implementation of SFDR and investee companies will in the near future start the implementation of CSRD. In this respect, the issue of data availability should also be taken into account. While some data are becoming more widely available, broad and representative datasets on all PAI indicators remain challenging. Neither is there sufficient academic research on what the value of well-balanced PAI indicators would need to be.
- b) Side-effect of quantitative indicators. For some specific PAI's, quantitative indicators may actually have undesirable side-effects. Examples:
- i. PAI indicator “operations and suppliers at significant risk of incidents of child labour” (in terms of geographic areas or type of operation”). While child labour in the supply chain is obviously to be avoided, setting quantitative criteria on geographic areas could discourage business activities with partners in countries that badly need investment and economic activity. This PAI indicator should not be judged by a mere quantitative indicator but rather in combination with other PAI indicators (for example: lack of supplier code of conduct). In this respect, reference can also be made to an earlier SMSG advice (14 September 2020, ESMA22-106-2858); “these indicators express the risk that a company is exposed, in terms of the type of its operations or its geographic areas, either directly or through its suppliers to the risks of compulsory labour or child labour. However, these regions do need more, not less investment – be it that is ethical investment.
 - ii. The PAI indicator “exposure to areas of high-water stress” points at exposure to physical climate risk but is not an indicator for DNSH. Setting a quantitative criterion may reduce the climate risk of a portfolio but has little relation with DNSH.
- c) There should be consistency with MIFID sustainability preferences. One of the options for a client to express sustainability preferences is through PAI indicators: “a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client.” While reference is being made to quantitative elements, MIFID also mentions qualitative elements. If one would make a mandatory threshold obligatory for each PAI indicator, there is a risk that that would result in an extreme quantification of the methodology, to the detriment of qualitative elements. Here too, reference can be made to the earlier SMSG report referred to above: “Thresholds are but one of several possibilities to do so. For example: the exposure to high-risk areas regarding compulsory labour/child labour could be mitigated through alignment with OECD guidelines for MNC's, ILO recognised Global Framework Agreements, suppliers Codes of Conduct or else...”
- d) Disclosure of quantitative thresholds could contribute to enhancing one element of comparability. Nevertheless, this further transparency on its own will not allow for a perfect comparability between products:

- i. The “contribution part” (see SFDR, art 2.7; “sustainable investment’ means an investment in an economic activity that contributes to...”) of the sustainable investment definition is not harmonised, leaving substantial discretion to FMPs for interpretation.
- ii. Disclosure of quantitative thresholds could facilitate comparability between the PAI indicators used in different investment products. However, the selection and prioritising of PAI indicators may still be different (see art 7.1c of Delegated Resolution EU 2022/1288).
- iii. Even if thresholds can be compared, there is another element of differentiation: what action is taken on these thresholds: exclusion, engagement, alarm light where the threshold of the investee company is seen in the wider context of the other PAI indicators of the investee company...?

31. Taking into account all of the above, both pros and cons, the SMSG finds mandatory disclosure of quantitative PAI thresholds useful, where such thresholds are used by financial market participants. However, an obligation to set quantitative thresholds for each PAI indicator would be a bridge too far. The SMSG interprets the draft text as such that it does not make a quantitative indicator for each PAI mandatory. The draft requires to disclose “how the indicators for adverse impacts in Table 1 of Annex I, and any relevant indicators in Tables 2 and 3 of that Annex are taken into account, *including the description of the thresholds used to determine that the sustainable investments do not significantly harm any environmental or social objectives and how they are determined;*”. Hence, the SMSG supports the proposal.

XIX. Question 19: Do you support the introduction of an optional “safe harbour” for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.

32. Theoretically, a safe harbour would have several advantages. For investee companies, it could reduce the administrative burden as they would know that by aligning themselves with Taxonomy defined Technical Screening Criteria the likelihood increases that they are also considered as sustainable investments under SFDR. For investors, it is difficult to explain that an investment which is taxonomy-aligned would not fulfil the ‘DNSH’ principle under SFDR.
33. The SMSG is aware of the Commission Notice 2023/C 211/01, on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation. In this context question 4 is relevant (do Taxonomy-aligned investments qualify as ‘sustainable investment’ under the SFDR. *“Therefore, such investments in Taxonomy-aligned ‘environmentally sustainable’ economic activities can be automatically qualified as ‘sustainable investments’ in the context of the product level disclosure requirements under the SFDR. This means that investments in specific economic activities can be considered to be sustainable investments. However, if a financial market participant (FMP) invests in an undertaking with some degree of taxonomy-alignment through a funding instrument that does not specify the use of proceeds, such as a general equity or debt, the FMP would still need to check additional elements under the SFDR in order to consider the whole investment in that undertaking as sustainable investment. This means that the FMP would still need to: (i) check whether the rest of*

the economic activities of the undertaking comply with the environmental elements of the SFDR DNSH principle; and (ii) assess whether she/he considers the contribution to the environmental objective sufficient.” This notice has as publication date 16.6.2023, hence after the launch of the ESA’s consultation.

34. The SMSG is unsure about whether the safe harbour question is still relevant, given the Commission Notice. What does the safe harbour proposal mean? Does it mean that companies that are partially taxonomy-aligned are considered fully SFDR sustainable? Or is it in line with the notice of the Commission, i.e., sustainability of the non-aligned part still has to be assessed? In the former case, there is a mixing of two concepts which is confusing. Also, in that case the safe harbour provision goes beyond the Commission Notice. In the latter case, the question in the consultation paper has not longer any purpose as an interpretation is already available.
35. Also, the SMSG notes the conditionality in case of undertakings with only a degree of taxonomy-alignment. As a result of this conditionality, the automatic qualification of an investee company as SFDR sustainable because of taxonomy alignment will be limited to only a niche of companies, being the ones that have 100% taxonomy-aligned investments.
36. Finally, the SMSG points at some major challenges. Apart from that, there are some general remarks.
 - a) this will only be useful for environmental activities as the taxonomy has not yet been defined for social activities.
 - b) FMPs will need to have two different systems to handle taxonomy-aligned products and other products. This may raise some operational challenges.
 - c) as the safe harbour would be optional, investee companies do not have full certainty. Some financial market participants may apply the optional safe harbour; other would not.

XX. Question 20: 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.

37. It is very confusing that two systems exist alongside one another. An evolution towards one system would reduce the administrative burden for investee companies as well as be more comprehensible for the investor. As the Taxonomy is designed to become a European standard, it could be logical that this is also the case for the TSC. Yet, until a “Social Taxonomy” or a “Social standard” gets developed, the EU Taxonomy DNSH only covers environmental DNSH and miss to tackle both objectives. Also, the implementation of even the environmental Taxonomy and its TSC’s may require much time. Although the co-existence of two parallel concepts of sustainability may not be ideal, it is likely to be the situation for a long time to come.
38. The SMSG refers once again to the Commission Notice 2023/C 211/01, on the “interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation”. However, this would only be relevant for a niche of companies, i.e. companies that have 100%

taxonomy-aligned activities. For not taxonomy-aligned activities, the SFDR provision regarding DNSH remain relevant.

39. The TSC defined under the Taxonomy Regulation, is often activity-specific. To the contrary, the assessment of DNSH under SFDR today in most cases rests on generic criteria. Hence, a switch to TSC would mean a major shift in methodologies. At the same time, the TSC are still incomplete. Hence, the SMSG believes it is premature to say that “if two concepts of sustainability are retained, then the TSC should form the basis of DNSH assessment”.

XXI. Question 21: Are there other options for the SFDR Delegated Regulation DNSH disclosures to reduce the risk of greenwashing and increase comparability?

40. In the context of DNSH, disclosure of the quantitative thresholds that are used is a necessary but not sufficient condition. The relevance of PAI indicators for DNSH purposes may vary across financial products. There should be transparency on the selection and prioritisation of PAI indicators. Hence the relevance of article 7 of Commission Delegated Regulation 2022/1288 on “Description of policies to identify and prioritise principal adverse impacts on investments decisions on sustainability factor”.
41. Disclosure of quantitative thresholds is of little use if it is not known what these thresholds are used for. Which action will follow if a threshold is breached? Will it be exclusion? Focused engagement? A warning signal....? Assume a particular investment fund has set as threshold for PAI indicator 13 (management and supervisory board gender diversity) that the minimum ratio of female members in the management board is 20%. What action will be taken towards investee companies that fall below this threshold?
42. The SMSG also repeats its view, expressed in its advice of 14 September 2020 (ESMA22-106-2858), that disclosure is most relevant at the product level, not the entity level. Already then, the SMSG referred to consistency with MiFID. In the meantime, MiFID has been reviewed to incorporate sustainability preferences. This includes as one of the possible options, PAI preferences. However, this is at the product level, not the entity level.
43. As long as the regulatory framework is not finalised and stabilised and the new requirements not fully understood by both entities subject to these requirements and regulators in charge of their enforcement, risks of non-compliance can arise from diverging interpretations and practices which could be seen as greenwashing by certain stakeholders. Only a robust, clear, comprehensible and stabilised framework can eventually prevent diverging interpretations or practices. Such a framework is also necessary to ensure that companies are not discouraged from setting sustainability-related targets and reporting on sustainability-related actions or products for fear of being accused of greenwashing.

XXII. Question 22: 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.

44. Overall, yes. Specific remarks will be formulated under the questions below. There are ways in which the information could be improved to make it more decision-useful for investors, because many of the required narrative explanations are relatively vague and leave too much discretion to the product providers. However, this vagueness is largely the result of the level 1 text.

XXIII. Question 23: 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

45. The hyperlink can be useful to avoid lengthy disclosures on technicalities of the benchmark. However, it is not sufficient on its own without some basic information in the precontractual information itself. The EU Paris-aligned and Climate transition benchmarks differ with regard to their goals and levels of ambition. The Paris-aligned benchmark is basically the stricter one, and retail investors should be informed about this in pre-contractual disclosures through a short and understandable paragraph. This should be followed by the hyperlink for more information.

46. The ESAs' proposal does not appear to address products that have an emissions reduction target, but do not designate an EU Climate Transition Benchmark or EU Paris-Aligned Benchmark. In principle they should be treated exactly the same, i.e. they should provide a link to the non-EU-regulated benchmark used and a short explanation of what that benchmark does and what its ambition level is with regard to decarbonisation and/or Paris-alignment. If no benchmark at all is used, there should be an explanation that fulfils the requirement in Article 9(3) subparagraph 2 of the SFDR.

47. For the reasons mentioned above, the SMSG believes that that the precontractual information needs to provide, alongside the hyperlink, some general information about the benchmark, with focus on why a specific benchmark is chosen. However, assuming adequate disclosure which clearly spells out the focus on GHG emission reduction, confusion can be avoided.

XXIV. Question 24: 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.

48. The distinction is useful, because the investor has the right to know how the product intends to achieve the GHG reduction it aims for. Two additional remarks:

a) Whether is in all circumstances actionable depends on the type of product. A product-level commitment may not be useful when part of the underlying assets do not allow to include GHG emission data – especially not when the relative

proportions of the asset type vary. Imagine a mixed fund, invested into both sovereign bonds and equity. GHG emission figures of sovereigns and of companies refer to different realities. In case of govies, they could refer, for example, to total GHG emission per inhabitant, or per unit of GDP, on the territory of the sovereign. Or alternatively, to the GHG emissions by governmental infrastructure. In case of equity, they may refer to GHG emission by the corporate (be it scope 1, 2 or 3). In no case does aggregating GHG emissions over both asset types makes sense.

- b) In case of a commitment through reduction targets in investees' emission, the ESA's consultation paper, suggests that (i) investing in companies that are expected to deliver a reduction in GHG emission; (ii) engagement is an either-or matter and it should be clearly disclosed what the product commits to. However, the SMSG believes that these options are not mutually exclusive. Ideally, engagement should be aligned with the reduction targets.

XXV. Question 25: 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.

49. For art 9 products that focus on GHG reduction, it is useful to disclose the (degree of) Paris-alignment in pre-contractual information because it helps retail investors understand how meaningful or ambitious the product's reduction target is. The Paris agreement is the obvious reference here because it is the globally agreed yardstick against which reduction targets must be measured.

50. It should be made clear that this reduction comes from effective GHG reductions, and not from carbon credits.

51. A particular challenge could arise for individual companies or companies dependent on a same national grid when the electricity production of that grid becomes more GHG dependent (for example due to a nuclear exit when there is insufficient capacity of renewable energy). In that case, the GHG emission of companies could increase even if their internal processes become more energy-efficient.

52. A statistical challenge could occur when accounting standards are changed. In a previous advice, the SMSG (ESMA 22-106-4325, 02/12/2022) pointed at one potential issue: methane leakages are not yet incorporated into the GHG emission of electricity production out of natural gas, although the concern for methane leakages was referred to in the Global Methane Pledge (Copenhagen COP) and the European Council agreed in principle to reduce and measure more accurately methane emissions (December 2022).

XXVI. Question 26: Do you agree with the proposed approach to require that the target is calculated on the basis of all investments of the financial product? Please explain your answer.

53. If a target is calculated on the basis of all investments, that would have the advantage of clarity and simplicity for the investor. However, for some asset types like cash and derivatives it is difficult to determine GHG emissions. Also, we refer

here to question 24: aggregating over asset types like government bonds and equity has little relevance. In such a situation, determining targets at product level is of little relevance. As an alternative, targets could be determined at issuer level, in line with the ESA's proposal to focus investments on companies that have committed to and execute a transition plan. While under the current proposals, this issuer-focused approach is also geared toward corporates (either corporate bonds or equity), it could be broadened with appropriate KPI's to include for example Green Bonds, or more general sovereign bonds.

XXVII. Question 27: 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.

54. The Greenhouse Gas Protocol's Global GHG Accounting and Reporting Standard for the Financial Industry are the most popular. For consistency reasons, cross-references in legislation indicating a unique methodology should be preferred. This would also have advantages of simplicity and comparability. That could be possible between legal texts in the EU. Although the GHG Protocol's standards are the most popular globally, it could be difficult to impose a unique standard also for issuers outside the EU. Taking into account that many investment products have a global scope, the SMSG believes that alternative standards should not be forbidden. An example is the ISO 14064-1:2018 standard. In any case, disclosure about which standard is used and why, is important.

XXVIII. Question 28: 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.

55. The SMSG believes that the investor has the right to know how effectively an issuer is in reducing greenhouse emissions, irrespective of the carbon credits. For this reason, the SMSG is not in favour of netting GHG emissions and carbon credits to set reduction targets, and favours disclosing them separately.

XXIX. Question 29: 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

56. Retail investors buy products, not entities, and they are primarily interested in the sustainability performance of the former, not the latter. There is a clear difference here between the financial and the non-financial sector. When buying physical products, consumers are very interested in company-level targets because the main emissions typically lie in the production or transport of goods and the value chain. In the investment industry, on the other hand, the emissions that count are the financed emissions and those are connected to the investment products. The information at

entity-level may not be completely irrelevant, but it is not very important. Second, there is a concern about the quality of this kind of information, professed at entity-level. To the extent that entity-level decarbonisation pledges, such as those that are made in the context of the various 'Net Zero' alliances, are not very serious, this could be a loophole for greenwashing. Also, targets defined at entity level and those defined at product-level can diverge. For these reasons, one should be careful in requiring or permitting explanations about the connection or alleged consistency between product targets and entity targets.

57. However, something that could be useful in the future is to include information about the consistency between product level targets and the entity's transition plan for climate change mitigation as reported under disclosure requirement ESRS E1-1. Websites and periodic reports could contain this information in a specific section, while pre-contractual product-level disclosures should only contain a link to the website section and a neutral-sounding sentence (e.g. 'More information about the connection between the GHG emissions reduction target of this product and our company's climate transition plan can be found online here: ...').

XXX. Question 30: 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?

XXXI. Question 31: 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?

XXXII. Question 32: Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?

58. The proposed Dashboard is an improvement. It is concise. It has the merit of being aligned with the three options of MiFID sustainability preferences as well as with greenhouse reduction targets. An element where there is still scope of improvement could be to better explain what is meant by environmental and social "characteristics", because the difference between characteristics and objectives is far from obvious for an investor. Although the SMSG considers the dashboard as an improvement, it suggests that these and other changes are consumer-tested.

59. The SMSG has at this stage no further suggestions to simplify or enhance the legibility of the current templates. The level 1 legislation itself is complex and as a result it is quite challenging to summarise the information in appropriate templates.

XXXIII. Question 33: Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?

60. With hindsight, the investment tree had several shortcomings. First of all, it suggests that “sustainable” is composed of three categories: taxonomy-aligned; other environmental; social. In reality, these are different concepts that cannot simply be aggregated. Taxonomy is activity-based; SFDR (environmental or social) is investee company-based. Secondly, it distinguishes “aligned with E/S characteristics.” However, one could wonder whether this category should be distinguished separately in summary information for the investor as it is not part of MiFID sustainability preferences. Thirdly, it is difficult to use this investment-tree without adding the (minimum) percentages of taxonomy-aligned, other environmental or social. As such, the SMSG believes that it can be replaced by the dashboard. However, here too, consumer-testing should be performed.

XXXIV. Question 34: Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?

61. Consistency in the use of colours enhances the legibility across FMP’s. For this reason, the SMSG is in favour of ensuring consistency in the use of colours.

62. However, the SMSG warns against potential misunderstandings that can result by using colouring to attract attention. For example, a green colour, without percentage to denote taxonomy-alignment does not differentiate between 1% and 99%.

XXXV. Question 35: Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?

63. Conditional on consumer-testing, the SMSG agrees with this approach. It suggests a two-steps approach where the most relevant information is visible at first glance and additional information can be obtained by clicking.

XXXVI. Question 36: Do you have any feedback with regard to the potential criteria for estimates?

XXXVII. Question 37: 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?

64. The SMSG is afraid that estimates could be used to navigate around the Taxonomy Regulation. Verification of taxonomy-alignment is a demanding process. One cannot imagine that it can be done outside the investee company. As such, the SMSG is afraid that allowing estimates to define percentage taxonomy alignment goes beyond the capabilities of FMP’s and could evolve in a light version of the Taxonomy Regulation. As such, the SMSG would argue against the use of estimates.

65. Question 37 is asked in the context of equivalent information and as such the answer is related to question 36. As the SMSG argues against the use of estimates, question 37 is without object.

66. Totally outside the context of equivalent information and estimates, the SMSG wants to use question 37 to point at the relevance of a particular observation formulated in ESMA’s Progress Report on Greenwashing, point 54, which is particularly relevant in the context of Greenhouse Gas Reduction: “*Lack of fair and meaningful*”

comparisons, thresholds and underlying assumptions poses greenwashing risk in particular in relation to ESG metrics like GHG emissions, carbon footprint or other SFDR Principal Adverse Impacts (PAIs) or benchmark ESG factors. Greenwashing occurs when the actual claims about an ESG metric, for instance, are true, but the comparisons/thresholds or underlying assumptions are selected in bad faith to overstate the sustainability performance of the entity or product.”

XXXVIII. Question 38: Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate

67. Given time-constraints, the SMSG was not able to elaborate on this.

XXXIX. Question 39: Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?

68. The SMSG understands the need to address information overload and to avoid duplication of information. However, this is subject to the following conditions: (i) the cross-references should be identifiable in a straightforward way; (ii) there must be a minimum degree of available information. Situations where investors are cross-referred to another document and then need to extensively through the document to find the required information must be avoided.

XL. Question 40: Do you agree with the proposed website disclosures for financial products with investment options?

XLI. Question 41: 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 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?

XLII. Question 42: 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?

69. Given time-constraints, the SMSG was not able to elaborate on this.

XLIII. Question 43: Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?

70. Back to 1494? 1494 was the year when the first publication advocating the double-entry accounting system appeared. Over the next centuries the method was improved step by step only to take off fully during the Industrial Revolution. Today, a

major paradigm shift is occurring again by complementing financial reporting with non-financial reporting, through CSRD at European level or through global initiatives such as the Global Reporting Initiative Standards. However, what took centuries to develop is now to be implemented in a couple of years. This raises both practical and conceptual challenges.

71. In this context, the financial sector is not the producer but the user of primary data. The dependence on primary data exposes the financial sector to a trade-off between relevance for the investor on the one hand and practical challenges on the other.
72. For this reason, the draft Delegated Act on ESRS raises concerns of a decoupling of disclosure requirements under SFDR and disclosure requirements for investee companies.
73. For investee companies, this raises the concern that additional costs will need to be done for parallel reporting. The parallel reporting could result from:
 - a) Indicators defined differently under CSRD and SFDR, although referring to a similar KPI;
 - b) New indicators being added while the ESRS is not yet fully implemented or stabilised;
 - c) Indicators that are part of SFDR PAI but not part of ESRS;
 - d) Enquiries from financial institutions to investee companies to provide data for SFDR although they are considered not-material from the perspective of the draft delegated act on ESRS.
74. For financial market participants, a major concern is the cost of data through data providers. A particular concern is that there will be a need to obtain estimates in order to provide aggregated data. Apart from the cost of these estimates, there is the concern that estimates are just a proxy. However, the need for estimates has been made more compelling by the draft Delegated Act on ESRS as the data points required for PAI indicators under SFDR have been subjected to the materiality principle under the ESRS.
75. At a time where ESG proof is asked more and more for all market participants, it is of utmost importance that CSRD application is fully in line with the Commission's transparency ambition (including the SFDR PAIs). Accuracy and confidence on certified/audited issuer raw data (together with access to it via the ESAP) should be a priority to be considered also with regards to the transparency requirements of SFDR.

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

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[signed]

[signed]

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