

# EFAMA's REPLY TO ESAs SURVEY ON TEMPLATES FOR ENVIRONMENTAL AND/OR SOCIAL FINANCIAL PRODUCTS UNDER SFDR

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## EXECUTIVE SUMMARY

EFAMA, the voice of the European investment management industry, believes that, for retail clients, standardised disclosure of information can improve the comparability of financial products that promote environmental and/or social characteristics or have a sustainable objective. It will also contribute to the broader policy objectives of the Sustainable Finance Disclosures Regulation (SFDR) to enhance transparency towards end-investors, hold market participants accountable and fight greenwashing.

To fulfil these objectives, the disclosures should make a clear distinction between the information needed by retail investors and those needed by professional/institutional investors. Considering the broad range of different approaches to ESG integration and sustainable investment, reflected in the variety of products in the market, we believe that the templates should strike the right balance between comparability and flexibility. In our feedback, we also provide recommendations on how to improve the clarity and conciseness of the information presented to end-investors.

EFAMA's feedback to the ESAs' survey complements the response to the previous consultation on the draft regulatory technical standards under SFDR<sup>1</sup>, and its main takeaways are the following:

- **Retail investors and professional/institutional investors have different needs.** Retail investors need meaningful, comparable and concise disclosures, backed by solid data, while professional/institutional investors require tailored reporting and the proposed templates would bring them little or no value.

We find it important that retail investors remain the recipients of these disclosures, therefore **standardised templates should be mandatory for products made available to retail investors and optional for products only intended for professional/institutional investors.**

- **We believe it is essential that templates ensure a sufficient level of flexibility** for investment managers to adapt the information to each specific product and strategy, especially considering the approach of having a single template for products promoting ESG characteristics and for products with sustainable investment objectives.
- **The use of icons should be avoided.** We find icons would not add meaningful information for end-investors, nor will they improve accessibility. On the contrary, they risk misleading the users of disclosures, moving their attention away from more important information and reducing the space available to report on the products' features.
- **We recommend not to mandate the use of graphs as visual aids in pre-contractual disclosures.** The graphical representation of the investments of the product should be moved to website disclosures, where they can be updated more frequently, and it should be at the discretion of the financial market participant to decide whether to use a graphical representation and what type, according to the specificities of the product's strategy and composition.
- **To improve clarity and conciseness, we recommend limiting the document's length to maximum two or three pages**, instead of six. In addition to ensuring retail investors are provided only with meaningful information, in the most accessible format, reducing the template's length would simplify the inclusion of ESG information in existing disclosures.

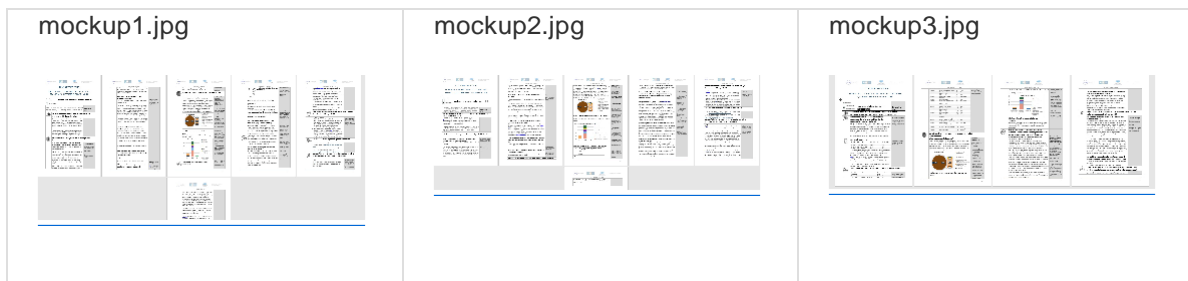
We also fear that lengthy ESG templates would place a disproportionate weight on sustainability information, particularly for Article 8 products, while **prospective investors must be able to appropriately weigh in all material types of financial and non-financial risks.**

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<sup>1</sup> See also: [EFAMA's response to the ESAs' consultation on the draft RTS under the Sustainable Finance Disclosures Regulation](#) (1 September 2020)

## QUESTIONS

Miniature view of the mock-ups



**Q1. How useful is the highly standardised presentation of the information in this format?**

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

**Please explain:**

For retail clients, standardised templates can improve the comparability of ESG and sustainable financial products, and the illustrative mock-ups of pre-contractual and periodic disclosure templates proposed by the ESAs can be fairly useful for this purpose. Although we understand these are purely illustrative mock-ups, to gather feedback on the presentation of information, we still find that the type of information requested remains somewhat focused on specific ESG integration strategies (i.e. exclusions), whereas in their consultation paper on SFDR draft RTS the ESAs stated that *"It is neither the intention nor the mandate of the ESAs to reduce the choice of ESG strategies for companies."*

We welcome the possibility to specify that the use of derivatives may not be aligned with the ESG characteristics or sustainability objectives promoted by the product. Given the concerns raised on reporting against the principal adverse impact (PAI) indicators proposed by the ESAs, we also welcome the possibility to explain that the data to support these disclosures may not be available. We also find that a key element in the information is the recognition of engagement as a tool to address the factors leading to PAI. Further details on that can be shared via a link to the website, however it is important to provide some basic understanding to end-investors about how ESG considerations are analysed and what is the direct involvement with investee companies. The use of other tools, such as ratings, to measure governance practices should be also included. With regards to the no significant harm of sustainability investment objectives, we find it helpful that the sample wording allows for a cross-reference to relevant disclosures in the Annual Report.

From the perspective of end-investors, we believe there is scope to improve the clarity and understandability of the information provided to retail clients, while we note that **the content of the proposed templates would bring little or no value to professional or institutional investors.** To achieve the objectives of the Regulation, in terms of increased transparency towards end-investors, it is important to draw a clear distinction:

- **Retail investors** need meaningful and comparable information, provided in a clear, simple and concise manner. Subject to additional fine-tuning of its structure and content, we believe that the proposed templates would be fit for the purpose of providing meaningful, comparable and reliable information to retail clients.
- **Professional/institutional investors:** this category of users requires highly tailored disclosures, in both content and structure. This information, in turn, is processed to fulfil their own reporting requirements, such as those of insurance providers and pension funds. The proposed templates do not respond to their needs, nor do we believe they should.

To fulfil the policy objectives, we strongly believe **retail clients should remain the recipients of these standardised templates**, and that disclosures should not be complicated by trying to address the needs of professional/institutional investors who already have the knowledge and tools to retrieve and process the information they need. Based on this distinction, and to preserve this focus, we believe that **standardised templates should be mandatory for products made available to retail investors and optional for products intended exclusively for professional/institutional investors**.

To further increase comparability, we believe the templates should be more coherent with the content and structure for pre-contractual and periodic disclosures proposed by the ESAs in the draft RTS (Articles 14 and 23). In addition to reordering the items included in the mock-ups, the following items shall be more consistent with the final RTS and the Regulation itself:


- **Use of derivatives:** when a financial product makes use of derivatives, the follow-up question in the dedicated box should ask *whether* (and not “how”) the derivatives are aligned with the E/S characteristics. The requirement to explain should apply in either case, including “how” the derivatives are aligned with the E/S characteristics, when applicable. It is also important to clarify the distinction with products that provide for the use of derivatives, but do not actually hold derivatives at the time when disclosures are prepared. It would also be useful to have examples of derivatives that are aligned with ESG characteristics.
- **Adverse impacts:** the dedicated section in the mock-ups should not yet make a reference to the respective adverse impact section in the prospectus, as the latter requirement will only become applicable in December 2022.
- **Website reference:** as indicated in Article 10 SFDR and Art. 34 and 35 of the draft RTS, the information to be found on the website is not limited to the “data sources and methodologies used”. The wording in the mock-ups should be amended to reflect this.

## Q2. More specifically, how useful is the presentation of the information with the use of icons as visual aids (in mock-up 1 and 3)?

*(The pictures below show examples of the icons used in the templates.*

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Examples of the icons used in mock-up 1 and 3

<p>1.jpg</p> 	<p>2.jpg</p> 	<p>4.jpg</p> 
<p>5.jpg</p> 	<p>6.jpg</p> 	<p>ESG_additional_icons_hands-01.jpg</p> 
<p>ESG_additional_icons_pie_chart-01.jpg</p> 	<p>ESG_additional_icons_clock-01.jpg</p> 	<p>ESG_additional_icons_bar_chart-01.jpg</p> 
<p>3.jpg</p> 		

**Please explain:**

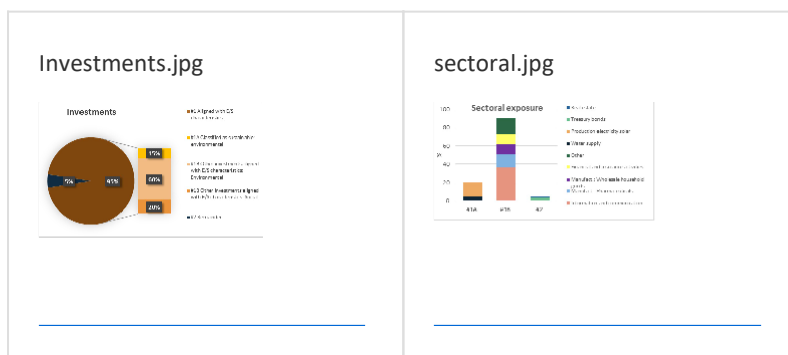
**We advise against the mandatory use of icons in the templates.** We find icons would not add meaningful information for end-investors, nor will they improve accessibility. On the contrary, they risk **misleading the users of disclosures**, moving their attention away from more important information and **reducing the space available to report** on the products' features. As indicated in the reply to Question 1, the use of icons may also further complicate the inclusion of these templates in the existing disclosure documents. Mandatory icons may also potentially clash with **accessibility requirements** for the visually impaired, reduce **documents' readability across different devices**, and result in consistency issues with the **visual branding of individual firms**, which typically defines what icons can be used in reports.

**Q3. More specifically, how useful is the presentation of the information with the use of graphs as visual aids?**

*The graphs below are examples of the graphs used in the templates.*

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Examples of the graphs used



**Please explain:**

**We recommend not to mandate the use of graphs as visual aids in pre-contractual disclosures.** As indicated in the reply to Question 6 and in the feedback to the draft RTS, we note that pre-contractual disclosures should include valuable information to guide investors' choices and initial decisions, providing information relevant at the time of distribution of the financial product. However, asset managers cannot commit to specific figures on the asset allocation of the portfolio at the time when pre-contractual disclosures are published, especially in the case of actively managed and/or open-ended funds. As a result, graphical representations could be misleading if interpreted as a binding commitment, rather than as an indicative parameter. Website disclosures, on the other hand, can be adapted more easily and are much better suited to include information that has elements of uncertainty and/or requires frequent updates, such as graphs representing the composition of the product. Therefore, **we recommend moving the graphical representation of the investments of the product to website disclosures.** We also recommend using the wording "percentage of investment" in the section heading, which would be more accurate than "percentage of assets".

We also note that graphical representations can be useful to illustrate only some investment strategies. For instance, if the product does not include a proportion of sustainable investments, the respective asset allocation breakdown becomes far less meaningful; similarly, a sectoral breakdown would not be meaningful for e.g. a real estate fund. Furthermore, a visual aid is only effective in specific situations where data categories are limited (i.e. maximum five), but would be highly impractical, difficult to read and potentially misleading in case of certain strategies (e.g. negative exclusions) or when there is a high number of data categories, such as in the case of the sector analysis. Furthermore, the inclusion of graphs requires annual reports to be prepared in multi-colour format rather than black & white, which is somewhat rare due to the additional printing costs. Therefore, we think that **it should be at the discretion of the FMP to decide whether to use a graphical representation and, if so, what type, according to the specificities of the product's strategy and composition.**

**Q4. More specifically, how useful is the presentation of the information with the use of explanatory notes, in the column at the right side of the document, which are presented on a grey background)?**

*The picture below shows an example of one of the explanatory notes used in the templates.*

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

*The category #1 Aligned with E/S characteristics includes any investment that is aligned with the characteristic:*

*- The **Subcategory #1A** covers investments that are qualified as sustainable. A sustainable investment means an investment in an economic activity that contributes to an environmental objective, measured for example by key resource efficiency indicators such as CO2 emissions, or the use of water, or an investment that contributes to a social objective, such as tackling inequality or that fosters social cohesion.*

*- The **sub-category #1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that **do not** meet the criteria of 'sustainable investment'.*

**Please explain:**

We find that explanatory notes can be useful for retail clients to clarify some details of the product's approach (i.e. the items falling under a specific exclusion), provided that they **do not overlap with the definitions already included in the prospectus' glossary**. Similarly to the previous comments, we note that these explanations need to be better placed in the context of pre-contractual disclosures, and they should not require to include information to which it is not possible to commit at the distribution stage. What should also be considered is the current structure and format of the Prospectus. Therefore, we do not see the need for such high standardisation of the presentation of the explanations to



investors. The explanatory notes should follow the same format of explanations/definitions provided in other parts of the prospectus.

Q5. Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products?

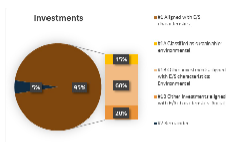
For example, with regards the distinction between the sub-categories of investments, namely between #1A and #1B?

*The pictures below show examples of the use of #1A and #1B sub-categories in the templates.*

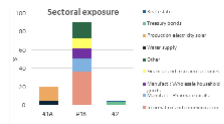
- Yes
- No
- Other

Illustrations of the distinction between sub-categories

Investments.jpg



Sectoral.jpg



\_1.jpg

*The category **#1 Aligned with E/S characteristics** includes any investment that is aligned with the characteristic:*

*- The **Subcategory #1A** covers investments that are qualified as sustainable. A sustainable investment means an investment in an economic activity that contributes to an environmental objective, measured for example by key resource efficiency indicators such as CO2 emissions, or the use of water, or an investment that contributes to a social objective, such as tackling inequality or that fosters social cohesion.*

*- The **sub-category #1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that **do not** meet the criteria of 'sustainable investment'.*

**Please explain:**

We believe that the distinction between funds promoting ESG characteristics (article 8) and funds with sustainable investment objectives (article 9) is a regulatory distinction that, as such, is not understandable for investors. Allowing for further explanations in the pre-contractual disclosures may be useful to further guide them, however adding more sub-categories (1A and 1B) is adding even more to the confusion.

In case of a fund under article 8 meeting the criteria of sustainable investment this can be further determined without such a distinction (1A and 1B) and would help investors develop a better understanding of the distinction between article 8 and article 9 products.

**Q6. Do you have any other suggestions or comments to improve the presentation of these disclosure documents?**

To improve clarity and conciseness, we recommend placing **a limit to the document's length to maximum two or three pages**, instead of six. In addition to ensuring retail investors are provided only with meaningful information, in the most accessible format, reducing the template's length would simplify the inclusion of ESG information in existing disclosures from UCITSs and AIFMs. We strongly believe it is important to avoid the creation of an additional *ESG factsheet* falling outside of pre-contractual documents. Removing the numerous repetitions in the current proposal can achieve this without detriment to the level of detail of the disclosures (e.g. the description of the investment strategy in the mock-ups; the disclosure of the top 25 investments under UCITS requirements, etc.). The ESAs could also consider merging some sections to avoid unnecessary duplication (i.e. "No significant harm of sustainability investment objectives" and "Attainment of the environmental or social characteristics")

Given the space constraints imposed on existing disclosures, we also fear that **lengthy ESG templates would place a disproportionate weight on information related with sustainability risk**. As proposed, the template would overshadow other information provided in informative documents and mislead users of pre-contractual disclosures, with retail investors being the most vulnerable. Alongside sustainability risks, **prospective investors must be able to appropriately weigh in all material types of financial and non-financial risks**, as well as costs and fees.

In addition, we believe that pre-contractual disclosures should include valuable information to guide investors' choices and initial decisions, providing information relevant at the time of distribution of the financial product. Website disclosures, on the other hand, can be adapted more easily. Therefore, **websites are much better suited to include information that has elements of uncertainty and/or requires frequent updates**, such as graphical representation of the product's composition. This would help shorten pre-contractual disclosures and avoid too frequent changes to the documents, resulting in more reliable, valuable and up-to-date information for end-investors.

We also note that, in the introduction to the consultation, the ESAs specify that the templates for the disclosure of products with a sustainable investment objective (Article 9) are very similar to those for the products promoting E/S characteristics. We believe that to fulfil their function for both Article 8 and Article 9 products, it is ever more **important that the templates ensure a sufficient level of flexibility for investment managers to adapt the information to each specific product and strategy**. In addition, we note that these pre-contractual and periodic disclosures are intended to be included in existing disclosures provided for under EU sectoral legislation and provided by, for example, AIFMs, UCITS management companies. To facilitate this inclusion, and to ensure that the information can be provided in compliance with EU and national legislation, it is important to guarantee flexibility in how the documents are structured, while ensuring that the information they contain is

meaningful and comparable.

This flexibility would ensure that retail investors are provided with the most meaningful and relevant information, and facilitate the classification and distribution of such products. This should apply to which information shall be included in pre-contractual vis-à-vis website disclosures, the use of graphical representation and visual aids, the content of the explanatory notes, and to the disclosure of which proportion of the investments pursues sustainability objectives. **Conversely, and without such flexibility, we believe that the stricter mock-ups proposed by the ESAs would require the use of different templates for Article 8 and Article 9 products, respectively.**

**Q7. When the templates are presented via digital media, can you foresee any particular challenges? Can you suggest how these particular challenges could be overcome while retaining the core aspects of the standardised template format?**

As indicated in our reply to Questions 2 and 3, we believe that a shorter and simpler template, which does not mandate the use of icons and graphical representations, would improve the usability of the templates presented via digital media, to the benefit of users with specific accessibility needs and to improve readability when the information will have to be provided through a smartphone application and/or across different digital devices. We also recommend, at least initially, to allow the use of a flexible format such as links to a searchable PDF for pre-contractual and periodic reports, rather than more technical formats.



#### **About EFAMA:**

EFAMA, the voice of the European investment management industry, represents 28 Member Associations, 60 Corporate Members and 23 Associate Members. At end Q2 2020, total net assets of European investment funds reached EUR 17.1 trillion. These assets were managed by almost 34,200 UCITS (Undertakings for Collective Investments in Transferable Securities) and more than 29,100 AIFs (Alternative Investment Funds).

More information available at [www.efama.org](http://www.efama.org) or follow us on Twitter @EFAMANews or LinkedIn @EFAMA.

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