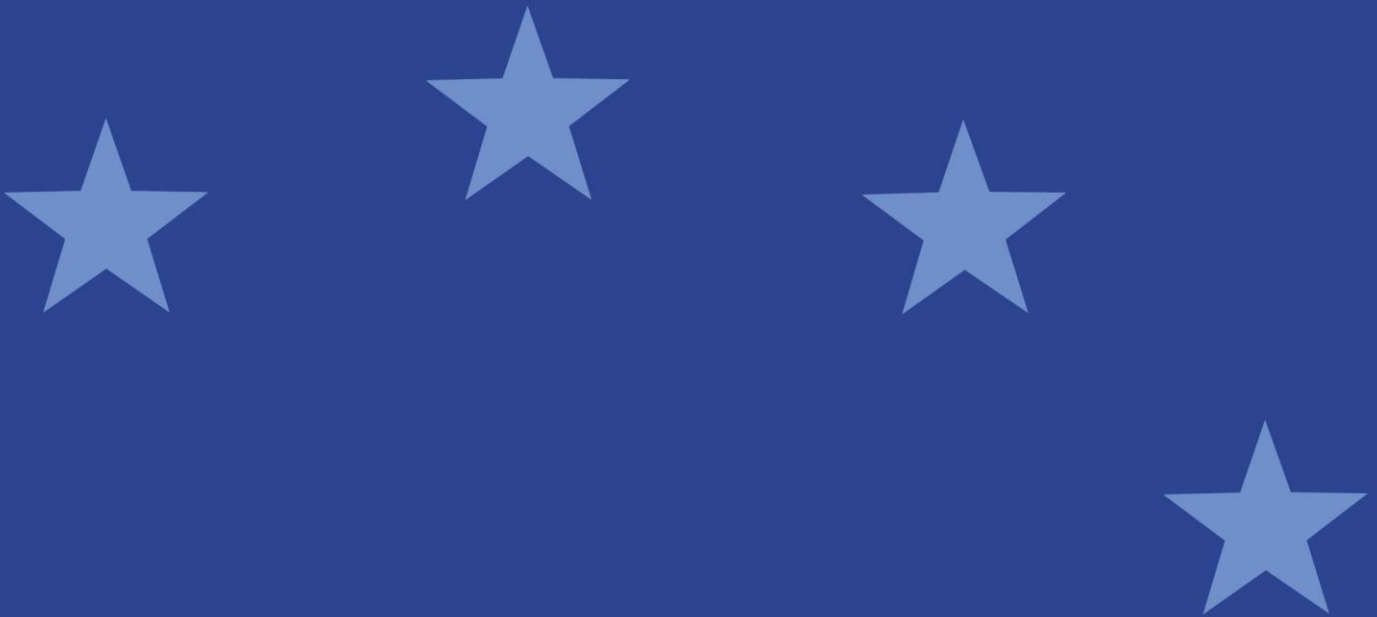


Response form for the Joint Consultation Paper concerning ESG disclosures





Responding to this paper

The European Supervisory Authorities (ESAs) invite comments on all matters in this consultation paper on ESG disclosures under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (hereinafter “SFDR”) and in particular on the specific questions summarised in Section 3 of the consultation paper under “Questions to stakeholders”.

Comments are most helpful if they:

1. contain a clear rationale; and
2. describe any alternatives the ESAs should consider.

When describing alternative approaches the ESAs encourage stakeholders to consider how the approach would achieve the aims of SFDR.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Q1** Insert your responses to the questions in the Consultation Paper in the present response form.
- Q2** Please do not remove tags of the type <ESA_QUESTION_ESG_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- Q3** If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- Q4** When you have drafted your response, name your response form according to the following convention: ESA_ESG_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESA_ESG_ABCD_RESPONSEFORM.
- Q5** The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments on this consultation paper can be sent using the response form, via the [ESMA website](#) under the heading ‘Your input - Consultations’ by **1 September 2020**.
- Q6** Contributions not provided in the template for comments, or after the deadline will not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESAs rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESAs Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EU) 2018/1725¹. Further information on data protection can be found under the [Legal notice](#) section of the EBA website and under the [Legal notice](#) section of the EIOPA website and under the [Legal notice](#) section of the ESMA website.

¹ Regulation (EU) 2018/1725 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39.

General information about respondent

Name of the company / organisation	BNP PARIBAS ASSET MANAGEMENT
Activity	Investment Services
Are you representing an association?	<input type="checkbox"/>
Country/Region	France

Introduction

Please make your introductory comments below, if any:

<ESA_COMMENT_ESG_1>

BNP Paribas Asset Management (BNPPAM) strongly supports the spirit, aims and objectives of the Regulation on Sustainability-Related Disclosures in the Financial Sector (Regulation (EU) 2019/2088 (hereinafter Sustainable Finance Disclosure Regulation “SFDR”).

BNPPAM supports in particular the double materiality concept and the inclusion of adverse impacts also as part of investors’ fiduciary duties.

BNPPAM is also a firm supporter of the use of the EU taxonomy within asset management to the extent that it announced publicly as early as March 2019 that it will use the EU taxonomy (as much as possible depending on data availability) to measure overall green investments as of total AUM.

BNPPAM is not in a position to endorse the proposed elements of the RTS supporting the SFDR as it is our view they will lead to a miscount of adverse impacts, creating confusion and perverse incentives. They will also overshadow the EU taxonomy and will be counterproductive with the aims of the regulation and the broader EU strategy on sustainable finance. The proposed indicators are not coherent with the broader package of EU disclosure requirements.

BNPPAM is extremely concerned about the following elements:

1. Impact metrics
2. Misalignment with the EU taxonomy
3. Unworkable underlying methodologies
4. Unavailability of underlying data
5. Sequencing and consistency of different regulations.

Our understanding is that the draft RTS go beyond the provisions of the Level 1 text. According to Article 4 of the SFDR, financial market participants are only requested to provide qualitative information on the points covered in this article. Therefore, quantitative indicators should only prevail in a voluntary basis or when

their calculation is feasible and their meaningfulness proven (e.g. board gender diversity – for which data actually exists and calculation is feasible).

We therefore favour an approach of only qualitative indicators or an approach of a few mandatory under “comply or explain” or recommended indicators that might become compulsory over time, where the following criteria are taken into account:

- Availability and maturity of data
- Availability of a standardised methodology applied to companies
- Availability of a methodology to aggregate performance where pertinent – and in its absence, disclosures should be limited to overall investments in a stock irrespectively of their nature
- Demonstrated relationship between indicator at firm-level and real world impact.

We also favour disclosures in line with the OECD recommendations on due diligence for institutional investors.

Against this background, we propose the following firm-wide list of indicators (quantifiable) given their meaningfulness and feasibility:

- Carbon emissions, carbon footprint and weighted carbon intensity
- Exposure to coal at a first stage
- Primary energy mix.
- Board gender diversity
- Number of breaches identified, breakdown by issues and sectors (e.g. X number of human rights violations, X child labour, X bribery and corruption, etc) – following the UN GC, OECD and UNGPs standards.
- Exposure to controversial weapons (land mines and cluster bombs)
- Exposure to tobacco.

With regard to deforestation, waste and water, we propose a much more nuanced, gradual, sectoral approach based in the levels of exposure or risk to the adverse impact and the levels of efficiency in managing them. Please refer to our table enclosed for the details.

We would also like to add to the list the following non-quantifiable disclosures:

- Paris alignment/climate and ESG strategy at firm level
- ESG Due Diligence processes – as per OECD Due Diligence recommendations, including the number of identified cases (as per number and type of cases) and, remediation, monitoring and escalation actions.

At the discretion of the investment fund, and on a positive note, we believe that **disclosing the share of green investments (following the EU Taxonomy)** might contribute significantly to shifting capital flows towards more sustainable investments, finance the transition in Europe and help in calculating the scale of green finance and the investment gap in Europe. BNPP AM has committed to measuring, monitoring and reporting its share of green investments out of total AUM following the EU Taxonomy to the extent data availability makes it feasible.

Given the nature and volume of transactions that investors undertake, as the OECD very well highlighted in the OECD Responsible Business Conduct Due Diligence for Institutional Investors, the principle of proportionality should prevail. The nature, geography, size of the investment and of the financial vehicle ought to be considered. In this respect, adverse impact disclosures **should not relate to the entire reference period** but only to the portfolio as it stands at the end of the relevant reference period. All short-term holdings should be excluded (including derivatives). In addition, we focus on financing the sustainable transition.

The larger European and North American companies tend to provide more information and more quantitative data. These companies also make the gross of investors' corporate investments in most cases. Regulators should consider asking asset managers to report on those corporate investments that represent a significant share of their total e.g. represent 70-80% of accrued total of stock positions - and gradually increase the percentage-, as well as for all those investee companies held in a wide proportion and/or consist in 1% or more of the company market capitalisation.

This will allow investors to concentrate on a smaller number of companies –that represent though the gross of their portfolios and have a more “hands on” approach to those e.g. engaging with the companies, conducting thorough analysis etc. something unthinkable for an investment universe of more than 12,000 companies which is, for example, our case.

Exposure to private companies' debt, especially those issuing debt through Special Purpose Vehicles should be excluded because of lack of leverage and the absence of information or regulatory demands on private companies in relation to ESG.

Lastly, before finalising the RTS and in order to help inform the final decision, we strongly recommend the ESAs and the Commission to:

1. Conduct or commission an impact assessment on the costs of implementing such stringent and complex reporting requirements – the costs for the European industry as well as to end investors (i.e. the impact on Europeans' savings and pensions).
2. Demonstrate the link between each one of the 50 indicators – both the mandatory and recommended - and real world impact.

3. Conduct or commission a feasibility test on data availability and aggregation for each indicator.
4. Provide detailed guidance on:
 - Definitions for all indicators.
 - How to calculate and aggregate performance for each indicator taking into account the different hurdles (such as different company reportings, double counting, etc).
 - Which economic activities are included for those indicators that only affect some sectors.
 - How to estimate performance in the absence of data or of complete data – and for which indicators estimations should be done and how to do them.
5. (*and echoing PRI's recommendation*) develop and publish a clear overview of how SFDR, the Taxonomy and current and future RTSs, as well as the revision of the Non-Financial Reporting Directive, will work together as a coherent framework for disclosure of sustainability risk and impact by investors and companies.

We see as imperative to ensure consistency and coordination with the different pieces of rules on sustainability-related disclosures (the reviewed NFRD, the SFDR, the Benchmark Regulation and the Taxonomy Regulation). In particular, the corporate disclosures under the revised NFRD should drive the disclosure on asset managers / Institutional investors on financial products.

This proposal is consistent with the response the BNP Paribas Group provided to the European Commission's consultation on the revision of the NFRD. We stressed then, and we reiterate now, that the success of the European ESG disclosure framework will depend on a gradual approach consistent with the reality of data availability and treatment of data (e.g. a few key mandatory indicators).

<ESA_COMMENT_ESG_1>

- **: Do you agree with the approach proposed in Chapter II and Annex I – where the indicators in Table 1 always lead to principal adverse impacts irrespective of the value of the metrics, requiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an “opt-in” regime for disclosure??**

<ESA_QUESTION_ESG_1>

No, we do not agree with the approach proposed in Chapter II and Annex I for three main reasons:

1. Many of the selected indicators do not capture investors' efforts to mitigate adverse impacts nor do they reflect adverse impacts of their investments.
2. Most indicators are not workable from a practical perspective.
3. The approach is not consistent with Level 1 text.

1. Purpose of the indicators

We consider that the approach as proposed if implemented today will lead to a miscount of adverse impacts, create confusion and might lead to unintended consequences, which could harm environmental and social objectives.

As currently presented, most of these indicators would provide a misleading and inaccurate understanding of the impact of a firm. For an asset manager the relevant consideration is the exposure of a company to an adverse impact (e.g. human right violation) and, if exposed, how the company manages the risk (not only whether a company has a certain policy in place but understanding the way the policy is implemented and how effective it is). This is even more relevant given that investors are exposed to an extraordinary wide range of companies (e.g. BNPP AM investment universe exceeds 12,000 companies).

As an example, there is no point for a company that is not exposed to deforestation to have a deforestation policy; or a company that might only operate in Scandinavian countries and source locally whose business has no exposure to human rights to have a labour standards or a human rights policy. The absence of a certain policy may not automatically result in adverse impacts. Indicators can neither be applied to all sectors nor to all companies as the draft RTS proposes.

More concerning is that some indicators, without contextualisation - nature of economic activity, location, nature of the environmental or social issue – nor complete information might lead to adverse impacts. (See *our answer to question 5 for further detail*). This is why:

- Not all indicators can or should be applied to all sectors and/or companies.
- The principle of proportionality needs to prevail across the board.
- We strongly encouraged testing the link between the proposed indicators and real world impacts.

The EU Taxonomy was developed to provide an impact indicator, which takes into account the nature of the different economic activities and of the environmental objectives. It also defines what significantly harming other environmental objectives means and how it translates. By requiring calculating and measuring a

separate list of environmental indicators, investors will focus on calculating those indicators and on improving the outcome of those, instead of the Taxonomy which is fit for purpose. The potential of creating positive change of the taxonomy will be at best diluted or undermined, if not neglected (except for a handful of green funds). The RTS proposal will end up being counterproductive with the aims of the regulation and the broader sustainable finance growth strategy.

We recommend instead **putting the accent on:**

1) how investors conduct due diligence, the extent of such due diligence, and more importantly how they are addressed and on encouraging remediation processes and concrete action, instead of encouraging a focus on calculating, estimating and reporting on quantified information hard to interpret. This might lead to divestment or penalisation of those companies that are not transparent (with the obvious bias against smaller companies and emerging markets actors). The approach we recommend follows best practice as stated (and ratified by OECD and other countries);

b) a handful of indicators for which calculations and standardised data availability is relatively widespread, and whose performance capture adverse impacts of fund managers' activities.

2. Concerns from a practical perspective

We have several concerns on the proposed approach as it does not take into account the lack of available and reliable data and the absence of aggregation methodologies.

The **lack of reliable, accurate, comparable, consistent and meaningful** data is well documented. Even after the upcoming NFRD review (with the caveat that it will take at least two to three years before any disclosures can be reasonably expected), this challenge will remain for non-EU holdings. Moreover, when data is available from third party data providers, it is often based on estimates and therefore of limited reliability.

One of the key concerns not mentioned above is that the vast majority of companies do not disclose performance for 100% of their activities and operations. As an example, according to Bloomberg, in 2016 only 43 firms worldwide disclosed 100 percent of their Scope 1 GHG emissions. Upon further scrutiny by researchers at Imperial College Business School and University College Dublin, we found that only 20 firms disclose 100 per cent of their emissions. More concerning was their conclusion that the lack of regulatory requirement meant companies had little incentives to provide full disclosures and to invest resources in accurate GHG data collection, especially if it puts them at risk of appearing worse than a less diligent competitor. In the absence of information, investors can only estimate performance, which are based on the average sector performance and weighting it by the company size. Estimations tell you nothing about a company's performance, and bad performers often come out better as they are granted the sector average performance. European companies and those that disclose 100% of their activities might be punished as a result.

Estimations are useful at the portfolio-level when they only represent a small percentage of the overall calculated footprint. That is, the rest of the portfolio footprint is based on real data.

By putting the pressure on investors to look better than their competitors, investors will systematically apply screenings to exclude those companies with high carbon, water or any other environmental footprints irrespectively of their specificities as that detailed work will be extraordinarily expensive and not reflected in the overall performance of the indicators (thus, not rewarding). Another consequence might be that investors could prefer to tilt investments towards certain sectors whose carbon, water, etc. footprints are by nature lower e.g. moving away from industrials, utilities and transport, and investing more in ICT and services.

At the product-level, these biases and negative consequences can be better managed because each fund responds to a different investment strategy, exposure to sectors, and geographies are either pre-defined or explained, and disclosures can be explained in detail so that end investors can interpret results. Overall performance at firm-level tells you nothing about how the fund manager actually manages adverse impacts without proper contextualisation. This is why the focus on the taxonomy and due diligence at firm-level is by far more telling and effective.

Unworkable and incomplete underlying aggregation methodologies is another issue. The RTS Joint Consultation paper specifies on page 19 that *“For the purposes of the assessment of principal adverse impacts by financial market participants, an investment in an investee company or an entity includes direct holdings of capital instruments issued by those entities and any other exposure to those entities through derivatives or otherwise.”* The current proposal does not clarify or provide any guidance on how to aggregate exposures to companies (equity vs. debt) or any financial instrument associated with the investee company e.g. derivatives, and how to account for them in the context of aggregating performance of exposures to companies through different financial instruments.

This is a crucial point as the ESAs ought to show and provide evidence on **how investors should aggregate performance at indicator-level and for all indicators** in the following cases:

- a) Between companies that calculate differently the same indicator;
- b) Between companies for which the indicator is calculated for different proportion of their activities;
and,
- c) Between companies of different sectors when that is material to the understanding of performance.

Many of the indicators chosen are calculated differently by companies, and for a different percentage of their total activities, which can lead not only to incomparable data, but it can also penalise companies with leading practices. ESAs should also clarify the extent to which “estimations” are accepted in order to calculate overall performance e.g. carbon footprint; and provide a methodology for estimating *each* indicator.

Some indicators are not applicable in certain sectors or economic activities whose exposure to any deforestation is extremely indirect or tiny. For example, this is the case of deforestation, why would a services company (unless it uses large quantities of paper, for example, and even in that case, it would have a procurement policy to buy recycled paper and a policy to recycle it), or a healthcare provider have a deforestation policy? Most companies which are not particularly exposed to deforestation will have a general green procurement policy, which will cover recycling and recycled paper, and so forth.

Generally speaking, the most advanced work on deforestation looks at two types of sectors: agri-related (and within those to key commodities) and non-agricultural (mining, metals, infrastructure, etc). An adverse impact can only exist if there is exposure to a risk. Reporting on some indicators should be limited to those sectors and/or stocks that are exposed to the underlying adverse impact. Investors would have far more impact if they concentrate on those sectors and companies that are highly exposed to deforestation.

One of the main problems of the proposal is that no feasibility or effectiveness test at the indicator level has been provided, therefore, it lacks any nuance and, at times, makes demands that are well-intended but meaningless or illusory as no company provides that information and, for which a decent estimation could be done for more than 12,000 companies across the world will require an army of analysts (e.g. share of investments in investee companies with operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas).

3. Consistency with the Level 1

We find that the approach proposed is too prescriptive and premature – considering the infancy stage at which sustainable finance is, and the enormous data gaps – which can lead to counterproductive consequences (e.g. penalising companies which disclose for all or a wider percentage of their activities vs. those that do not, disincentivising disclosures on behalf of companies for quantitative indicators and a tick-box exercise for the rest) or unintended consequences (e.g. delegating the taxonomy to one more of 50 indicators only important for a handful of funds). It will seem that the proposal considers disclosures irrespectively of their nature and meaning. Reporting is not an end on itself but a means towards an end. This proposal loses sight of the end purpose, which is two-fold: provide meaningful information to end investors to make informed decisions and mitigate potential adverse impacts of investments on the environment and society.

Further, it goes beyond the Level 1 requirements. The Level 1 text requires at entity level (1) the publication of a statement on due diligence policies with respect to adverse impact, taking due account of size, nature and scale of their activities, and (2) the disclosure of information on their policies on identification and prioritisation of principal adverse impact and indicators, description of principal adverse impacts and actions.

<ESA_QUESTION_ESG_1>

- **: Does the approach laid out in Chapter II and Annex I, take sufficiently into account the size, nature, and scale of financial market participants activities and the type of products they make available?**

<ESA_QUESTION_ESG_2>

Given the nature and volume of transactions that investors undertake, like the OECD very well highlighted in the OECD Responsible Business Conduct Due Diligence for Institutional Investors, the principle of proportionality should apply. The size and nature of the financial institution will also affect the nature and extent of due diligence. Due diligence might also be influenced by the nature and structure of a portfolio or product, as well as by the characteristics of a transaction and the nature of their clients (for corporate lending and securities underwriting) or of the issuer (for investors) – e.g., public or private entities. There are ex-ante and ex-post investment measures that might slightly change depending on the type of financial products, and the relationship with the underlying investee. We do not see any consideration of this type in the approach as proposed in the draft RTS. An investor who mainly invests in sovereign debt will be exempted from reporting on its adverse impacts.

No, the proposed approach will not reflect the characteristics of financial participants' activities and type of products they make available for several reasons:

1. Given the complexities and the unfeasibility of the exercise as exposed above, it is illusory to expect the exercise to be done for an investment universe of more than 12,000 companies which is, for example, our case. Even data providers that count in their ranks the largest number of analysts have not been able to obtain these data.
2. Private companies, especially smaller, are not requested to issue ESG data (not even in Europe). Further, investors lack the necessary leverage on private companies issuing debt – they are not shareholders. The European Commission should limit mandatory reporting for asset managers/investors to a simplified set of information (if any) that those companies disclose (or will disclose under the NFRD).
3. There is no means to access ESG information on private companies issuing debt through Special Purpose Vehicles. The disclosure rules on those vehicles should be first amended. Until then, they ought to be excluded.
4. Adverse impact disclosures should not relate to the entire reference period (average positions) but only to the portfolio as it stands at the end of the relevant reference period (average positions). All short-term holdings should be excluded (including derivatives) as they render the exercise impossible.

Regulators should consider asking asset managers to report on those corporate investments that represent a significant share of their total e.g. represent 70-80% of accrued total of stock positions - and gradually

increase the percentage- as well as for all those investee companies held in a wide proportion and/or consist in 1% or more of the company market capitalisation.

This will allow investors to concentrate on a smaller number of companies –that represent though the gross of their portfolios and have a more “hands on” approach to those e.g. engaging with the companies, conducting thorough analysis etc. something unthinkable for a full investment universe.

Lastly, financial participants manufacture in most situations different types of products with quite different characteristics and investment strategies. Aggregation at entity level has no real added-value for end-investors that will select the products aligned with their own expectations and interests. They are interested in priority by disclosure on the specific product(s) in which they invest their money. Similarly, financial advisors need to get access to information at product level as their duty is to advice their clients with products which are suitable to their specific profile, and not to recommend one specific entity compared to another.

<ESA_QUESTION_ESG_2>

- : **If you do not agree with the approach in Chapter II and Annex I, is there another way to ensure sufficiently comparable disclosure against key indicators?**

<ESA_QUESTION_ESG_3>

In our view, the following principles should prevail in the definition of indicators to be disclosed:

1. **Taxonomy should be the reference point for environmental-related disclosures²**, as it takes into account the nature of each economic activity and that of environmental issues as well as EU environmental objectives. It is science- and evidence-based. The underlying principles of DNSH should prevail, in order to make it workable and scalable; a more concrete approach should be taken. One that looks at the most polluting and damaging ways of conducting an activity and would list only those technologies or practices that should be eliminated in the near term. The list should be narrow, concise, and updated periodically (every 5 years as the EU taxonomy). For social objectives, and until a social taxonomy is developed, the social minimum safeguards in the Taxonomy Regulation should be used as the proxy, and their compliance ensure through due diligence as the OECD and taxonomy report recommend (ref).
2. We favour **an approach either where it limits the list of compulsory indicators (quantifiable) to a handful of critical ones (see below), or an approach of recommended indicators that might become compulsory over time, or under “comply or explain” basis as long as their meaningfulness has been proven**. An alternative option will be to apply a list of meaningful indicators to investors’ top corporate investments (as detailed below) and increase the number over time as data and their management become available and feasible.

1. Taxonomy misalignment

² BNPP is strongly of the view that the EU Taxonomy cannot be used for prudential Risk Management purposes.

While ESAs recognised the difference between their Do not Significantly Harm (DNSH) proposal and that of the taxonomy - and recommend the Commission to study the feasibility of clarifying the relation between the concepts of DNSH and principal adverse impact (PAI) in the future - the principle of DNSH set out in the RTS for the SFRD is fully inconsistent with the EU Taxonomy DNSH, creating confusion to market participants and end investors. This is quite concerning that **the draft RTS set a second standard within Europe, which undermines the very objective of the taxonomy to create a common understanding of what is environmentally sustainable and what is significantly harmful.**

The forthcoming Taxonomy delegated acts will provide harmonised metrics and screening criteria for establishing whether an activity is causing significant harm. By contrast, the proposed PAI indicators in the draft RTS focus on quantifying the impact, but not putting that impact into context with respect to the EU's environmental or social objectives. Creating two distinct sets of indicators for measuring these related concepts is confusing and unhelpful.

The RTS are focused on simply quantifying “impact” without putting into context with respect to:

- Environmental or social objectives;
- Realities, context and sectoral (and economic activities) specific characteristics and impacts;
- Size and business models of the investee companies;
- They do not either take into account the trade-offs between different environmental objectives or any subtlety that may prove essential to the understanding of the impact e.g. water footprint vs. water efficiency in water stress areas, undermining one of the key principles – and achievements – of the taxonomy.

The overall quantified result of most indicators proposed does not provide *any* information about how the fund manager addresses adverse impacts nor how the companies they invest in are managing them. The benefits of using the taxonomy for environmental-related disclosures as the reference are multiple:

- Coherence and consistency across the board, and of a vision at EU level of environmental and social performance;
- A fine and in-depth indicator that is consistent with EU objectives and integrate the specificities of each economic activity;
- Serves as a common measurement tool – it allows real comparison and aggregation at portfolio, firm and market-level.

It is true that the current taxonomy does not cover social activities and has not develop DNSH criteria for social activities. However, this does not justify the inclusion of a separate interpretation of environmental DNSH.

The underlying principles of DNSH should prevail. In order to make it workable and scalable, a more concrete approach should be taken. One that looks at the most polluting and damaging ways of conducting an activity and would list only those technologies or practices that should be eliminated in the near term. The list should be narrow, concise, and updated periodically (every 5 years as the EU taxonomy).

The ESAs should also take into consideration the likely expansion of the taxonomy to the development of a social taxonomy. They should avoid forcing the development of costly and cumbersome reporting systems that will have a limited lifespan in the light of the application of a social taxonomy.

At product-level, the Taxonomy will provide a single Union-wide definition of “environmentally sustainable economic activities”. Funds covered under Article 8 and Article 9 in the SFDR will be required to disclose against the EU Taxonomy, where environmental issues are a theme of their fund, and may be required to disclose against a future Social Taxonomy subject to the outcome of a future review by the European Commission.

2. List of indicators

We favour an approach either where it limits the list of compulsory indicators (quantifiable) to a handful of critical ones (see below), or an approach of recommended indicators that might become compulsory over time, or under “comply or explain” basis, where the following criteria are taken into account:

- Availability and maturity of data
- Availability of a standardised methodology applied to companies

Availability of a methodology to aggregate performance ESAs should clarify the extent to which “estimations” are accepted in order to calculate overall performance e.g. carbon or water footprint, the percentage of overall estimations vs. non-estimations in order for the final figure to be sufficiently meaningful, and for which indicators.

We propose the following list of indicators (quantifiable) given their meaningfulness and feasibility:

- Carbon emissions, carbon footprint and weighted carbon intensity
- Exposure to coal at a first stage.
- Primary energy mix.
- Board gender diversity.
- Number of breaches identified, breakdown by issues and sectors (e.g. X number of human rights violations, X child labour, X bribery and corruption, etc) – following the UN GC, OECD and UNGPs standards.
- Exposure to controversial weapons (land mines and cluster bombs)
- Exposure to tobacco.

With regard to deforestation, waste and water, we propose a more nuanced sectoral approach based on the levels of exposure or risk to the adverse impact and the levels of efficiency in managing them. **Please refer to our table enclosed where we provide our view and analysis on each proposed indicator.**

We would like to add to the list the following non-quantifiable disclosures:

- Governance of sustainability within financial market participants
- Paris alignment/climate and ESG strategy at firm level
- ESG Due Diligence processes – as per OECD Due Diligence recommendations, including the number of identified cases (as per number and type of cases) and, remediation, monitoring and escalation actions.

Please note that the European Union has a unique opportunity to standardise reporting and the underlying methodologies for companies' reporting on scope 1, 2 and 3, which should help greatly to overcome the problems raised (at least for EU companies). We recommend a phase-in approach for calculating and developing the underlying methodologies starting with key sectors such as energy, mining, automotive, etc. and finishing with the financial sector (link to TEG benchmark report and recommendation).

While calculating exposure to green investments will be feasible for companies that fall under the NFRD (with specific carve outs for banks), EU authorities need to understand that for the rest of investments the calculation will be difficult and only feasible over time.

We also favour disclosures in line with the OECD Recommendations on Due Diligence for Institutional Investors, which are also in line with the minimum safeguards stipulated in the Taxonomy Regulation. RTS Article 7 sets out disclosure requirements where information is not readily available. It requires investors to disclose either their best efforts used to obtain the information directly from companies, or if that is not available, description of assumptions, research, use of third-party data providers or other external experts.

This suggests that investors should only resort to using data providers if their best efforts to get data directly from the company have failed. In practice, data providers have an important role here and should not be treated as a secondary approach to data collection.

<ESA_QUESTION_ESG_3>

- : **Do you have any views on the reporting template provided in Table 1 of Annex I?**

<ESA_QUESTION_ESG_4>

With regards the template, we believe that:

1. It should be narrowed down to a handful of mandatory key indicators (see our response to Q.3), and the rest being optional. The template should allow for other information be included if the fund manager wishes to complement it with other indicators.
2. It should allow to split the percentage of the information that is based in real data, the percentage of estimated and the percentage that simply could not be even estimated (or by number of investee companies).
3. It should allow proxies being used in the absence of information and/or impossibility to calculate the indicator.
4. The list of definitions is incomplete and too succinct to allow investors fully understand how to calculate the impact performance of the selected indicators. There should be clear and detailed definitions for all indicators.
5. Proper guidance on how to calculate and aggregate performance for each indicator taking into account the different hurdles (such as different company reportings, double counting, etc). should be provided – including for which economic activities (allowing the exclusion for those sectors and/or stocks not exposed to the adverse impact). By including all sectors in the calculation of all indicators, impact is adulterated, sometimes leads to double- and even triple-counting (namely for emissions) and remedy or action equally diluted.

There are some fundamental technical hurdles that should be further considered. Besides the ones already mentioned in the previous answers, we would like to highlight the potential downside of using market value:

- The use of market capitalisation per million of invested in the company might lead to misinterpretation in some occasions. If the company is a high growth company in a high multiple, an investor's percentage of ownership will be lower, but it does not change the amount of money invested nor does it change its impact on society or the environment. Results have to be interpreted cautiously.
- Depending on when an investor has invested in a company, the result (the performance of the social or environmental indicator) might vary significantly. One euro invested in one company might translate into a much bigger carbon footprint than another euro invested in the same company at a different date. Relative movements in the market will change relative exposure to water and carbon emissions, and so forth. Yet, market value seems the best option as long as this limitation is addressed.

We recommend that disclosures at firm-level should be done taken into account investors' investments at a given date and time once a year – end of 31st December. Only then, comparisons between investors will be feasible. For the same reasons, we recommend that product-level disclosures are conducted once or twice a year maximum at a fixed date.

<ESA_QUESTION_ESG_4>

- **: Do you agree with the indicators? Would you recommend any other indicators? Do you see merit in including forward-looking indicators such as emission reduction pathways, or scope 4 emissions (saving other companies' GHG emissions)?**

<ESA_QUESTION_ESG_5>

We do not see the merits of including additional forward-looking indicators to be applied at firm-level or portfolio-level across the board. The best forward-looking indicators are the analysis of capital expenditures (including how they are aligned with the EU taxonomy – capex alignment is the best indicator) and an analysis on companies' targets, strategies, business models, etc. that varies from sector to sector. They require a high-level of understanding on the subject to interpret results and to compare performance. Further, there are no European sectoral transition pathways defined – which should be the first step.

The inclusion of mandatory reporting at firm-level or portfolio-level will lead to a standardisation (minimum common denominator) of an analysis but that is complex and intrinsic to different business models, sectors and other factors. It could be counterproductive.

We recommend the authorities should concentrate in the development of a sound and standardised methodology for each sector to calculate scope 3 (and its inclusion in the NFRD), before adventuring in scope 4.

<ESA_QUESTION_ESG_5>

- **: In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in also requesting a) a relative measure of carbon emissions relative to the EU 2030 climate and energy framework target and b) a relative measure of carbon emissions relative to the prevailing carbon price?**

<ESA_QUESTION_ESG_6>

No. There are three main reasons:

1. There is already an indicator that properly captures the EU's net zero target and the science-based target of 50% reduction by 2030: the EU Taxonomy. We recommend therefore not to create further confusion and to use the taxonomy as the reference for economic activities to align with EU environmental objectives as the Taxonomy Regulation states.
2. Today's EU 2030 targets are not in line with Europe's net zero target by 2050.
3. Today's EU carbon prices are too low to be meaningful and do not capture real market failure.

<ESA_QUESTION_ESG_6>

- **: The ESAs saw merit in requiring measurement of both (1) the share of the investments in companies without a particular issue required by the indicator and (2) the share of all companies in the investments without that issue. Do you have any feedback on this proposal?**

<ESA_QUESTION_ESG_7>

We agree with the underlying spirit. However, as developed through answers to questions 1 to 6, the calculation for all investee companies or all investments is materially impossible.

We therefore recommend that the general rule to define the scope of analysis for indicators at firm-level is:

- Top investments that represent a significant share of equity investments (e.g. represent 70-80% of accrued total of stock positions), and gradually increase the percentage if availability of data and the other hurdles are overcome; and,
- for all those investee companies held in a wide proportion e.g. consist in 1% or more of the company market capitalisation.

This will allow investors to concentrate on a smaller number of companies – but that they represent the gross of their portfolios and have a more “hands on” approach to those e.g. engaging with the companies, conducting thorough analysis etc. something unthinkable for an investment universe of more than 12,000 companies which is, for example, our case.

Therefore, the measurement should then be double-fold as follows for instance in the specific case of the deforestation indicator :

- (1) share of the investments in investee companies without a deforestation policy **out of** all investments in investee companies exposed to deforestation (i.e. include all companies within agricultural-related sectors and non-agricultural related commodity sectors as explained in the table attached where individual indicators are analysed)
- (2) share of all investee companies in the investments without a deforestation policy **out of** all investee companies exposed to deforestation.

<ESA_QUESTION_ESG_7>

- : **Would you see merit in including more advanced indicators or metrics to allow financial market participants to capture activities by investee companies to reduce GHG emissions? If yes, how would such advanced metrics capture adverse impacts?**

<ESA_QUESTION_ESG_8>

We do not see the merits of developing more advanced indicators to be applied at firm-level or portfolio-level across the board. We, alongside our partners of IIGCC and Climate Action 100+ have developed a series of indicators that capture companies' actions and progress on reducing emissions and transitioning. Those are however, sector-specific indicators, complex and centred on large companies. They require a high-level of understanding on the subject to interpret results and to compare performance.

More importantly, the Taxonomy was developed to capture performance at activity-level for emission reductions and transitioning activities.

<ESA_QUESTION_ESG_8>

- : **Do you agree with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators?**

<ESA_QUESTION_ESG_9>

Yes, we agree with the objective to capture how investors manage social and governance matters, and with disclosing some key pertinent performance indicators and identified serious breaches; as well as investors' policies and due diligence processes.

For areas such as human and labour rights or anti-bribery and corruption, the UN Guiding Principles of Business and Human Rights and the OECD Multinational Guidelines make very clear that the role of investors is to **properly conduct due diligence** and to act responsibly to address impacts on human rights, and the importance of **remediation** (thus, engagement and voting in the case of investors). The OECD has provided detailed information on how institutional investors with regards to their responsibilities (OECD Responsible Business Conduct (RBC) for institutional investors, see <https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>) and highlights the following practical steps to ensure they manage their adverse impacts:

- embedding RBC into relevant policies and management systems for investors;
- identifying actual and potential adverse impacts within investment portfolios and potential investments;
- as appropriate, using leverage to influence investee companies causing an adverse impact, to prevent or mitigate that impact;
- accounting for how adverse impacts are addressed, by (a) tracking performance of the investor's own;
- performance in managing RBC risks and impacts in its portfolio, and (b) communicating results, as appropriate;
- having processes in place to enable remediation in instances where an investor has caused or contributed to an adverse impact.

The above should be complemented with:

- explanations on how exposure to the different adverse impacts has been defined and assessed;
- description of tracking and monitoring processes;
- remediation and escalation actions.

With regards specific disclosures at firm-level, (considering all the factors and reasons explained throughout the consultation) we recommend the following:

- board gender diversity;
- number of breaches identified, breakdown by issues and sectors (e.g. X number of human rights violations, X child labour, X bribery and corruption, etc);
- exposure to controversial weapons (land mines and cluster bombs);
- exposure to tobacco.

Please refer to our table enclosed for specific comments on individual proposed indicators.

<ESA_QUESTION_ESG_9>

- **: Do you agree with the proposal that financial market participants should provide a historical comparison of principal adverse impact disclosures up to ten years? If not, what timespan would you suggest?**

<ESA_QUESTION_ESG_10>

We question the timeframe for historical comparison: every year for last ten years requirement goes beyond the Level 1 text and we challenge its usefulness. We are looking at performance of funds so it should be either 1 (aligning with financial statements), or 3 years.

We also question the added-value of such a long timeframe because:

1. Absolute historical figures do not provide any information to investors about actual impact of investments, e.g. if the carbon footprint of investments decreases but overall AUM increases, disclosed impact will increase year over year.
2. ESG data will probably significantly evolve and improve in the coming years. Under these conditions, we are not sure that comparability will be ensured in the end as similar data will potentially reflect different realities. We consider that a maximum of 3 years should be retained at this stage.
3. The use of market value and the volatility in performance that it entails as explained in our answer to Question 4. Market value makes timing a central variable that defines the performance of the indicator. Depending on when an investor has invested in a company, the result (i.e. the performance of the social or environmental indicator) might vary significantly. One euro invested in one company might translate into a much bigger carbon footprint than another euro invested in the same companies at a different date. Relative movements in the market will change relative exposure to water and carbon emissions, and so forth. Therefore, historical comparison at different market values tells you nothing of how social and environmental performance have evolved.

<ESA_QUESTION_ESG_10>

- **: Are there any ways to discourage potential “window dressing” techniques in the principal adverse impact reporting? Should the ESAs consider harmonising the methodology and timing of reporting across the reference period, e.g. on what dates the composition of investments must be taken into account? If not, what alternative would you suggest to curtail window dressing techniques?**

<ESA_QUESTION_ESG_11>

Yes. By limiting reporting to those investments for which reliable and complete information is available and to those investments that are exposed to the adverse impact and for which it makes sense calculating performance as indicated in the previous answers.

We agree with the proposal of harmonising timing of reporting – once a year at end of year - and the underlying methodology for calculating and aggregating performance for each indicator – including how to estimate performance wherever mandatory.

The authorities can also discourage “window dressing” by ensuring that:

- All listed companies in Europe or operating in Europe are obliged to disclose in a harmonised way for all their activities each one of the indicators that compound the final RTS.
- All non-listed companies that issue debt in Europe are obliged to disclose in a harmonised way for all their activities each one of the indicators that compound the final RTS.

This is consistent with the BNP Paribas’ response to the Consultation on the revision of the NFRD.

<ESA_QUESTION_ESG_11>

- : **Do you agree with the approach to have mandatory (1) pre-contractual and (2) periodic templates for financial products?**

<ESA_QUESTION_ESG_12>

We agree in principle that the use of templates should be the best way to ensure comparability between products and avoid greenwashing.

Periodic templates for financial products should be limited to once or twice maximum per year. Sustainability-related data is updated once a year, changes will only reflect variations in the portfolio, twice a year would suffice to capture variations.

<ESA_QUESTION_ESG_12>

- : **If the ESAs develop such pre-contractual and periodic templates, what elements should the ESAs include and how should they be formatted?**

<ESA_QUESTION_ESG_13>

It would be helpful for both financial market participants and investors across all EU countries to have a standard template for pre-contractual and periodic disclosures. However, any template developed by the ESAs will have to be validated by each national financial market authorities for cross-border financial products.

All elements required by the SFDR should be included in these standard templates. Disclosure formats are usually defined by the national financial market authorities for market participants; hence the importance of developing these templates in coordination with the national financial market authorities.

<ESA_QUESTION_ESG_13>

- : **If you do not agree with harmonised reporting templates for financial products, please suggest what other approach you would propose that would ensure comparability between products.**

<ESA_QUESTION_ESG_14>

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<ESA_QUESTION_ESG_14>

- : **Do you agree with the balance of information between pre-contractual and website information requirements? Apart from the items listed under Questions 25 and 26, is there anything you would add or subtract from these proposals?**

<ESA_QUESTION_ESG_15>

Detailed information should be provided on the website whereas pre-contractual information is designed to be more succinct, indicative and high-level. There is currently quite a lot of compulsory information that pre-contractual documentation must address, therefore ESAs should limit the amount of additional information.

It is of equally importance to avoid overwhelming end-investors with too much information that could create confusion and mislead investment decisions – coherence and meaningfulness are essential.

<ESA_QUESTION_ESG_15>

- : **Do you think the differences between Article 8 and Article 9 products are sufficiently well captured by the proposed provisions? If not, please suggest how the disclosures could be further distinguished.**

<ESA_QUESTION_ESG_16>

We believe that the differences between both types of products are made sufficiently clear

<ESA_QUESTION_ESG_16>

- : **Do the graphical and narrative descriptions of investment proportions capture indirect investments sufficiently?**

<ESA_QUESTION_ESG_17>

Indirect investments – e.g. derivatives, special vehicles – should be exempted from the exercise as their function is to protect end-investors from volatility and a series of risks such a currency risk etc. There is little to no work and analysis done on how ESG could, if and when feasible, be properly integrated in derivatives. We believe it is too early stage to include them in the scope of this exercise. They should be left for a second phase once work on ESG and this asset class is more mature.

<ESA_QUESTION_ESG_17>

- : **The draft RTS require in Article 15(2) that for Article 8 products graphical representations illustrate the proportion of investments screened against the environmental or social characteristics of the financial product. However, as characteristics can widely vary from product to product do you think using the same graphical representation for very different types of products could be misleading to end-investors? If yes, how should such graphic representation be adapted?**

<ESA_QUESTION_ESG_18>

We believe one model could fit all as long as the graphical representation remains high-level, this is the breakdown between the part of the fund that integrates ESG considerations or has ESG goals, and the remaining per type – e.g. cash, derivatives, etc. This is particularly true for pre-contractual information.

<ESA_QUESTION_ESG_18>

- : **Do you agree with always disclosing exposure to solid fossil-fuel sectors? Are there other sectors that should be captured in such a way, such as nuclear energy?**

<ESA_QUESTION_ESG_19>

We agree with disclosing exposure to solid fossil fuels. We favour the disclosure on primary energy mix and electricity mix following our recommendation made on the table enclosed - where we provide our view and analysis on each proposed indicator.

<ESA_QUESTION_ESG_19>

- : **Do the product disclosure rules take sufficient account of the differences between products, such as multi-option products or portfolio management products?**

<ESA_QUESTION_ESG_20>

We believe that product disclosure rules should better consider the differences between types of products. For example, for funds of funds, aggregation and disclosure at fund-level might be extremely challenging, except if the ESAs provide detailed methodologies for calculating each indicator at fund level in a manner that makes aggregation at fund-of-funds level feasible.

Product disclosure rules should also take into account the specificities of separate accounts / portfolio management mandates. They raise similar aggregation and disclosure issues as described above for funds of funds. Reportings are not based on a look-through approach, analysing each underlying investments of funds invested in, which would be extremely burdensome and costly for questionable benefits.

In addition, portfolio management products respond to exclusive accords with one client.

Such services operate on a bilateral basis (between the provider and its client). ESG disclosure should reflect the preferences and needs of the client as well as respect the privacy of individual client's data. To take into account those specificities, product disclosure could be required for each family of portfolio (model portfolio) – rather than individual contracts.

<ESA_QUESTION_ESG_20>

- : **While Article 8 SFDR suggests investee companies should have “good governance practices”, Article 2(17) SFDR includes specific details for good governance practices for sustainable investment investee companies including “sound management structures, employee relations, remuneration of staff and tax compliance”. Should the requirements in the RTS for good governance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?**

<ESA_QUESTION_ESG_21>

Good governance practices tend to be correlated with good social and environmental performance. We engage on governance more than on any other subject as it is the basis for good corporate performance – financial and non-financial. When it comes to social or environmental performance, not only is good corporate governance important but so is the governance of sustainability-related issues. The best contribution

the authorities can make in this area is through the enhancement of Action Point number 10 of the EC Action plan about the governance of sustainability in European companies.

It should be at the discretion of the investor who undertakes the analysis and defines the indicators that best fit a fund by taking into account the investment universe, sectors, geographies, specific ESG goals and so forth. It is worth highlighting that good governance practices are best defined when analysing a series of indicators and information together while taking into account individual business models and particularities.

<ESA_QUESTION_ESG_21>

- **: What are your views on the preliminary proposals on “do not significantly harm” principle disclosures in line with the new empowerment under the taxonomy regulation, which can be found in Recital (33), Articles 16(2), 25, 34(3), 35(3), 38 and 45 in the draft RTS?**

<ESA_QUESTION_ESG_22>

The Taxonomy regulation and new empowerments compel the ESAs to ensure that the new RTS covering the do no significant harm (‘DNSH’) Principle is consistent with the “principal adverse impacts” (PAI) Indicators and the fundamental conventions and guidelines underpinning the minimum social safeguards.

The concept of PAI is closely linked to the concept of “significant harm” embedded in the Taxonomy Regulation. This is reflected in the RTS treatment of adverse impacts for Article 9 funds: under RTS article 25, Article 9 funds are required to explain how they make reference to the PAI indicators when demonstrating avoidance of significant harm.

While ESAs recognised the difference between their DNSH proposal and that of the taxonomy - and recommend the Commission to study the feasibility of clarifying the relation between the concepts of “do no significantly harm” and “principal adverse impact” in the future - the principle of DNSH set out is fully inconsistent with the taxonomy DNSH creating confusion to market participants and end- investors. More concerning, **the draft RTS set a second standard within Europe, which undermines the very objective of the taxonomy to create a common understanding of what is environmentally sustainable and what is significantly harmful.**

The underlying principles of DNSH as defined in the Taxonomy regulation should prevail. In order to make it workable and scalable, a more concrete approach should be taken. One that looks at the most polluting and damaging ways of conducting an activity and would list only those technologies or practices that should be eliminated in the near term. The list should be narrow, concise, and updated periodically (every 5 years as the EU taxonomy).

It is true that the current taxonomy does not cover social activities. However, the Taxonomy Regulation contains provisions for Minimum Safeguards. The minimum safeguards in the taxonomy were designed to ensure that Taxonomy activities do not harm social objectives – in essence, a form of DNSH to social as-

pects. These build from several frameworks including the RBC guidelines referenced in the Disclosure Regulation concept of Principal Adverse Impact. The inclusion of the OECD MNEs Guidelines and the UN GPs as a framework to define minimum safeguards effectively ensures high and ample social standards. The OECD MNEs are the only government-backed and the most comprehensive instrument covering all major social and governance risks.

We propose to use:

- A simplified environmental DNSH looks at the most polluting and damaging ways of conducting an activity and would list only those technologies or practices that should be eliminated in the near term. The list should be narrow, concise, and updated periodically (every 5 years as the EU taxonomy).
- Minimum safeguards embedded in the Taxonomy Regulation and report following the suggestions made on our answer to question 9.

At product-level, the Taxonomy will provide a single Union-wide definition of “environmentally sustainable economic activities”. Funds covered under Article 8 and Article 9 Sustainable Finance Disclosure Regulations (‘SFDR’) will be required to disclose against the EU Taxonomy, where environmental issues are a theme of their fund, and may be required to disclose against a future Social Taxonomy subject to the outcome of a future review by the European Commission.

For Article 8 & 9 products that apply the Taxonomy and that have conducted the DNSH screening for the entire portfolio should not be required to provide further information with regards DNSH or adverse impacts. The results of such screening for the share of the fund that does not fully align with the Taxonomy should be disclosed accordingly making it clear where and why that share is not aligned following the recommendations of the TEG, for instance:

- percentage of the fund fully aligned
- percentage of the fund potentially aligned – explanation: X % missing DNSH information regarding adaptation, or X% missing substantial contribution metric at asset level (verified average), etc.

Under the proposed regime, an individual Article 8 fund with an environmental focus would be required to comply with two distinct sets of disclosure requirements, which address the same fundamental concept in two different ways:

SFDR RTS proposal	Taxonomy obligation
Article 15 RTS: A graph presenting:	<ul style="list-style-type: none"> ▪ Narrative explaining the extent to which the EU Taxonomy was used in determining the sustainability of the investments;

<ul style="list-style-type: none"> ▪ How much of the product is “sustainable investments” broken down by environmental and social; ▪ The total investments, excluding the above, that contribute to E&S characteristics, broken down by E&S; ▪ Everything else <p>Narrative to include description of the purpose of the remainder of the investments and the investment in different sectors, including solid fossil fuels (labelled as fossil fuels).</p> <p>Article 18 RTS: A list of sustainability indicators.</p>	<ul style="list-style-type: none"> ▪ Proportion of the fund that is “environmentally sustainable investments” in accordance with the EU Taxonomy; ▪ Environmental objectives to which the fund contributes; ▪ Proportion of “enabling” and “transition” investments within the fund. ▪ [TEG recommendation: proportion of the fund that is potentially aligned but for which full validation cannot be completed]
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(Article 9 disclosure requirements differ in that there is no obligation to disclose the total investments promoting E&S characteristics, and they must indicate how significant harm is avoided including how they make use of the principal adverse impacts indicators and any exclusions).

These disclosures must be made in the same documents. End investors seeking to understand the impact of the products will therefore be presented with two different frameworks for understanding the impact of the fund.

The proposed SFDR RTS seek to address the same basic concept as the EU Taxonomy but provides a less robust framework for doing so. For example, the inclusion of mandatory disclosure of fossil fuels appears designed to identify the extent to which a product is invested in high-carbon activities, a source of substantial environmental harm. While this is true, fossil fuel sectors are not the only source of substantial harm and may not have a substantial negative impact on other environmental issues. The Taxonomy, by contrast, establishes technology-neutral thresholds by which an economic activity, such as energy generation, can demonstrate that it is avoiding substantial harm across all environmental goals.

The Taxonomy also focuses on the environmental performance of the underlying activity, giving flexibility to the discloser around the investment approach used to improve the underlying performance. The TEG has also recommended different financial metrics to calculate Taxonomy portfolio or fund alignment which can support different narratives around the strategy.

The Taxonomy provides a robust and credible framework for assessing the environmental sustainability of investments. It is a tool that many EU companies and investors will already be required to use.

<ESA_QUESTION_ESG_22>

- **: Do you see merit in the ESAs defining widely used ESG investment strategies (such as best-in-class, best-in-universe, exclusions, etc.) and giving financial market participants an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such widely used strategies?**

<ESA_QUESTION_ESG_23>

Yes, we believe it will be useful for the ESAs to define widely used ESG investment strategies, and for the European Commission to develop a wide range of pan-European labels for both the retail and institutional markets that mirror those strategies. There is no need to reinvent the wheel. We strongly encourage the authorities to adopt the definitions adopted by the UN-backed Principles of Responsible Investment, the widest investor network on sustainable investing. Those definitions are also used today by all signatories when disclosing annually following the PRI Reporting Framework. It will help reduce the costs as a large share of the market already uses those definitions and reports on them.

<ESA_QUESTION_ESG_23>

- **: Do you agree with the approach on the disclosure of financial products' top investments in periodic disclosures as currently set out in Articles 39 and 46 of the draft RTS?**

<ESA_QUESTION_ESG_24>

Yes, we agree with the general approach. We believe that pre-contractual information should be limited to general principles and remain high-level. All detailed information should be provided in the website and annual reports.

<ESA_QUESTION_ESG_24>

- **: For each of the following four elements, please indicate whether you believe it is better to include the item in the pre-contractual or the website disclosures for financial products? Please explain your reasoning.**
 - **an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy - in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);**
 - **a short description of the policy to assess good governance practices of the investee companies - in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);**
 - **a description of the limitations to (1) methodologies and (2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product - in the draft RTS below it is in the website disclosure under Article 34(1)(k) and Article 35(1)(k); and**
 - **a reference to whether data sources are external or internal and in what proportions - not currently reflected in the draft RTS but could complement the pre-contractual disclosures under Article 17.**

<ESA_QUESTION_ESG_25>

a) an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the “investable universe”) considered prior to the application of the investment strategy – in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);

Pre-contractual (objective and general commitment) and Website (objective, commitment and end result or performance).

b) a short description of the policy to assess good governance practices of the investee companies – in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);

Pre-contractual (objective and general commitment) and Website (objective, commitment and end result or performance).

c) a description of the limitations to

(1) methodologies and

(2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product – in the draft RTS below it is in the website disclosure under Article 34(1)(k) and Article 35(1)(k);

Website

d) a reference to whether data sources are external or internal and in what proportions – not currently reflected in the draft RTS but could complement the pre-contractual disclosures under Article 17.

Website

<ESA_QUESTION_ESG_25>

- **: Is it better to include a separate section on information on how the use of derivatives meets each of the environmental or social characteristics or sustainable investment objectives promoted by the financial product, as in the below draft RTS under Article 19 and article 28, or would it be better to integrate this section with the graphical and narrative explanation of the investment proportions under Article 15(2) and 24(2)?**

<ESA_QUESTION_ESG_26>

BNPPAM considers that it would be better to include a separate section on information on the use of derivatives. Derivatives are most times used in products to help protect investments, for example, by hedging currency or interest rate risks. These derivatives would not be categorised as neither sustainable nor unsustainable investments. Therefore, they inclusion in the graphical and narrative explanations of the sustainable investment objective of the financial product could mislead end investors.

We believe that not sufficient work and analysis have been done to date on how to assess the degree of sustainability of the different types of derivatives. As long as in-depth work has not been conducted in this area, we recommend to limit disclosures to the use and purpose of the derivatives, and leave to the discretion of the fund manager to include any further information. Financial market participants should satisfy the requirement by including a statement that their use of derivatives is not connected to the environmental or social characteristics promoted by the financial product, if this is the case (e.g. as mentioned above, in the case of currency or interest rate derivatives) and what is their purpose. By requiring to identify these derivatives as not meeting the environmental or social characteristics promoted by the financial product, less financial educated investors and other stakeholders might misinterpret their role and their impact.

<ESA_QUESTION_ESG_26>

- : **Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?**

<ESA_QUESTION_ESG_27>

There will be major sources of costs, namely the purchase of raw data and treatment of the data – including developing methodologies when they do not exist and calculating overall performance and at fund-level. One of the most costly parts will be the estimation of performance for those companies that provide incomplete or no information (for those indicators for which estimation is feasible, even if meaningless).

We roughly estimate overall cost at between EUR 2 to 2.5 Million, costs will lower once the systems are upgraded, but the reporting, data provision and treatment costs will remain.

- Contract costs around EUR 500,000 to EUR 1 M
- Analysts, Quant analysts, IT support, etc. (2 to 3 FTE) EUR 600,000+
- IT system upgrade
- Reporting and website upgrade and maintenance
- Consultancy support

The implementation of these new requirements will be burdensome and costly for the European investment industry. According to ESMA, costs are the most significant burden on retail investors return, and these costs are likely to be borne by the end-investor and will particularly affect Article 8 & 9 products, which are precisely the funds we ultimately wish to promote.

With the new requirements, offering cost efficient products could prove to be more and more difficult, as the costs for ESG data might rise significantly. Furthermore, financial market participants will have to rely even more on third-party data providers (see our response to the Renewed Sustainable Finance Strategy) which face a possible (concentration) risk. Therefore, we believe that it is essential for the authorities to:

1. Set a gradual and proportional approach as stated in this response.
2. Regulate the data market and data providers (see our response to the Renewed Sustainable Finance Strategy).
3. Create a European database with open-source and centralised access.
4. Implement incentives to Article 8 & 9 products to compensate extra-costs (see our response to the Renewed Sustainable Finance Strategy).

<ESA_QUESTION_ESG_27>