

# EFAMA'S REPLY TO ESMA CONSULTATION PAPER ON THE DRAFT ADVICE TO EUROPEAN COMMISSION UNDER ARTICLE 8 OF THE TAXONOMY REGULATION

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## INTRODUCTION

EFAMA, the voice of the European investment management industry, strongly supports the development and implementation of the Taxonomy Regulation. We believe that reporting on the level of alignment with the Taxonomy by non-financial and financial undertakings is essential to strengthening market integrity around sustainability issues.

While we believe ESMA's draft advice on Article 8 of the Taxonomy provides very strong foundations for successfully implementing the disclosure requirements, we would like to make the following recommendations on (i) implementation timelines, (ii) companies and (iii) asset managers' reporting.

### **i. Sequencing of disclosures by non-financial undertakings and asset managers**

We highlight that without data from non-financial undertakings, it will be very difficult for asset managers to meet their reporting obligations. Asset managers' obligations to report on the KPIs in Article 8 of the Taxonomy and/or Article 5 and 6 of the Taxonomy will apply from 1<sup>st</sup> January 2022. However, such reporting would be meaningless unless there is underlying Taxonomy reporting by companies widely available in early 2022. Our understanding is that such company level reporting will only be available in the course of financial year 2022.

Therefore, we urge ESMA to seek for a solution to this problem in collaboration with other ESAs. Especially regarding the Taxonomy-related disclosures at the product level, we would suggest a coordinated phasing-in solution that would involve the following stages:

- As of 1 January 2022, disclosure of the planned proportion of Taxonomy-compliant investments, if such investments are part of a product's investment strategy, in the pre-contractual document,
- One year later, as of 1 January 2023, reporting on the actual Taxonomy-related KPIs at the product level calculated on the basis of issuer reports to be published in 2022.

This approach would ensure that reporting of Taxonomy-relevant KPIs is based from the outset to a large extent on reliable information from issuers. If this timeline inconsistency is not addressed, asset managers will have to rely on inherently inaccurate estimations on Taxonomy alignment due to the lack of data. To protect the integrity of the ESG market from the onset, this situation should be avoided.

### **ii. Non-financial undertakings**

1. We believe companies should primarily report on two KPIs, Turnover and CapEx, for activities which are covered by the Taxonomy and whenever possible, also break these down on a voluntary basis into: (a) activities aligned; (b) non-aligned due to failure in technical screening criteria and (c) non-aligned due to failure in "do no significant harm" principles. Such voluntary granularity delineating the reasons for non-alignment of eligible activities would help market participants understand what could potentially align and what not, as well inform the engagement strategies of asset managers.
2. Inclusion of mandatory OpEx disclosure would be in our view disproportionate to Taxonomy provisions, which rightly consider "capex and, if relevant, OpEx". A general requirement to report on

all OpEx would constitute an unsurmountable barrier for companies given the high accounting difficulties to allocate operational expenditures to NACE codes and to adjust internal accounts to such a classification.

3. We would encourage ESAs and the EC to adopt measures that facilitate the availability and machine readability of ESG information reported under the Taxonomy. Timely revision of the NFRD and the establishment of an EU Single Access Point for ESG data will be essential to enhance the usability of companies' reporting for investment decisions.

### **iii. Asset managers' disclosures**

1. We recommend giving equal weight to the CapEx indicator compared to the Turnover indicator. CapEx is a crucial, forward-looking metric because it reflects new, incremental green investments.
2. We are unsure what meaningful information OpEx could provide to investors. This indicator should be used only if relevant for specific cases (EU Green Bond Standard eligibility). The percentage of OpEx alignment at asset managers-level would add little to no information to the reader and should be strictly voluntary.
3. Many of our members raised concerns regarding the merits of asset managers having to break down their assets under management by economic activity, as recommended by ESMA in section 4.4.2 of the draft advice. Since most asset managers invest across the market, they believe disclosures by economic activity would become extremely cumbersome for asset managers and fail to be useful for investors and distributors.
4. The numerator of the weighted average should include all bonds applying the EU Green Bond Standard, as well as corporate and sovereign bonds where the issuer can credibly demonstrate that the economic activities financed with the proceeds would be aligned. These bonds should be counted for their corresponding percentage value aligned with the Taxonomy.
5. The value of eligible investments (equity, corporate bonds and real assets) at the product level is a more insightful figure for end investors than total assets under management at entity level. Asset classes not eligible for the Taxonomy, such as general sovereign exposures or commodities should not count towards the denominator. For transparency purposes, we could envisage including a secondary figure on total AuM that would provide a fuller picture on all assets under management. We also see grounds in basing the calculation of eligible investments in sustainable Articles 8 and 9 SFDR funds, although we recognize this might not provide the full picture of the asset manager's financing of Taxonomy aligned activities.
6. For financial groups with both investment banking and asset management divisions, we maintain that the parent company should not be required to provide the disclosures under NFRD also for the portfolios managed by their investment division. Since investment portfolios managed on behalf of clients do not affect the company's balance sheet, such disclosures should be provided only for credit portfolios.
7. Compulsory disclosures on investment advice, RTO or administration would be irrelevant, costly, immaterial, and onerous. These activities have little to no impact on the role of the Taxonomy as a tool to raise funds and facilitate access to finance. For individual portfolio management, an optional or best effort approach could be applied, given that some clients may not wish to take into account such a criterion. We agree that the calculation on Taxonomy alignment should exclude derivatives unless their definition includes CFDs.

8. While we agree that the EC should consider the feasibility of developing a methodology to allow KPI calculation for companies not reporting under the NFRD the extent of their Taxonomy-aligned activities, we disagree on the approach to only assign them a coefficient derived on a sector-basis under a common methodology. Coefficients should be applied to those stocks that lack minimum reporting and be applied in a manner that does not undermine companies making the effort to disclose. The Platform on Sustainable Finance should provide advice to the European Commission on this work. We are hopeful that the review of NFRD will shed more light on the need of coefficients or tailor-made methodologies for SMEs, private companies and companies not listed in the EU.

## QUESTIONS

### **Q1 For this KPI, do you agree with the proposed approach to defining turnover (bullet a in the draft advice)?**

We welcome the clear definition of turnover based on the Accounting Directive, IFRS Regulation and national GAAP. The Turnover definition in the Accounting Directive should be the reference point for the nonfinancial undertakings defined turnover for the purpose of calculating their Turnover KPI under Article 8(2) of the Taxonomy Regulation. We commend that undertakings applying IFRS can use the amount of revenue and income accounted for under IFRS 15 and 16 as their Turnover.

### **Q2 For this KPI, do you agree with the proposed approach to when turnover can be counted (bullet b in the draft advice)?**

Yes, we find the proposed approach adequate and consistent with other (forthcoming) elements of sustainable finance legislation, notably on “do no significant harm” (DNSH) in Taxonomy DA, minimum safeguards in Article 2 of SFDR and Articles 10-16 of the Taxonomy Regulation on activities that substantially contribute to environmental objectives.

However, we highlight that the data needed to apply the Technical Screening Criteria (TSC) and especially DNSH is missing. This situation will likely continue even after Taxonomy’s entry into force, leaving financial market participants with no option but to revert to proxies and third-party data providers.

### **Q3 For this KPI, do you agree with the proposed approach to defining CapEx (bullet a in the draft advice)?**

We appreciate the reference to the indirect method calculating CapEx as the difference between the carrying amount of fixed assets recognised in the statement of financial position between the beginning and the end of the reporting year, plus current year’s related depreciation and amortisation charges.

EFAMA also welcomes that ESMA’s advice addresses the challenge related to the risk of divergence between nonfinancial undertakings reporting under IFRS and those reporting in accordance with GAAP by recommending that the impact of amounts relating to leased fixed assets on the CapEx KPI be disclosed separately, whilst asking for transparency on the applied definition.

We also recognize that the best means of addressing the risk of double counting of assets/processes across economic activities is that non-financial undertakings apply their best judgement in splitting CapEx between two activities. Disclosure of this allocation should be a sufficient confidence-building measure.

**Q4 For this KPI, do you agree with the proposed approach to when CapEx can be counted, including the definition of ‘plan’ (bullet b in the draft advice)?**

Yes. We would like to especially echo point 80. For cases where individual improvement measures can be considered as compliant without needing to be part of a plan to meet the economic activity threshold. We reiterate that these transitioning measures are included for the purpose of the CapEx KPI. We would like to also highlight that if CapEx is financed by EU GBS, then a prospectus should be sufficient, and a plan should not be required. We would also welcome a guidance on those sectors where energy efficiency measures do not require a plan.

In general, we agree with point 79, proposing the inclusion of CapEx if the plan to which it relates aims to make the economic activity in question Taxonomy aligned within a certain period. Nonetheless, we consider 5 years to be a very short period especially for large infrastructure projects when compared to their investment horizons and timeframes for depreciation. For such projects, we suggest extending the period to 10 years in order not to disincentivize from long term investments plans.

**Q5 For this KPI, do you agree with the proposed approach to defining OpEx (bullet a in the draft advice)?**

In agreement with ESMA, we recognize the complexity of this exercise and believe that OpEx as a financial metric measuring Taxonomy alignment would provide no added value to regulators or institutional investors.

We believe the inclusion of mandatory **OpEx disclosure would be disproportionate to the original taxonomy regulatory text which rightly considered “capex and, if relevant, OpEx”**. The rationale behind “if relevant” was to allow for accounting operational expenditures inherently linked to a project. In this context, a general requirement to report on all OpEx, albeit well intentioned, would constitute an unsurmountable barrier for companies given the extremely high accounting difficulties to allocate operational expenditures to NACE codes and to adjust internal accounts to such a classification.

We therefore recommend reverting to the original text: “capex and, if/when relevant opex” which will ensure its inclusion at project financing level where and when it is appropriate and meaningful.

**Q6 For this KPI, do you agree with the proposed approach to when OpEx can be counted, including the definition of ‘plan’ (bullet b in the draft advice)? With reference to the TEG’s inclusion of the words “if relevant” in relation to OpEx, in which situations should it be possible to count OpEx as Taxonomy-aligned?**

We do not believe the concept of a plan is suitable for OpEx, given that these expenditures usually do occur on the basis of such refined plans, taking a short-term, operations focused perspective and thus cannot always be a component of a separate plan.

**Q8 Do you agree that sectoral specificities should not be addressed in the advice, as proposed in Section 3.2.3?**

Yes, we agree.

**Q9 Do you agree with the requirements for accompanying information which ESMA has proposed for the three KPIs?**

We agree with the proposed requirements for accompanying information, given that contextual and qualitative information is essential for investors to put the Taxonomy KPIs in context. We would also

suggest the inclusion of voluntarily disclosed “potentially aligned” activities where the firm has the objective to reach Taxonomy alignment in foreseeable future.

**Q10 Do you consider that the requirement to refer to the relevant line item(s) in the financial statements for each KPI ensures sufficient integration between the KPIs and the financial statements?**

Yes, we agree.

**Q11 Do you agree with ESMA’s suggestion to permit compliance by reference, so that non-financial undertakings may present the accompanying information elsewhere in the non-financial statement than in the immediate vicinity of the KPIs, as long as they provide a hyperlink to the location of the accompanying information?**

Yes, we agree.

**Q12 Do you consider there are additional topics that should be considered by ESMA in order to specify the content of the three KPIs? If yes, please elaborate and explain the relevance of these topics.**

No, we believe ESMA’s draft advice is sufficiently specific on the content of the three KPIs.

**Q13 Do you believe that providing the suggested accompanying information will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or on-going, and provide your best quantitative estimate of their size.**

Not applicable.

**Q14 Do you agree that non-financial undertakings should provide the three KPIs per economic activity and also provide a total of the three KPIs at the level of the undertaking / group? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.**

Yes, we believe that the economic activity breakdown is important for investors to conduct their own assessments and verify the level of Taxonomy alignment of investee companies.

**Q16 Do you agree that non-financial undertakings should provide information on enabling and transitional activities?**

We agree with the categorisation of activities across aligned, enabling and transitioning, to be reported at the level of an undertaking and group. This will enable financial market participants to make use of this information for their own disclosure obligations.

**Q17 Do you agree that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.**

Yes. Asset managers will utilize disclosure for the six environmental objectives especially for impact and thematic funds targeting a specific environmental objective. At the same time, disclosure at group/undertaking level across all objectives will facilitate comparability and Taxonomy integration.

**Q18 Do you agree that non-financial undertakings should be required to provide the three KPIs for economic activities which are covered by the Taxonomy, economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy?**

We believe non-financial undertakings should **provide primarily two KPIs (Turnover and CaPex)** for activities which are covered by the Taxonomy and break these down voluntarily also into: (a) activities aligned, (b) non-aligned due to failure in TSC and (c) non-aligned due to failure in DNSH. This information would help asset managers to obtain more accurate representations on non-green assets, indicating the ratios of assets covered by the taxonomy but not aligned either due to a failure in meeting TSC or DNSH.

Uncovered activities should for obvious reasons not need to report their KPIs, given that their weighted average will be 0%, but should be reported in terms of turnover and capex in the denominator. Given that there are no TSCs for uncovered sectors, companies would have to rely on arbitrary self-assessments.

The proposed optional **granularity delineating the reasons for non-alignment of eligible activities would:**

1. Help market participants to understand what could potentially align and what not, thereby avoiding misinterpretations. Asset managers would be able to distinguish between activities that do not meet its criteria and those that are not covered (yet).
2. This approach would be consistent with the TEG's recognition of "potentially aligned" activities.
3. Investors will understand from firms whether "substantial contribution" or/and "do no significant harm" criteria are not met.
4. Investors investing in activities not covered by the Taxonomy would not be unduly penalized.
5. Support international standardisation policy objectives, given that the meeting of DNSH criteria will be especially challenging for activities outside the EU.
6. Inform and empower asset managers' engagement, as the proposed breakdown can be a powerful lever for investors to influence and stimulate the transition in the companies in their portfolio.
7. Asset managers would gain the data needed to disclose on voluntary basis the percentage of assets not aligned with the EU taxonomy due to a failure in TSCs over the percentage of asset not aligned with the EU taxonomy; as well as the percentage of assets not aligned with the EU taxonomy due to a failure in DNSH criteria over the percentage of assets not aligned with the EU taxonomy.

**Q19 Do you agree with the proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021?**

We agree that requiring retrospective disclosures would be unnecessarily burdensome for companies, who need to be given time to prepare quality disclosures. However, Taxonomy compliance reporting by asset managers can be only as good as disclosures made by the underlying non-financial undertakings.

We would therefore like to draw ESMA's attention to a **timeline implementation inconsistency problem**. Asset managers will need to report on their level of Taxonomy compliance in January 2022, particularly pursuant to Article 5 and 6 of the Taxonomy, whereas Taxonomy reporting by companies will

be available for 2022 only at the end of the financial year. As a result, asset managers will have no extra-financial data on Taxonomy compliance reporting available during the year of 2022.

Therefore, we urge ESMA to seek for a solution to this problem in collaboration with the other ESAs. Especially with regard to the Taxonomy-related disclosures at the product level, we would suggest a **coordinated phasing-in solution** that would involve the following stages:

- As of 1 January 2022, disclosure of the planned proportion of Taxonomy-compliant investments, if such investments are part of a product's investment strategy, in the pre-contractual document,
- One year later, as of 1 January 2023, reporting on the actual Taxonomy-related KPIs at the product level calculated on the basis of issuer reports to be published in 2022.

Regarding the remaining four environmental objectives, the same procedure should be applied one year afterwards.

We believe that the ESAs are entitled to set out this way of proceeding in the upcoming RTS to SFDR that will implement product-related disclosure duties under the Taxonomy. **This approach would ensure that reporting of Taxonomy-relevant KPIs is based from the outset to a large extent on reliable information from issuers.** If this timeline inconsistency is not addressed, asset managers will have to rely on inherently inaccurate estimations on Taxonomy alignment due to the lack of data. To protect the integrity of the ESG market from the onset, this situation should be avoided.

**Q20 Do you consider that there are specific elements in ESMA's draft advice which are not in line with the information needed by financial market participants in order to comply with their own obligations under the Taxonomy Regulation and the SFDR? If yes, please specify in your answer.**

We agree with ESMA's approach in the draft advice, which will be instrumental for asset managers to comply with their obligations under the Taxonomy Regulation and SFDR.

However, we share our concern on how will non-financial undertakings that are outside the EU report on these data. The same question is raised also for non-financial undertakings that won't be included in the NFRD revision scope. To address this data gap, NFRD review should be prioritised and voluntary disclosure by non-EU firms outside the NFRD scope encouraged,

**Q21 Are there points that should be addressed in ESMA's advice in order to facilitate compliance of financial market participants across the investment chain? If yes, please specify.**

For compliance and cost management purposes, firms are looking into automating ESG information gathering. This objective could be facilitated by submitting Taxonomy disclosures in a machine-readable format. We also believe that the auditing of Taxonomy related disclosures would strengthen financial market participant compliance by strengthening the credibility of the disclosed information.

We would like to reiterate the problem related to disclosures by financial market participants in their 2022 disclosures, pursuant to Article 5 and 6 of the Taxonomy at a time, when non-financial undertakings will not have disclosed their data pursuant to Article 8 of the Taxonomy. Timing of disclosures by asset managers needs to be aligned and evolve from disclosure by non-financial undertakings.

Moreover, compliance of financial market participants would be facilitated by a more harmonized approach to the sequencing of reporting in terms of Taxonomy-related KPIs. The Taxonomy Regulation obliges both non-financial undertakings and financial market participants to report on the extent of their Taxonomy-related activities from 1 January 2022 for the first two environmental objectives and one year



later for the remaining four objectives. However, it should be very clear that the first reports to be issued at the asset manager's level under Article 8 and at the product level under Art. 5 and 6 will be meaningless if required by 1 January 2022 because non-financial undertakings will not have disclosed their data pursuant to Article 8 of the Taxonomy to the lack of reference data for conducting the relevant calculations.

Therefore, we urge ESMA to seek for a solution to this problem in collaboration with the other ESAs. Especially regarding the Taxonomy-related disclosures at the product level, we would suggest a **coordinated phasing-in solution** that would involve the following stages:

- As of 1 January 2022, disclosure of the planned proportion of Taxonomy-compliant investments, if such investments are part of a product's investment strategy, in the pre-contractual document,
- One year later, as of 1 January 2023, reporting on the actual Taxonomy-related KPIs at the product level calculated on the basis of issuer reports to be published in 2022.

Regarding the remaining four environmental objectives, the same procedure should be applied one year afterwards.

We believe that the ESAs are entitled to set out this way of proceeding in the upcoming RTS to SFDR that will implement product-related disclosure duties under the Taxonomy. **This approach would ensure that reporting of Taxonomy-relevant KPIs is based from the outset to a large extent on reliable information from issuers.** If this timeline inconsistency is not addressed, asset managers will have to rely on inherently inaccurate estimations on Taxonomy alignment due to the lack of data. To protect the integrity of the ESG market from the onset, this situation should be avoided.

**Q24 Do you agree that in order to ensure the comparability of the information disclosed under Article 8(2) of the Taxonomy Regulation and as such facilitate its usage, ESMA should propose the use of a standardised table?**

As mentioned above, we believe a machine-readable format and automation of data collection, ideally feeding into a central European ESG database, are the most important elements in facilitating data collection and Taxonomy compliance information usage by market participants.

A proposed standardised table may be advised, but it should not hinder innovation amongst reporting firms in developing more user-friendly formats to investors which provide more contextual information in the reporting template.

**Q25 Do you consider that the standard table provided in Annex III of this Consultation Paper is fit for purpose? Do you think the standard table provides the right information, taking into account the burden on non-financial undertakings of compiling the data versus the benefit to users of receiving the data? If not, please explain and provide alternative suggestions to promote the standardisation of the disclosure obligations pursuant to Article 8 of the Taxonomy Regulation.**

We are supportive of the general approach of disclosures distinguishing between percentages of fully aligned and potentially aligned economic activities. As proposed by ESMA, **the reason for failing the technical criteria should be flagged voluntarily whenever possible**, in order to enable asset managers and other investors to engage with a company on the relevant issues.

As regards the details of the presentation, we suggest the following simplifications and adaptations:

- The table should apply only to activities for which technical criteria under the Taxonomy have been developed (so-called eligible/covered economic activities). We see no point in including information

on activities not considered eligible under the Taxonomy. Columns 4 and 5 in the proposed table could thus be deleted.

- The table provides solely for information on Taxonomy-aligned proportion of turnover. Information on proportions of CapEx (and OpEx) associated with environmentally sustainable activities is currently lacking from the table and should be included in the final version.
- The last column distinguishes only between transitional and enabling activities and does not provide for disclosure of fully environmentally sustainable activities that make the biggest contribution to the environmental objectives. For example, production of electricity from solar or wind power, or construction of new buildings meeting the Taxonomy criteria are “fully green” activities that should be disclosed in the first place. Alternatively, a flag for transitional/enabling activities could be considered as these activities need to be disclosed separately by product providers under Art. 5 and 6 of the Taxonomy Regulation.

**Q26 Do you agree that the disclosure in the three standard tables should comply with the formatting rules mentioned in Table 5?**

Yes, we believe these formatting rules are important for automated data gathering without the need for data cleansing.

**Q28 Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.**

**We agree that a share of investments as a ratio of eligible investments that are Taxonomy aligned is an appropriate indicator.** We note that the weighted average indicator is also aligned with recommendations by the TCFD for carbon footprint disclosures.

Concerning green bonds, corporate green bonds should be eligible for their value aligned with the Taxonomy. This would be consistent with the approach proposed for green bond funds in the Criterion 1 of 3<sup>rd</sup> Draft report for the EU Ecolabel for retail financial products by JRC. This would mean that other than 100% EU GBS compliant green bonds should be eligible for the percentage value of earmarked projects or issuing companies which are Taxonomy aligned.

**Q29 This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?**

First, we note that asset managers do not master all activities listed in the question above, whereas collective portfolio management is at the hand of asset managers.

We don't believe that the compulsory disclosure of these activities on Taxonomy compliance would be relevant and bring added value to the policy objective. Such requirements would be costly, immaterial and onerous. These activities mentioned have little to no impact on the role of the taxonomy as a tool to raise funds to narrow the investment gap in Europe, and to facilitate companies' access to finance in order to fund their transition. The focus of disclosures requirements should be to enable the Taxonomy to live up to its purpose.

For **individual portfolio management, an optional/best effort approach can be applied**, but ESMA's advice should not mandate it, given that the client may not wish to take into account such a criterion.

Concerning investment advice, asset managers do not control the effective portfolio, and this may also lead to double counting with assets under management in the investment chain. RTO activities should not be included as no major sustainability decisions are made in this business line and this is also not realistic in terms of visibility vis-à-vis investors.

For financial groups with both investment banking and asset management divisions, we maintain that the parent company should not be required to provide the disclosures under NFRD also for the portfolios managed by their investment division. Since investment portfolios managed on behalf of clients do not affect the company's balance sheet, such disclosures should be provided only for credit portfolios.

**Q30 Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.**

We agree with the weighted average of the investments exposed to investee companies based on the share of Turnover derived from Taxonomy aligned activities of the investee companies. However, we recommend **giving equal weight to the CapEx indicator compared to the Turnover indicator**. CapEx is a crucial, forward-looking metric because it reflects new, incremental green investments in the economy filling the existing investment gap.

**Q31 Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?**

We believe there are valid reasons for requiring the disclosure of both, the **Turnover and CapEx derived KPIs**. Concerning the latter, more clarity and a stronger legal basis is needed regarding its calculation, especially regarding the sustainable real estate activities. We also reiterate that all reporting on CapEx by asset managers will be derived from the quality of disclosures from investee companies.

On OpEx, please refer to our answer in question 5. We are **unsure what meaningful information OpEx could provide** to investors and should be used only if relevant for specific cases. The mandatory inclusion of OpEx would represent a disproportionate accounting burden for companies when allocating OpEx to specific economic activities. Furthermore, the **percentage of OpEx alignment at asset managers-level adds little to no information to the reader and should be strictly voluntary**.

Development of the disclosure information on product level basis will have a high cost, which is why we call for measures facilitating Taxonomy reporting, such as machine readable and automated disclosures, or a European Single Access Point/central database on ESG.

**Q32 Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?**

Given that the EU GBS, as well as green standards, methodologies or possible certificates (Bruegel, 2020) for conventional sovereign bonds are only being developed, we believe **it would be premature to include all sovereign exposures at this point**. Other asset classes, such as commodities, will also not constitute eligible investments.

Nonetheless, should the EU GBS develop a methodology for sovereign bond compliance with EU GBS, then these bonds should be part of eligible investments. Sovereign green bond issues for earmarked projects aligned with the Taxonomy should also apply, even if not compliant with the EU GBS. We believe this would also encourage the participation of sovereigns in green bond issuance.

However, conventional sovereign exposures should not be considered in the denominator as eligible because: a) there is no upstream allocation of the debt (budgetary principle of universality with a non-assignment requirement of public debt) and b) asset managers are not equipped to enforce the green earmarking from states.

We also recall our previous recommendation, that green corporate bonds non-aligned with EU GBS should be eligible for the value of their Taxonomy compliance (earmarked or issuer based).

**Q33 Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?**

We think the value of eligible investments (equity, corporate bonds and real assets as proposed by ESMA) in the funds is a more insightful and accurate figure for investors than total AuM at entity level. For transparency purposes, we could envisage including a secondary figure on total AuM (e.g. disclosing what percentage of their AuM is not Taxonomy eligible) that would provide a fuller picture on all assets under management.

We also believe that the prioritization of eligible assets in the denominator is important so as not to unduly penalize those investing in assets that are uncovered by the Taxonomy and thus have no chance of being aligned.

Given that clients invest primarily in products, asset managers should disclose this KPI at the level of investment products to guide their investment choices between different sustainable product offerings. Furthermore, the level of Taxonomy alignment will be applicable in the current data environment, and for the next several years, only for equity and corporate bond funds, excluding a large proportion of non-eligible asset classes in AuM.

**Q34 Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?**

We believe that restricting the denominator only to funds with sustainability characteristics could create a disincentive for integrating ESG considerations into other than Article 8 and 9 funds. Reporting only on Article 8 and 9 products which may constitute a minority of asset manager's AuM would also not provide the full picture of the asset manager's financing of Taxonomy aligned activities.

We therefore recommend using the application of the Article 8 and 9 funds denominator as an additional indicator, but it should not replace the eligible investments indicator in question 33.

**Q35 Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?**

We don't see the combination of equity and fixed income investments in the KPI as problematic. Delineating these asset classes would also introduce further, unnecessary complexity. Segregation of these instruments would lead to unnecessary complexity.

However, more clarity is needed for the treatment of more complex instruments, such as convertible bonds and diversified funds.

**Q36 Do you believe the proposed advice will impose additional costs on asset managers? Please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.**

We believe the highest costs will be related to acquisition of data from data providers and in terms of workload for aggregating, analysing and reporting on the ESG data in non-financial reports. Comparing these two cost segments, we believe that product level disclosure obligations will be more costly than the entity level reporting.

To address some of the increased costs, we propose that:

1. The European Single Access Point includes a specific segment on taxonomy-related disclosures.
2. The European Commission develops coefficient/methodologies for sectors falling outside of NFRD reporting, as proposed in our answer to question 38.
3. Following the methodology, it creates an open-source data internet tool to help a) companies in their disclosing efforts b) asset managers in their disclosures.

**Q37 What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?**

The main benefit would be to rely on standardized information. The main drawback is that very small companies, or large private non-listed companies which could have an important part of its revenue taxonomy aligned would not be counted.

To provide more clarity on these issues, the review of NFRD is essential. We believe non-EU companies outside the scope of NFRD should be encouraged to voluntarily report on their KPIs.

**Q38 Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?**

While we agree that the EC should consider the feasibility of developing a methodology to allow KPI calculation for investments in companies not reporting under the NFRD the extent of their Taxonomy alignment, we disagree that the way forward is exclusively by assigning them a coefficient derived on a sector-basis under a common methodology.

We believe that the assignment of a coefficient should be applied to those stocks that lack minimum reporting, given that coefficients could undermine companies that make the effort to disclose on the Taxonomy. But for all those that have a certain level of disclosures, a more thorough customised methodology based on proxies and estimations should apply. This will allow a) for more accurate results; b) will help encourage non-NFRD companies to disclose and will encourage investors to ask for greater transparency; and c) will not undermine those companies that make the effort to disclose. A mixed approach should be allowed. We agree that the EC should develop specific guidelines and rules for both approaches. The Sustainable Finance Platform should provide advice to the EC on those.

In the meantime, we favour the approach proposed by the TEG that distinguishes between disclosure of fully and potentially Taxonomy-aligned activities (cf. TEG final report, section 3.3.7 on page 41). Economic activities can be considered potentially aligned in case they meet the technical criteria for substantial contribution, but full compliance with other criteria, especially the "do not significant harm" requirements, cannot be demonstrated due to the lack of data.

### **Q39 Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?**

We agree with ESMA to allow for fund-level netting of short positions on the lines of Article 3 of the Short-Selling Regulation. This will ensure a more accurate reporting on equity exposure. However, we note that netting may not always be straightforward at entity level and should it be allowed, transparency should be at its heart.

Shorting and single stock options only have the same payoff profile if one is buying puts. Otherwise, these are different. Netting short positions is separate to derivatives.

### **Q40 How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?**

We agree with ESMA's position that the **calculation on Taxonomy alignment should exclude derivatives unless their definition includes CFDs.**

It is important to understand that Contracts for Difference (CFDs) should not be included as derivatives. In many geographies, notably the UK, investors commonly use CFDs to simply avoid stamp duty.

The delta of single stock options should be taken as a starting point as an equity-like exposure to a corporate. If one just sticks to CFDs the delta is 1 (100%) so the CFD notional = equity notional. For an option it is a fractional representation.

For futures, we recommend against measuring them as this would require a look-through. For example, measuring the MSCI ACWI would require decomposing it into 3,000 constituents, measuring each one at the respective weighting, and building it back up again. Logistically, this would be very difficult for market participants and overly complicated especially with regards to estimating the underlying data.

### **Q42 Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?**

We subscribe to the proposed breakdown of the main indicator by environmental objective, if such breakdown will be available from issuers' reports, and to differentiating between fully aligned, transitional or enabling economic activities. On the latter point, however, **the draft table is flawed:**

- The proposed template assumes that for all environmental objectives there are and/or will be transitioning and enabling activities; and that is not the case already for climate adaptation and no decision has been taken regarding the remaining activities. The breakdown should only be applied – for the time being to climate change mitigation activities.
- Transitional activities are acknowledged by the Taxonomy only for the first environmental objective of climate change mitigation, cf. Article 10 (2) of the Taxonomy Regulation. They are not relevant to the remaining environmental objectives.

Many of our **members also raised three concerns regarding the merits of asset managers having to break down their AuM by economic activity**, as recommended by ESMA in section 4.4.2 of the draft advice on page 77 (*"the presentation of the disclosure should identify which environmental objectives the investments contribute to and where possible the activities invested in should be identified for each environmental objective"*).

1. There are a total of 21 NACE macro sectors, with 7 of these having been identified as relevant by the TEG for climate mitigation. These 7 macro sectors have been further broken down into over 70 more detailed economic activities. As the remaining four environmental objectives are screened, we are likely to see this list multiply considerably. Given that most asset managers

invest across the market, disclosures by economic activity would become extremely cumbersome for asset manager.

2. Such level of reporting is also not useful to either investors or distributors.
3. It might send wrong signals and mislead the stakeholders in case of indirect investments in sustainable activities, by for example by holding shares of credit institutions or insurance companies that will report on Taxonomy quota base on their business activities.

These members believe that a **more useful metric in the standardized table for asset managers could be the ratios of eligible assets not aligned with EU Taxonomy** due to a failure in the technical screening criteria or due to a failure in DNSH criteria. For more information on such a segmentation of non-aligned but eligible activities, please consult our answer to question 18.

EFAMA also adds that financial market participants, subject to reporting requirements under articles 5 to 8, should not be obliged to report in line with NACE. Instead, they should continue using sector frameworks aligned with investment guidelines and investment workflows.

Finally, we are of the view that Taxonomy-based KPIs disclosed by banks and insurers under Article 8 should be taken into account for the calculations by asset managers but cannot reasonably be assigned to the originally financed economic activities.

**Q43 Do you agree with presenting accompanying information in the vicinity of the standard table?**

Yes, we agree that information should be provided within the vicinity of the main KPIs.

**Q44 Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?**

We agree that entity level disclosures and PAI information would shed further light on asset manager's sustainability performance, but we see no merit in making the accompanying information link mandatory. However, we recommend keeping the link on a voluntary basis, as both pieces of information fall under different regulations.

**Q45 Do you agree with adopting the same formatting criteria as presented in Section 3.4.2 for the asset manager KPI disclosure?**

Yes, same formatting criteria would be conducive to automating and structuring of ESG data.

**Q46 What are the one-off and on-going costs of setting up the reporting and disclosure under this obligation? Please clarify the type of costs incurred and provide a quantitative estimation where possible.**

We believe the costs would be relatively limited (in Euro, not in terms of human capital) if the work has been done before by non-financial undertakings reporting and in terms of adopting facilitating measures highlighted in our response to question 36.



## About EFAMA

EFAMA, the voice of the European investment management industry, represents 28 Member Associations, 60 Corporate Members and 24 Associate Members. At end Q2 2020, total net assets of European investment funds reached EUR 17.1 trillion. These assets were managed by more than 34,200 UCITS (Undertakings for Collective Investments in Transferable Securities) and 29,100 AIFs (Alternative Investment Funds). Including discretionary mandates, third-party regulated asset managers managed EUR 24.9 trillion in Europe at end Q2 2020

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