



DUFAS draft response 16 October 2020 version 5 Final



ESAs Survey on templates for Environmental and/or Social financial products under SFDR

Introduction

The European Supervisory Authorities (ESAs) welcome comments on this survey setting out the details of the presentation of the information to be disclosed pursuant to Article 8(3), Article 9(5) and Article 11(4) of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services (SFDR). This information concerns precontractual and periodic disclosures to be included in existing disclosures provided for under EU sectoral legislation and provided by, for example, AIFMs, UCITS management companies, insurance undertakings, IORPs or PEPP providers. The ESAs propose to standardise the disclosures by requiring the use of specific templates, recognising the need for standardisation of disclosures to promote comparability of different financial products in different Member States with respect to ESG information, in line with Recital 9 of the SFDR. The colour of the font and of the template's background, as well as type of font to be used are not prescribed in the templates. These should be adapted by the financial market participants to fit the formatting of the underlying document to which the templates are integrated (prospectus, annual report, pre-enrolment disclosure for prospective pension scheme members, etc). The final content of the templates is subject to the outcome of concurrent consumer testing exercise and the final report of the ESAs on the draft RTS under SFDR.

*** Q1. How useful is the highly standardised presentation of the information in this format?**
between 1 and 1 choices

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



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DUFAS has the following general response:

General:

- The product templates offers some guidance which is good and looks positive. We support the idea of standardization of product disclosures under SFDR. However, we do think that in terms of using an uniform template, we believe that a distinction should be made between the type of precontractual product disclosures, in order to assess whether such standardization is always useful. More alignment should be sought in the way UCITS, AIFMD and MiFID prescribe how to deal with information obligations via prospectuses, client documents, and website disclosures. In other words, product disclosures should be better connected with existing regulatory disclosures with linkages to current disclosures/reports/PRIIPs KID/UCITS KIIDs etc.

Use of mock-ups:

- *Type of pre-contractual communication:* The question arises whether these templates and the content thereof also need to be included in a prospectus or a portfolio management agreement. If so, as being part of a precontractual information obligation, we do not believe that the mock-ups, particularly including the proposed icons, have added value for each channel of disclosure. More in particular. The mock-ups are less useful or not useful at all to include in pre-contractual information document such as **a prospectus**. We suggest to provide flexibility in that respect with the understanding that static information contained in the mock-up should also be reflected in the prospectus, but not necessarily in the same order and look and feel as the templates. Mock- ups are particularly **valuable for pre-contractual product disclosures on the website** for e.g. investment funds. As such we do see added value of having these mock-up prescribed for website disclosures in order to foster comparability between products. Also in relation to non-static data. In that respects amending or keeping up to date website product disclosures are far more practical and readily easy to implement than amending a prospectus or an individual portfolio agreement with a client. We suggest to take this into account while designing the mock-up.
- *Type of products:* Furthermore, we believe that the mock-ups are based on very simple products that almost entirely invest in listed equity and may not be useful for the more complex portfolios such as private equity, private debt, real state and infrastructure and derivatives for interest rate hedging.
- *Type of investor or stakeholder:* the use of a mock-up, including the icons, may vary depending on the type of investor or stakeholder. **We support using the templates on websites where addressed particularly to non-professional investors or stakeholders.** The presentation of such product disclosure is in such case comparable to the format and look and feel of other investor information documents, such as the PRIIPs KID and UCITS KIID. We also see merit in using the mock-ups as part of a pre-contractual



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information obligation as attachment to an individual portfolio management agreement with a retail client. However, **where it concerns a professional client, we see less merit and benefits, as such agreements are more custom made and varies depending on the financial market party and type of professional client they provide services to.**

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

The pictures below show examples of the icons used in the templates between 1 and 1 choices

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

Please explain

DUFAS has the following observations:

First of all, we believe that the use of **icons is not useful to include in the prospectus** where asset managers are required to make a prospectus available.

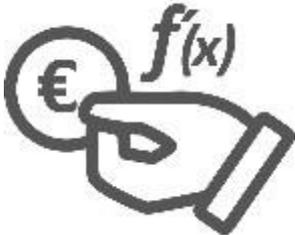
Secondly, for professional market parties and professional stakeholders, we do not see merit in using icons. However we can imagine that this be different with retail investors, but only where such icons are used in product disclosures on the website.

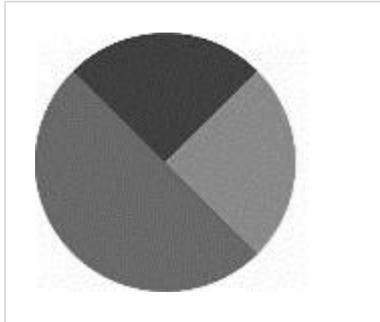
Thirdly, for retail investors or the public at large, as said **the use of icons may be useful, but they are useful only where they have added value to the content of the specific disclosures.** This means that the icon should have a direct relationship with the content of the disclosure. Which suggests that the use of a certain icon enables the reader to (i) better understand the content of the disclosure and (ii) better remember such content. Otherwise such icon does not seem to have any added value. When we consider the icons presented we do not see the direct relationship of the used icon and the corresponding content.

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

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



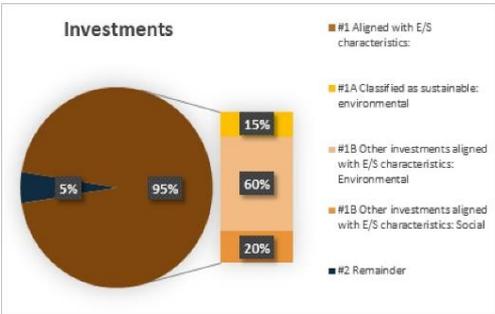
* Q3. More specifically, how useful is the presentation of the information with the use of **graphs** as visual aids?

The graphs below are examples of the graphs used in the templates. between 1 and 1 choices

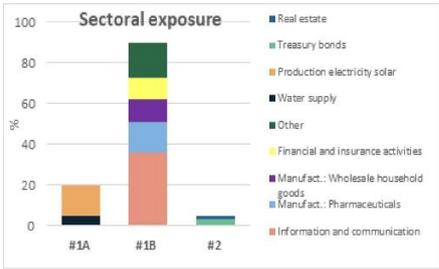
- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

Examples of the graphs used

Investments.jpg



sectoral.jpg



Please explain:

DUFAS has the following observations:

Investment graph:

Use of a graph:

- as a principle, we do see merit in having a graph on the allocation of investments in place. It visualizes *inter alia* the proportion of sustainable investments. Particularly, where on this basis a comparison can be made by an investor by comparing graphs how such proportion over a reporting period has increased or has decreased. Such graphs, however, should be used as an option, as the use of such graphs may not be useful in all cases.

On the content of the graph:

- The graph on the allocation of investments, and the allocation contained herein seems to be based on the minimum requirements of art. 5 and 6 Taxonomy Regulation. If so, reference to transitional or enabling activities seems not to be included. Furthermore, a split seems to be made between E/S aligned: environmental and E/S aligned: social. The question whether such split could always be made. This is not always the case. Therefore, we advise to aggregate this.
- Minimum asset allocation: on p.3 of the mock-up it is mentioned "What is the minimum asset allocation planned for this product?" Why is it called minimum? In general asset managers are not used to indicate the minimum percentage of sustainable / promotion E/S investments for their funds. Having looked at art. 15(2) draft RTS SFDR setting "a minimum" does not seem to be required.
- When looking at the text, the minimum more relates to the total investments to be made (>95%). It seems that in the mock-up the min. 95% investment is the link to the promotion of E/S characteristic (also seems to be in annual report). Is this (percentage of AuM) what is expected for (passive) funds because for active funds this is not how asset managers do this (ESG approach on the portfolio, but not at least percentage on that total portfolio)?

Sectoral graph:

- Although we believe the graph on sectoral exposure may have some merit, a requirements which seems to be based on draft art. 15 (2) (b)(iii) draft RTS SFDR, we question whether the division as set forth in the graph is accurate.

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

The picture below shows an example of one of the explanatory notes used in the templates between 1 and 1 choices



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

Please explain

General

Clients will not easily understand the disclosed information, such as 'no sustainable investment objective', the difference between 'environmental and social characteristics' and 'sustainable investments', difference between direct and indirect holdings, meaning of reduce the investment universe, what is a derivative, benchmark. A list of definitions and explanations therefore would in principle be helpful.

Link to Taxonomy

- The templates link to the taxonomy, as also reflected in the explanatory notes, whilst there is no data available yet, at least not per 10 March 2021. The question is whether this already should be included in the template or be left open.

Definition 'sustainable investment'

- In the explanatory notes sustainable investments are defined within the context of the Taxonomy regulation. At the same time the SFDR also defines sustainable investments, which may be confusing. For the reader we recommend to use the term **environmental** sustainable investments in order to avoid any misunderstanding. Moreover the explanatory notes should be consistent with the text of art. 6 EU Taxonomy Regulation that includes the following disclaimers:
 - *'The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities.*
 - *The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.'*
- Or as alternative: on the Sustainable environmental objective: on p.4 of the mock-up the objective relates to the Taxonomy; although the definition does not include a reference to the Taxonomy, and the definition also includes social objectives. Is it needed to refer the objective to the Taxonomy, also because the sustainable investment definition refers to economic activities (not to sectors)?

Presence of detailed definitions

- We also suggest to consider instead spelling out detailed definitions, to include hyperlinks to definitions where mock-ups are used and presented on the website.

- Where for example, definitions should be used in pre-contractual information such as a prospectus or an individual portfolio management agreement, we suggest that the explanatory notes to the definitions should be added to the often already included list of definitions. Rather than having the explanatory notes included in the mock-up and in accordance with the proposed look and feel. Therefore again, a distinction have to be made between the use and presentation of the explanatory notes when part of precontractual information contained in a prospectus or individual portfolio management agreement on one side and the use and presentation of the explanatory notes in mock-up for website disclosures on the other side.
- As to the use of 'binding elements' page 2 of the mock-up. These are used in the context of "What are the binding elements for the investment selection?" "Binding elements are defined as commitments that cannot be amended during the life of the financial product. Where are these defined in the draft RTS SFDR? Moreover, binding elements relate to the investment selection and not to the financial product itself. The definition seems to be inconsistent.

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

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

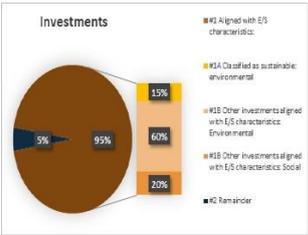
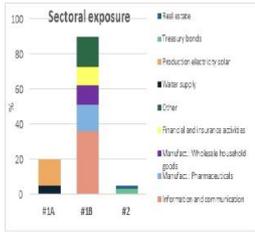
*- The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that **do not** meet the criteria of 'sustainable investment'.*

- * **Q5.** Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products? For example, with regards the distinction between the sub-categories of investments, namely between #1A and #1B?

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

- Yes
- No
- Other

Illustrations of the distinction between sub-categories

<p>Investments.jpg</p>  <p>Investments</p> <ul style="list-style-type: none"> #1 Aligned with E/S characteristics: 5% #1A Classified as sustainable environmental: 15% #1B Other investments aligned with E/S characteristics Environmental: 67% #1B Other investments aligned with E/S characteristics Social: 20% #2 Remainder 	<p>sectoral.jpg</p>  <p>Sectoral exposure</p> <ul style="list-style-type: none"> Real estate Treasury bonds Producer electronics color Water supply Other Financial and insurance activities Manufact: Wholesale trade goods Manufact: Pharmaceuticals Information and communication 	<p>_1.jpg</p> <p>The category #1 Aligned with E/S characteristics includes any investment that is aligned with the characteristic:</p> <ul style="list-style-type: none"> - The Subcategory #1A covers investments that are qualified as sustainable. A sustainable investment means an investment in an economic activity that contributes to an environmental objective, measured for example by key resource efficiency indicators such as CO2 emissions, or the use of water, or an investment that contributes to a social objective, such as tackling inequality or that fosters social cohesion. - The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that do not meet the criteria of 'sustainable investment'.
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Please explain:



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Besides the comments included in the other replies to this survey, we do not have additional comments on the presentational aspects that might make it hard to understand the sustainability-aspects of products.

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

Please explain

Absence of other templates:

- *Art. 9.* :Given our support for having standardization in place, it would be helpful to have a mock-up on art.9 as well. Especially when the sustainable objective is on climate change mitigation, as some additional requirements relate to it (e.g. on EU Benchmarks). We realize that there is much overlap between art. 8 and art. 9 product disclosures, but it has added value to visualize this in two separate mock-ups. Also for a distributor of financial products having separate templates in place has added value.
- *Passive versus active:* the mock-up refers to an passive investment fund. We see merit in having a template for active investment funds in place, as we believe that the disclosures are substantially different with that of passive funds, particularly in terms of benchmarks references.
- *Portfolio management:* we also see merit in having a mock-up for portfolio management. Particularly, such mock-up may be different as portfolio management is not an investment product as such, but an investment service. We can imagine that a mock up for portfolio management may significantly be different from templates on investment fund level.

Other comments or questions:

- *Mix funds:* where a product template concerns a mix fund with a range of underlying investment funds, how should that be dealt with? Does it imply that an overriding product disclosure have to refer to the underlying product disclosure?
- *Data:* How to deal with the templates in anticipation of possible delay of the draft RTS SFDR or how to deal with data referred to in the template which still may be missing?
- *References to benchmarks:* Furthermore the templates include references to one or more, i.e. are linked, to benchmarks. How to deal with the templates completion if you do not have a reference benchmark, but data is based on own data and research? We recommend to add a reference to such possibility;



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- *On the DNSH criterion:* what are these and where to relate to? In the mock-up it seems to relate to the DNSH of one of the six environmental objectives (i.e. to climate change adaptation), but in the art.2 SFDR also social objectives are mentioned and other sustainability objectives are mentioned (not the Taxonomy environmental objectives).
- *How to get to % AuM sustainable investments?* E.g. first start with criterion 1: %AuM sustainable investments. Then check criterion 2 (and 3) and see what is left. What does this mean for what did not pass criterion 2? Is this then promotion E/S characteristics or other? As to these questions, the same applies for the mock-up on the annual report.
- Does the section (p. 2 of the mock-up) "Is there an amount of potential investments excluded, as a result of the implementation of the selection criteria? relates to Art.17b RTS? Art.17b: where there is a commitment by the financial market participant to reduce by a minimum rate the scope of investments considered prior to the application of the strategy referred to in point (a), an indication of that rate.
- *As to "top investments:*
 - We recommend to reduce duplication in disclosure content by allowing for a cross-reference to an equivalent portfolio holdings disclosure in the Annual Report
 - Considering that certain private asset holdings maybe subject to non-disclosure legal arrangements, the disclosure should allow the option to either disclose investee Issuer entity name OR sector - rather than both.
 - Furthermore, we recommend "% of Assets" heading be replaced with "% of Investments" held in portfolio.

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

Please explain

Challenges may be foreseen where product disclosures may need to be pushed via an app. For example an app offered by an portfolio manager to retail investors based on which such investors can invest in sustainable investment funds. Particularly, where such templates are to be converted into a pdf and each product needs to be pushed via that app, this may lead to operational challenges. We have seen similar experiences where the PRIIPs KID on financial products needed to be pushed via such app. However, there is an easy solution to overcome this by allowing to use hyperlinks to the product disclosures on the website.
