

BVI's¹ key requests for improving the pre-contractual ESG templates under SFDR

First experiences with the practical implementation of the pre-contractual ESG annexes for Article 8 and Article 9 products under SFDR demonstrate some **important conceptual flaws in the standardised EU templates** provided in annexes II and III to SFDR Delegated Regulation. Currently, these flaws impede effective implementation of sustainability-focused investment strategies as well as clear and succinct information of investors. We see the **urgent need for the following improvements**:

- 1. Aggregated minimum commitment to sustainable investments should be possible in Article 9 products:** The current dashboard to the pre-contractual templates indicates the need for products disclosing under Article 9 SFDR to commit to separate minimum proportions of sustainable investments with environmental and social objective respectively. While such an approach might be appropriate for thematic funds focusing on one specific sustainability topic (e.g. climate change mitigation or social housing), it poses **significant challenges for broadly diversified products** with investment strategies seeking for a **positive contribution to the UN Sustainable Development Goals (SDGs)**. Such funds tend to define contribution to any of the 17 SDGs as their sustainable investment objective, without distinguishing in advance between environmental or social aspects. Nonetheless, due to the current design of the dashboard, managers of such funds might be compelled to specify separate minimum commitments for environmentally and socially sustainable investments that need to be observed at all times and thus unnecessarily limit their discretion to invest in new technological or business solutions for sustainable development. Given that promotion of the SDGs is one fundamental objective of the SFDR framework² and the EU sustainable finance agenda in general, SDG-committed investment strategies should not be frustrated by too detailed technical requirements that have no clear rationale at Level 1 SFDR.

Proposed solution: Presentation in the dashboard should foresee only the aggregated minimum commitment to sustainable investments in line with the current specifications for Article 8 products. Potential separate commitments to environmentally or socially sustainable investments should be included on a voluntary basis (if following from the specific investment strategy) in the section "What is the asset allocation and the minimum share of sustainable investments?" further below.

- 2. The ESG dashboard should include information on PAI consideration:** The dashboard at the beginning of the ESG annexes is supposed to show at a glance all key ESG characteristics of Article 8 and Article 9 products. This should clearly encompass all ESG product features that are relevant in terms of sustainability preferences of investors at the point of sale and thus, should be complemented by a "tick the box" indication in terms of PAI consideration at the product level in correspondence with Art. 7(1) SFDR.

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 28%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

² Cf. recital 1 of SFDR.



Proposed solution: Introducing a flag for consideration of PAIs in the ESG dashboard. For products ticking the box as “yes” further information should be provided further down in the annex and the relevant section should be renamed in “How does this financial product consider principal adverse impacts on sustainability factors?”

The adapted dashboard could thus look as follows (with the modifications in bold red letters):

Does this financial product have a sustainable investment objective? <i>[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]</i>	
●● <input type="checkbox"/> Yes	●● <input type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input type="checkbox"/> It considers principal adverse impacts on sustainability factors at the product level	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments <input type="checkbox"/> It considers principal adverse impacts on sustainability factors at the product level

3. Information on ESG-related elements of the investment strategy should be streamlined: As it stands, the templates include several questions for describing ESG-related elements of the investment strategy that neither are clearly delineated nor follow a logical sequence. This leads to either **duplicative or discerped information** and is in either case **detrimental to investors’ understanding**. Especially the questions “What sustainability indicators are used...” and “What are the binding elements of the investment strategy...” included in both templates (in annex II and III) tend to be answered in a very similar manner, since any relevant sustainability indicators must be directly linked to the binding elements of the investment strategy. Also, for funds considering PAIs



as a binding element, there is currently an artificial distinction between PAI consideration and other investment criteria that also hampers comprehensibility for investors.

Proposed solution: The sequencing of information on ESG-related investment strategy should be revised as follows:

- The section on E/S characteristics or sustainable investment objectives should be limited to the description of the relevant characteristics/objectives (first question of the current section),
- The section on investment strategy (“What investment strategy does this financial product follow?”) should follow immediately thereafter and encompass information on all elements relevant for the attainment of the E/S characteristics or investment objectives, in particular:
 - o Binding elements of the E/S investment strategy, including consideration of PAIs as a binding commitment e.g. for selecting assets in line with certain PAI evaluation or engaging with investee companies in order to promote mitigation of certain adverse impacts,
 - o For Article 8 products, any partial commitment to sustainable investments,
 - o Application of DNSH criteria for sustainable investments based on PAI indicators,
 - o Policy to assess good governance of investee companies (as already included)
- A statement on sustainability indicators (“What sustainability indicators are used...”) should be either combined with the explanation of the binding elements of the investment strategy or placed in close vicinity thereafter,
- Consideration of PAIs should be described first as a binding element in the context of the investment strategy (cf. above); the relevant process for PAI consideration could be explained in more detail in a separate (sub)section on “How does this financial product consider principal adverse impacts on sustainability factors?” (cf. our suggestions under 2. above).

4. Editable templates, including standardised icons, should be provided in all EU languages:

Fund providers still have significant problems to produce ESG annexes to pre-contractual and periodic disclosures that fully correspond to the EU requirements. The language versions of the templates published in the EU Official Journal are full of errors that in isolated cases include material translation flaws, but mostly are due to converting problems while pdf-ing. This pertains to the language versions published as corrigendum to the DR end December 2022, but also to the complemented templates included in the amended DR with additional disclosures for Taxonomy-aligned investments in fossil gas and nuclear published in the OJ on 17 February 2023.

Already in August 2022 EIOPA has published on its homepage editable ESG templates in Word format³. Unfortunately, these templates are available in English only (and are anyway outdated, since they do not provide for the additional disclosures on natural gas and nuclear). However, most funds and other SFDR products disclosing under Articles 8 and 9 are bound to provide the ESG annexes in the same language as the main relevant pre-contractual and periodic disclosure document, which is mostly the local language of the home Member State where a fund has been authorised. Moreover, it seems to be technically very cumbersome to integrate the grey boxes with explanatory texts; our members report that they cannot be linked with specific questions which is an obstacle to full process automation.

Proposed solution: Publication of editable templates in Word format for all EU languages. Such editable templates should include the standardised icons as prescribed in the EU annexes for

³ Cf. [Principal adverse impact and product templates for the Sustainable Finance Disclosure Regulation | Eiopa \(europa.eu\)](https://www.eiopa.europa.eu/en/press-releases/2022/08/2022-08-10-principal-adverse-impact-and-product-templates-for-the-sustainable-finance-disclosure-regulation)



copyright-free use by financial market participants. In addition, the standardised icons should be provided separately in high resolution for the use in other layout/typesetting programmes.