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

Fields marked with * are mandatory.



JOINT COMMITTEE OF THE EUROPEAN
SUPERVISORY AUTHORITIES

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 pre-contractual 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.

The consultation package includes:

- Three preliminary, **illustrative mock-ups** of pre-contractual and periodic disclosure templates of products promoting Environmental and/or Social (E/S) characteristics (under Article 8 and Article 11 of the SFDR). The templates for the disclosure of products with a sustainable investment objective (Article 9) are very similar to those for the products promoting E/S characteristics and have not been included in the on-line survey. **N.B. These mock-ups are purely illustrative for the purposes of gathering feedback on the presentation of information. The pre-contractual mock-up is presented in two variations: with and without icons, to gather feedback on the use of the icons. Please note that some of the sections of the templates (notably on "benchmarks", are not applicable for all products when not relevant - as defined in the draft RTS).**
- An on-line survey

The ESAs particularly invite comments on presentational aspects of the mock-ups as the content of the mock-ups already reflects the current text of the draft RTS which were addressed in the recent public consultation on the on content, methodologies and presentation of disclosures under the SFDR that ran from 23 April until 1 September 2020.

Comments are most helpful if they:

- contain a clear rationale; and describe any alternatives the ESAs should consider.
- When describing alternative approaches, the ESAs encourage stakeholders to consider how the approach would achieve the key objectives of the SFDR regarding product disclosures, namely to prevent “greenwashing” and reduce information asymmetries for end investors.

Submission of responses

The consultation paper is available on the websites of the three ESAs and the Joint Committee. Comments must be sent using the EUSurvey by **16 October 2020**.

Contributions not provided in the EUSurvey tool 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 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) 2018/17253. 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.

About you

* Language of my contribution

* I am giving my contribution as

* First name

*** Surname**

Shanbhogue

*** Email (this won't be published)**

ramesh.shanbhogue@msci.com

*** Organisation name***255 character(s) maximum*

MSCI Limited. MSCI Ltd is an authorised benchmark administrator. Within the same corporate group is MSCI ESG Research LLC, ESG ratings and research provider.

*** Organisation size**

Large (250 or more)

Transparency register number*255 character(s) maximum*Check if your organisation is on the transparency register (<http://ec.europa.eu/transparencyregister/public/homePage.do?redir=false&locale=en>). It's a voluntary database for organisations seeking to influence EU decision-making.

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*** Country of origin**

Please add your country of origin, or that of your organisation.

United Kingdom

*** Publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

 Anonymous

Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.

 Public

Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

 I agree with the personal data protection provisions (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

Survey - introduction

The illustrative mock-ups relate to disclosure documents for a fictitious exchange traded fund (ETF).

Most ETFs are index funds. This means that they usually replicate the index by holding the same securities in the same proportions as a certain stock market index. This product replicates a fictitious index, called TRXI World Fossil Fuel Free Index, which replicates the total market index TRXI World Index, but excludes from it companies that own solid fossil fuel reserves.

The three documents that you can download are illustrative mock-ups of ESG information from the following underlying documents:

- Prospectus of the ETF – which provides information before buying the product
- Annual report of the ETF – which provides information on the product for the last 12 months

The mock-ups are named as follows:

- Mock-up 1: pre-contractual disclosure for a product promoting Environmental or/and Social characteristics (with icons)
- Mock-up 2: pre-contractual disclosure for a product promoting Environmental or/and Social characteristics (without icons)
- Mock-up 3: periodic disclosure for a product promoting Environmental or/and Social characteristics (with icons)

Before answering the questions, please click on these three links to download the three illustrative mock-ups (PDF):

[Illustrative_mock-up_1_Pre-contractual_with_icons.pdf](#)

[Illustrative_mock-up_2_Pre-contractual_without_icons.pdf](#)

[Illustrative_mock-up_3_Periodic_with_icons.pdf](#)

Questions

***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

Please explain:

We support that having a template is essential however for it to be workable, we would propose that it should:

- Be treated as guidance and avoid being too prescriptive with the format of the output. Leave the specific layout to the reporting entity to define and decide but include templates as examples in the guidance.
- Identify the required data to be reported but not define the specific format for expressing that data (e.g. pie chart, table, bar chart)
- Leave it to the reporting entity to choose the format of the output
- Encourage that definitions of outputs be included in the same document for reference but not require that it be included next to the output, this could be done in an appendix and footnoted
- Work across asset class and fund types
- Be no more than 2 pages (1 page 2 sided)
- Avoid overlap with other regulatory documents financial market participants are required to produce (as examples only, the Key Investor Information Document, factsheet, etc.), and rather supplement these documents, or fit in to existing documents that financial market participants are currently required to produce in any event
- Align with common industry practices e.g. any sector chart should use standards currently used by the financial industry, such as GICS, and lists of constituents/holdings should be top 10 not 25 as is typical of fund/index reporting and this is also space conscious
- Minimize lengthy text and instead feature charts, intuitive metrics.

***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)?

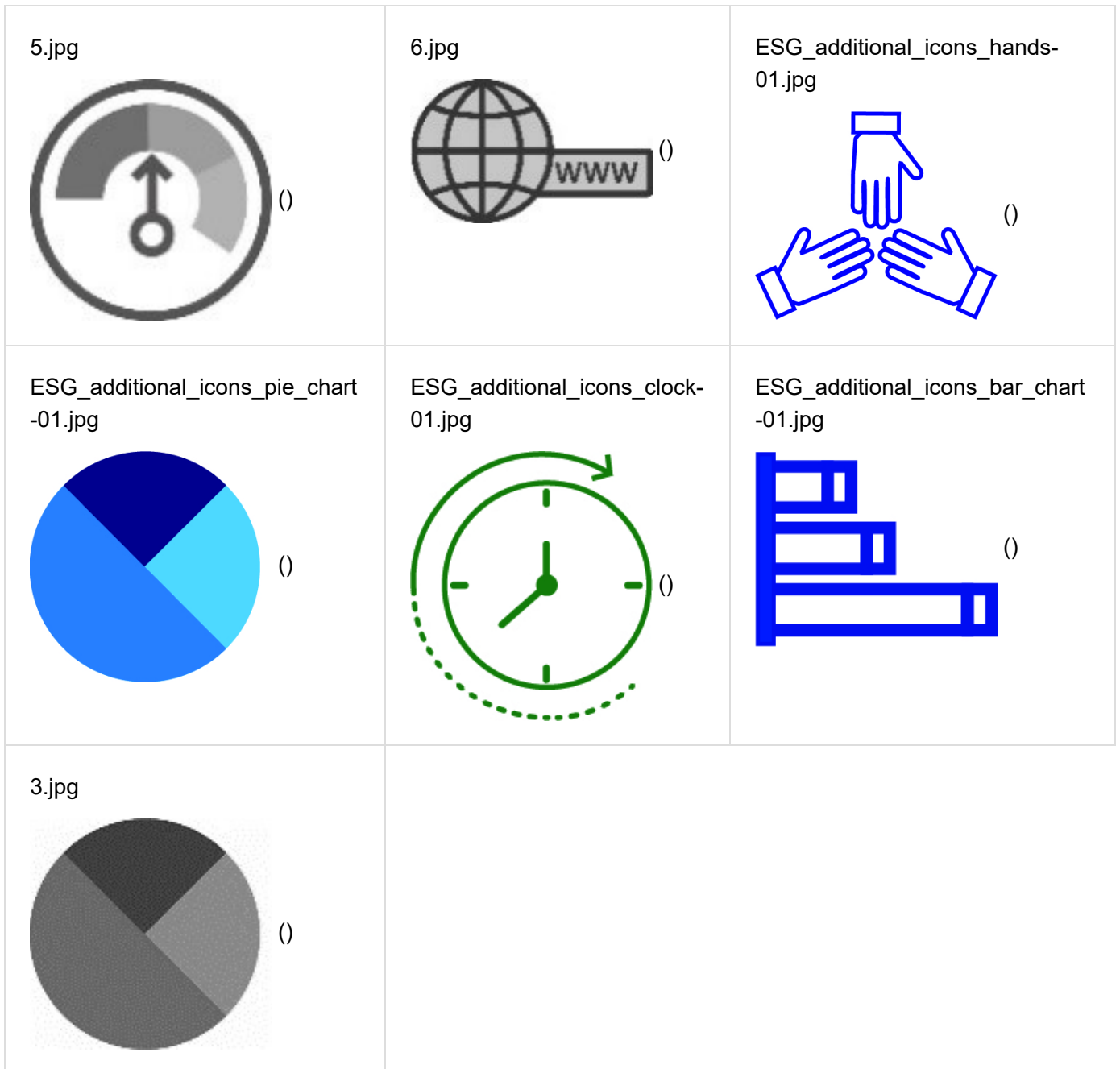
The pictures below show examples of the icons used in the templates.

between 1 and 1 choices

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

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





Please explain:

The use of icons can be very useful in conveying information visually rather than relying on text, but adding icons on top of lengthy text does not achieve this objective.

Icons can be very useful when communicating complex data. They help the end users, who may be non-experts, interpret the information more easily. We also advise the using of colors in the output to convey positive (green) or negative (red) sentiments.

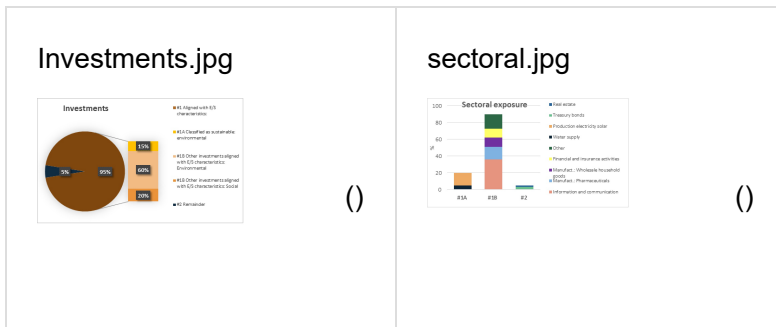
***Q3.** More specifically, how useful is the presentation of the information with the use of **graphs** as visual aids?

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



Please explain:

Graphs and visual aids are extremely helpful ways to communicate key characteristics (including ESG or sustainability characteristics) and would allow readers to quickly see what the fund’s ESG objectives are, performance on key metrics in comparison to a benchmark etc. Ideally, they are designed in a way that they can speak for themselves and don’t require supplementary text.

A live example can be seen here under “ESG Rating distribution of fund holdings”:
<https://www.msci.com/esg-fund-ratings/funds/parnassus-endeavor-fund-institutional/40211657>.

*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

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

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

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

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

Please explain:

Explanatory notes are very helpful and when information is being presented to a first-time user it is crucial to help with interpretation and provides much needed context. The size and scale of the explanatory notes as they are currently included make the information less usable or legible. For example, the size of the font is too large and is not spaced far away enough from the output/charts, the text competes with the chart for attention which usually results in confusing the end user about what to look at first. The explanatory text needs to be visually distinct. This can be accomplished with a different font size and color (usually lighter color to indicate that the text is secondary but important enough to include where it is).

A live example can be seen here: <https://www.msci.com/esg-fund-ratings/funds/parnassus-endeavor-fund-institutional/40211657>

***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 style="text-align: right;">()</p>	<p>sectoral.jpg</p>  <p style="text-align: right;">()</p>	<p>_1.jpg</p>
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		<p><i>The category #1 Aligned with E/S characteristics includes any investment that is aligned with the characteristic:</i></p> <p><i>- 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.</i></p> <p><i>- 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'.</i></p>
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Please explain:

The presentation of the distinction between sub-categories of investments (#1A vs. #1B) is easy enough to follow but what does not appear to be particularly clear is why this distinction should be important to the user, and if the information being presented is good or bad in terms of how sustainable the fund is.

Metrics in their absolute form, without thresholds or scoring to indicate what is good or bad on a relative basis, are not intuitive and are unlikely to be helpful for investors. MSCI has recently undertaken an independent survey of over 5,000 consumers/retail investors located in Germany, France, Italy, Sweden and Belgium, where 57% of respondents indicated that an overall sustainability score or rating (alone) was more useful in understanding the sustainability performance of a mutual fund than a set of metrics alone. We also believe that requiring a smaller, cohesive set of metrics across the EU Sustainable Finance streams (SFDR, EU Benchmarks, NFRD, Taxonomy) may increase feasibility for those reporting metrics, and more importantly, may increase the ability for investors to understand and become familiar with these metrics.

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

It appears unclear how the template maps to the 50 adverse sustainability impact indicators outlined in the consultation document. More consistent disclosure associated with the indicators (whether 50 or ideally fewer) could make these documents more understandable with the same information available in each case (like nutrition labelling).

The templates very specifically appear to tackle an index ETF. In many respects these do not map well to an AIF for which there is typically no ESG performance benchmark and are not exposed to GICS sectors in terms of assets (only tenancies).

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?**

We would suggest, considering similar documents that are available to investors, such as fund factsheets, which have solved these problems.

The standardised format should cover the required data points and provide suggested examples of how to present the information. It should not be required to reproduce the exact template. There should be a clear distinction between required data and suggestions for presentation that can be adjusted to fit alternative branding and design concepts as they differ by firm.

Useful links

Consultation Paper Draft RTS (<https://www.esma.europa.eu/press-news/consultations/joint-esa-consultation-esg-disclosures>) (<https://www.esma.europa.eu/press-news/consultations/joint-esa-consultation-esg-disclosures>)

Background Documents

Mock-up_1_Pre-contractual_with_icons

Mock-up_2_Pre-contractual_without_icons

Mock-up_3_Periodic_with_icons

Contact

Contact Form (</eusurvey/runner/contactform/ESGtemplatesSFDR>)
