

## Response to the ESA's survey related to the product disclosure templates under the Sustainable Finance Disclosure Regulation

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### INTRODUCTION / SUMMARY

The regulation on sustainability-related disclosures in the financial services sector (SFDR) together with the EU taxonomy regulation will define completely new sustainability disclosures for financial products. Therefore, we welcome an opportunity to express our views on the product disclosure templates that European Supervisory Authorities were consulting on.

Our key messages are:

- **Templates should be mandatory for all products distributed to retail investors.** Standardisation will enhance retail investors / consumers' understanding of the product and comparability across different products.
- **Different templates for retail and institutional investors** (with an option of no mandatory template for institutional investors) would help tailor disclosures towards the needs of different users.
- There is a need for a **comprehensive and holistic approach towards sustainability-related disclosures**. SFDR goes hand in hand with the EU taxonomy-related disclosures which we strongly suggest be incorporated in the templates (including the **% alignment of the product with the EU taxonomy**).
- Clarity is needed on the **distinction between investments aligned with E/S characteristics, and those pursuing a sustainable objective**. A Q&A or guidance by the Commission would be useful to ensure more regulatory convergence, assist the industry with the implementation of SFDR, and ensure clear disclosure to end-investors.
- To make the templates user-friendly for retail investors / consumers we suggest to provide for a **summary / dashboard at the beginning** of the document and identify key information to be included in the summary and at the beginning of each section. Space could be managed in a more **dynamic way**. **Graphical representation** (graphs and pie charts) **is very welcome** as it helps to understand sustainability features and composition of a product more quickly. Consumer testing shows **icons** are seen as useful, but could be more visually attractive and **intuitive**. Disclosures in different sections should be **balanced in terms of substance and length of different sections**.
- **Digital media** should be leveraged on to presenting information in a more user-friendly way. Information could be structured / layered through the use of drop-down menus and hyperlinks either to subsequent sections of the document or to external websites and other resources. Consumers should be able to easily access information regardless of the device or operating system or technology they are using to access the document.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1** How useful is the highly standardised presentation of the information in this format?

1. Useless
2. Fairly useless
3. Neither useless nor useful
4. Fairly useful
5. Very useful

Please explain:

We welcome ESAs intention to prescribe for product disclosure templates under the regulation on sustainability-related disclosures in the financial services sector (SFDR), even if they are not explicitly mandated by the level 1. Retail investors / financial services consumers need information which is standardised in terms of the content (key information) and the presentation. Standardisation will enhance their understanding of the product and comparability across different products. Therefore, we strongly believe that the **templates should be mandatory for all products distributed to retail investors**.

Overall, while developing format and presentation of such disclosures, the starting point is to identify the **audience**, the **purpose** of the disclosures and **where the disclosures are to be provided**. Ideally it would be best to provide **different templates for retail and institutional investors** (or, possibly, no template for the latter). Institutional investors have different preferences and needs in terms of the information, language and the layout, often driven by what is compatible with their systems as well as sectorial and / or national rules. Such differentiation would enable to properly tailor the template to the retail investors' needs (shorter disclosures, avoiding legal or specialised jargon, etc.). While the level 1 of the Sustainable Finance Disclosure Regulation does not require such differentiation, it does not prevent it either. However, we acknowledge that the sustainability-related disclosures need to be included in the sectorial disclosures, making it dependent on whether sectorial legislation allows for different disclosures for retail and institutional investors.

While we find the templates useful in principle, we think that the layout could be **more user-friendly and visually appealing**. **Space** could be managed in a more **dynamic way**, avoiding too many empty spaces. **Graphical representation** (graphs and pie charts) **is very welcome** as it helps to understand sustainability features and composition of a product more quickly. While **icons** have the potential to make the document more attractive and help investors quickly identify the relevant sections, we suggest to reach out to communication experts who can advise on more visually attractive and intuitive icons. We propose to **simplify the language** and, to the extent possible, avoid **jargon**, to make the disclosures comprehensible for retail investors.

The document may be perceived as **lengthy**, which was reflected in the consumer testing by the Dutch AFM. However, it is important that information is sufficiently granular to address needs of more sophisticated investors and prevent greenwashing. To address this challenge, we suggest to provide for a **summary of key information / highlights / a dashboard** at the beginning of the document. This would help end-investors quickly grasp key information and easily navigate through the document for more details. In the electronic format, the summary/dashboard could include drop-down menus or hyperlinks to other sections where investors can find more information.

There is a need for a **comprehensive and holistic approach towards sustainability-related disclosures**. SFDR goes hand in hand with the EU taxonomy disclosures. Therefore, we strongly suggest to incorporate EU taxonomy-related disclosures, introduced through the EU taxonomy regulation, in the template. While the mock up refers in the narrative to a “substantial contribution” of the product to some of EU taxonomy objectives, it does not provide specific information, for instance on the % alignment of the product with the EU taxonomy. We would suggest that in the section on the sustainability objectives, the **EU taxonomy-related disclosures are to be provided**, specifying **the % alignment of the product with the taxonomy**. It would be useful that such information is also part of the **summary / highlight / dashboard section**.

We acknowledge that some of the information in the templates may be already provided in pre-contractual or periodic disclosures in line with the sectorial or national rules. While ideally it would be useful to avoid duplications, on the other hand, there are strong merits in having a dedicated, standardised document / section on sustainability information, which improves comparability and enables to find information quickly. In the long run, however, it could be envisaged to revise all the respective sectorial rules and properly re-think all the disclosures and their presentation. In the meantime, **providing sustainability-related information in an annex to the sectorial disclosures** could be a good solution. This would hopefully resolve or mitigate challenges around providing for a user-friendly format and language while facing constraints of different sectorial disclosures.

**Q2** More specifically, how useful is the presentation of the information with the use of **icons** as visual aids?

1. Useless
2. Fairly useless
3. Neither useless nor useful
4. Fairly useful
5. Very useful

Please explain:

Icons have a potential to make the document more attractive and help investors quickly identify the relevant sections. The consumer testing performed by the Dutch AFM also showed that consumers find the icons useful. However, the icons could be improved in terms of a graphic design and more intuitive symbols could be considered. We would suggest to reach out to communication experts who could help identify more visually attractive and intuitive icons. It would be also useful

to perform further consumer testing, ideally in more than one country, providing different choices for consumers to compare.

While we understand a challenge of accommodating the sustainability disclosures in line with sectorial and national legislation, using colours can improve consumer engagement. Considering to provide sustainability-related disclosures as an annex to the sectorial disclosures could possibly help overcome or mitigate this challenge.

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

1. Useless
2. Fairly useless
3. Neither useless nor useful
4. Fairly useful
5. Very useful

Please explain:

**Graphical representation (graphs and pie charts) is very welcome** as it helps to more easily understand key sustainable features and composition of the product. However, it is advisable that the same format of graphical representation (for example pie or bar chart) is used for the same product category.

We understand that there are concerns that the graphs / charts could potentially mislead consumers comparing different products, as E/S characteristics used will differ. However, this can be mitigated with a proper narrative (even a warning) explaining that graphs / charts are intended to better understand the composition of the product, while due to different sustainability objectives and E/S characteristics applied, graphs/charts should not be over-relied on while comparing across the different products.

While we understand the concerns of the industry regarding potential over-simplification when presenting information to consumers, complex concepts need to be simplified. However, the accompanying narrative can explain this in an appropriate way.

Concerning the **pie chart depicting “investments”**, we would suggest a different type of a chart / graph as the one used in the mock up does not present the information in a sufficiently clear way. On the contrary, the consumer testing showed that consumers often misunderstood the information. A consideration could be given to removing the bar chart on a side, and dividing the pie categories into different types of E/S categories by using different shades of green colours (dark green, light green, etc.).

**Colours should be well thought-through.** Brown colour used on the graph on the E/S characteristics section can be misleading. Using different shades of green to differentiate between “sustainable investments” (dark green) and investments with E/S characteristics (light green) would be intuitive and help grasp the main difference between those two concepts. While we acknowledge concerns over colour blind consumers, they belong to a minority of a population. Also, this issue could be mitigated by avoiding the use of red colour.

Ideally, it would be good to perform further consumer testing, checking consumer preferences and their comprehension based on several different graphs/charts.

The differentiation between environmental and social characteristic is very useful and informative. Information on a proportion of “sustainable investments” that pursue “a sustainable objective” (the mock up provides only for those that pursue an environmental objective) would be welcome. Acknowledging fair comments that some investments could pursue both environmental and social objective and combine both E/S characteristics, it would be helpful to know proportion of such investments also. However, it would have to be properly thought-through how to present such information, as trying to include all of this in one pie chart would be very difficult or even confusing. We would suggest to consider the use of several pie charts presenting the composition of sub-sections, or to use a table with % or simply to provide more information on the proportion of different investments in the narrative.

**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)?

1. Useless
2. Fairly useless
3. Neither useless nor useful
4. Fairly useful
5. Very useful

Please explain:

Explanatory notes are very helpful as most consumers will not understand the terms used in the disclosure documents. For the benefit of consumer, **jargon should be avoided and disclosures should ideally be made using clear and simple language** that consumers can understand. However, we understand the challenge of preparing disclosures that are intended both for retail and institutional investors.

Having key definitions on the side can also be helpful for the industry while preparing the disclosures.

Overall, one of the **key challenges is the ambiguity regarding the distinction between investments aligned with E/S characteristics, and those pursuing a sustainable objective.** While

investments with a sustainable objective are still relatively well explained, it remains unclear what are investments with other E/S characteristics (category #1B).

Currently even the industry struggles to understand the distinction between those two concepts and identify which of their investments, following different sustainability strategies, would fall within which of those categories. If it is not even clear to the industry, consumers cannot possibly understand the difference.

Dividing investments aligned with E/S characteristics (which correspond to so called Art 8 products, often referred to as “light green”) into two subcategories: #1A “investments that are qualified as sustainable” (which corresponds to Art 9 / “dark green” products) and 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’”, further increases the confusion.

We understand that ESAs feel constrained by level 1 and thus refrain from further defining what E/S characteristic are. However, clarity on this is key to: 1) improve regulatory convergence and more harmonised capital markets, 2) assist the industry with the implementation of SFDR, and 3) provide clear and understandable information to investors. We suggest to explore whether a Commission could issue a **guidance** or a **Q&A** to provide **more clarity on E/S characteristics and the distinction between Art 8 and Art 9 products**. Leaving the interpretation at the discretion of the industry would result in legal uncertainty and diverging approaches, reducing comparability for investors.

In terms of the presentation, the **space could be managed in a more dynamic way**. The definitions / explanations do not necessarily have to be in a static column.

**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, this is the difference between #1A and #1B?

- Yes
- No
- Other

Please explain:

Please refer to our responses to previous questions where we elaborate on key presentational aspects that we think may make it hard for consumers to understand the sustainability-aspects of products.

Overall, one of the key challenges is the **ambiguity regarding the distinction between investments aligned with E/S characteristics, and those pursuing a sustainable objective**. However, this is due to insufficient legal clarity regarding what E/S characteristics are and the distinction between the so-called Art 8 and Art 9 products. As long as more clarity is not provided, no improvement in terms

of the layout or adjustments to the wording used, can ensure sufficient clarity for end-investors. Please see our response to question 4 for more detailed comments and suggestions.

In response to question 1 we provide several suggestions in terms of the improvements needed to address the needs of end investors. One of our key recommendations is to provide for **a summary of key information / highlights / a dashboard** at the beginning of the document. This would help end-investors quickly grasp key information, navigate through the document. In the electronic format, the summary/dashboard could include drop down menus or hyperlinks to other sections where investors can find more information. This would help **strike the right balance** between the **length of the document** and providing sufficiently detailed information to **meet the needs of more sophisticated investors as well as to prevent greenwashing**.

To address some comments made by some industry representatives, we would like to highlight that the list with the top 25 investments in the periodic disclosures with their sectorial split is very helpful and informative. The table does not seem to take much space and thus should be kept.

Regarding the challenges posed by the sectorial legislation, we propose to consider annexing sustainability-related disclosures to the sectorial disclosures. Hopefully this would help address concerns regarding the format, presentation, use of specific jargon, and incorporation of information by reference (e.g. links), etc.

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

Please explain:

Please refer to our responses to the previous questions, in particular to question 1.

In addition, we would suggest to:

- **identify key information**, essential for end-investors while making informed decision, to be included in a **summary / dashboard at the beginning of the document**, as well as at **the beginning of each section**. This would enable to better structure the information by creating layers. It would be helpful both when the document is provided in an electronic format, as well as in case of information provided on paper. It is a human tendency to pay more attention at the beginning of a document, as well as at the beginning of each section. Such an approach would address concerns on the length of the document. While some investors could be satisfied with key information only, others may be interested in more details. The exercise of identifying key information would be also helpful to differentiate what information should be provided in the document itself, and what information could be incorporated by reference (link to a website or other resource).
- provide the industry with **a guidance / best practice examples providing more details on what information should be disclosed in each section and how it should be presented**. Such an approach would leave the sufficient flexibility to the industry, while it would help

drive more convergence and enhance comparability of disclosures.

- ensure that disclosures in different sections are sufficiently **balanced in terms of substance and length of different sections**. For instance, the section on corporate governance contains only one sentence referring to a website of a rating provider. This is not substantial enough and this section is not proportionate compared to other sections, sending a negative signal regarding importance of the information. Moreover, we need to keep in mind that some investors (especially from an older generation) may receive such document only on paper. Incorporating information by reference to e.g. websites can be helpful to reduce information overload. However, some key information should be provided in the document itself.
- We suggest that **more detailed information is provided in periodic disclosures on addressing principle adverse impacts**. Especially whenever FMPs mention **use of engagement / stewardship** to address and mitigate adverse impacts in pre-contractual disclosures, it should be mandatory to provide more detailed information/evidence on how that was done: e.g. 1) a reference to a webpage where they disclose sustainability-related resolutions they voted in favour/ against, 2) more details on a frequency and type of engagement with investee companies.
- We are quite concerned that **in case of UCITS products**, which are very popular among retail investors, **sustainability-related disclosures are to be provided in /or alongside the prospectus, and not together with a KID**. We understand that this is a level 1 issue, however this poses a significant problem. Firstly, prospectuses are strictly regulated regarding their content and whether and how information can be incorporated by reference (including use of hyperlinks). Icons, graphical representation and use of icons could be not appropriate or even not allowed. Prospectuses also have strong legal liability attached to it, which tends to discourage or even prevent the industry from using simplified language or simplified descriptions. Lawyers and other issuer advisors warn against it. Secondly, our understanding is that when an investor will be presented a UCITS KID at the point of sale, he/she would not be provided with sustainability-related disclosures by default, which is even more problematic. Furthermore, there is no coherence with other product disclosures, as in case of PEPP, sustainability-related disclosures are to be provided within or with a KID.
- We understand the challenges posed by the legal deadline. However, **further consumer testing** in more than one country and on a varied audience would prove very useful in designing disclosures in a consumer-friendly way. A lot of aspects regarding the layout and the presentation is very subjective and hence asking a sufficiently large sample of potential consumers / end-investors for their opinion and to compare different options would be very helpful.

**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:

Digital media offers a great opportunity of presenting information in a more user-friendly way, amongst others by allowing to structure information / create layers through the use of drop-down menus and providing hyperlinks either to subsequent sections of the document or to external websites and other resources. We suggest that the same information is provided in the electronic and paper format, however technology should be leveraged to structure information in a more user-friendly way.

It is important to ensure that consumers can easily access information regardless of the device or operating system or technology they are using to access the document.