

## **Eurosif Position on Sustainable and Responsible Investment (SRI) disclosure in Key Information Documents for investment products**

October 10, 2012

EUROSIF, the European Sustainable Investment Forum, is the leading European sustainable investment membership association whose mission is to develop sustainability through European financial markets. Being a multi-stakeholder organisation, Eurosif works as a partnership of national Sustainable Investment Forums (SIFs) with the support and involvement of a wide range of Member Affiliates from the industry and related services. These include asset managers, ESG rating agencies, research and investment service providers, academic institutions and NGO's, together representing assets exceeding €1 trillion and richly diverse standpoints. Informed by the expertise of its member affiliates, Eurosif speaks authoritatively and broadly on SRI (sustainable and responsible investment) issues. The main activities of Eurosif are public policy, research and supporting platforms for nurturing best practices regarding SRI.

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment and Corporate Governance in the EU financial services sector, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers.

For the full list of Eurosif Member Affiliates and Reports, please see [www.eurosif.org](http://www.eurosif.org)

### **1. Introduction**

Eurosif, the European Sustainable Investment Forum, is the leading promoter of SRI in Europe. In this period, Eurosif has increasingly brought attention to the need for retail investment disclosure on environmental, social and governance (ESG) issues in the investment process, as a natural complement to extra-financial disclosure by companies.

In our response<sup>1</sup> to the PRIPs consultation in February 2011, Eurosif strongly supported the development of a pre-contractual document that includes the critical information needed for retail investment decision making (the so called "Key Information Document" - KID), and that the model of the investor document created for the UCITS could serve as a strong basis for the creation of a PRIPs KID. Further, Eurosif recommended the Commission to explore how the KID could contain additional information pertaining to environmental, social and governance (ESG) aspects in addition to the elements proposed by the Commission in the consultation document.

In this regard, Eurosif is pleased that the PRIPs KID proposed Regulation from the Commission<sup>2</sup> in July 2012, specifically mentions<sup>3</sup>:

*"The key information document shall contain...an indication of whether the investment product manufacturer targets specific environmental, social or governance outcomes, either in respect of his*

<sup>1</sup> [http://www.eurosif.org/images/stories/pdf/Lobbying\\_Papers/Esif\\_PRIP\\_Response\\_2011\\_FINAL.pdf](http://www.eurosif.org/images/stories/pdf/Lobbying_Papers/Esif_PRIP_Response_2011_FINAL.pdf)

<sup>2</sup> COM(2012) 352/3

<sup>3</sup> Article 8, point 2iii



*conduct of business or in respect of the investment product, and if so, an indication of the outcomes being sought and how these are to be achieved;"*

The intention to have a requirement for all investment funds and financial institutions to inform about any ethical or responsible investment criteria they apply or any standards and codes to which they adhere was already envisioned in the December 2011 Communication on CSR<sup>4</sup>, and Eurosif is pleased to see rapid progress in this area.

Eurosif considers this major progress in the process towards comprehensive investor disclosure of ESG practices in the investment process, and urges the Council and Parliament to retain this language in the final text of the Regulation.

## 2. From KIID to KID

The legislation underpinning the KIID is contained in Commission Regulation 583/2010, and came into effect on July 1, 2012. CESR (the predecessor to ESMA) provided guidance on the technical implementation in CESR/10-1321. Neither the KIID Regulation nor the CESR guidelines mention SRI or ESG information. While the proposed Regulation on PRIps is envisioned to replace the UCITS KIID in order to provide uniform disclosure across different types of investment, there is a transition period for UCITS funds of five years during which a fund may continue to use the KIID framework.

## 3. SRI disclosure in pre-contractual information

Eurosif strongly supports the Commission proposal for a new KID that contains mandatory disclosure on ESG information across all retail investment products. This is important to create a level playing field in terms of disclosure requirements and cost. To facilitate the harmonisation of ESG disclosure, Eurosif has developed a disclosure framework for ESG information that can be used in the current KIID, and transitioned to the new KID when the new Regulation comes into force.

Given the limited space in the KIID, Eurosif suggests using the following tick box approach, as it is easy to understand and provides basic information without sacrificing depth of disclosure. The strategies represented here are based on a classification work carried out late 2011 until early 2012 by a pan-European working group of industry practitioners.

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### Does the fund take environmental, social and governance (ESG) criteria into account?

E                       S                       G                       None

### If yes, select the strategy (ies) used:

Best-in-class     Exclusion of holdings  
 Sustainability themed investment                       Voting / Engagement on ESG issues  
 Norms-based ESG screening                                       Other: \_\_\_\_\_

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Additional disclosure by investors who adopt ESG investment strategies into their fund management and investment selection process should be in the form of a standardised European framework such as the Eurosif European SRI Transparency Code one-pager, a simplified, easy to read document that complements a more detailed and public disclosure questionnaire publicly available on Eurosif's

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<sup>4</sup> COM(2011) 681 final, section 4.4.3



website and summarises the key ESG features of a given fund to the extent that fund adopts one of the SRI strategies referred to above<sup>5</sup>.

#### **4. SRI disclosure in post-contractual information**

If pre-contractual reporting is essential, Eurosif's view is that post-contractual reporting is equally important if not more important in order to foster the adoption, and credibility, of ESG strategies.

The post-contractual reporting should allow investors to assess to what extent the stated ESG criteria and strategies have been used and applied over the reporting period.

In particular, Eurosif believes that the post-contractual reporting should be guided by a couple of key principles, such as to provide relevant, comparable, timely and reliable information. It is therefore important that the reporting, and in particular that of investment funds (UCITS), demonstrates how ESG criteria are integrated throughout the investment lifecycle, from the construction of the investment universe to the portfolio construction and its ongoing management.

Eurosif therefore recommends that ESG post-contractual disclosure is preferably integrated in the financial report of the investment product. Alternatively, a separate report, as suggested by EFAMA, would be acceptable, if at product level and not at company level.

Both quantitative and qualitative information post-investment about the extent to which the pre-contractual information has been adhered to should be provided in the reporting. This information should measure success against KPIs and be reported on a regular basis, but at least annually.

The reporting frequency should be at least annually.

For investment funds, Eurosif would recommend, on top of this reporting, the use of the European SRI Transparency Code launched in 2004 with the support of the European Commission and initially called European SRI Transparency Guidelines. This Code covers a detailed disclosure, at individual product level, on how ESG criteria are taken into account throughout the investment lifecycle. It is currently being refreshed with the objective to be more reader-friendly, concise and aligned with industry developments. A new version (V3.0) is expected in Fall 2013. To date, over 500 European "SRI" funds have adopted the Code, out of about 900 similar funds<sup>6</sup>. Note that the Code is completed by a one-pager which is even more concise and retail friendly.

The Code also makes reference, via URLs, to all relevant documents (KIID, prospectus, Annual Report, Fund Fact Sheets, dedicated web pages, etc.) where relevant information about the ESG approach of the fund can be found. It also includes a reference about whether the promoting asset management company is a Un-backed Principles for Responsible Investment signatory and about whether the product enjoys any SRI label or certification. It is therefore a thorough document that allows investors to find all relevant ESG information in one place.

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<sup>5</sup> Note that the Eurosif one-pager will undergo some changes. Eurosif will be introducing a new version of its Code late 2012 and a Transparency Logo certification system early 2013. As part of this exercise, it is Eurosif's intention to work with its various national Sustainable Investment Forums to upgrade the current transparency one-pager.

<sup>6</sup> Source: Vigeo/Avanzi



Eurosif would like to refer also the reader to the proposals on post-investment reporting made by EFAMA<sup>7</sup> which broadly align with the recommendations made in the present document.

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<sup>7</sup> Guidance on RI information in the KIID & Post Investment Disclosure, 16.022012.