



Mr José Manuel Campa
Chairperson European Banking Authority

Mrs Verena Ross
Director European Securities and Markets Authority

Mr Fausto Parente
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Via email.

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EU Transparency Register
Nr: 480715239269-75

Brussels, 14th May 2021,

Re: Request for technical modifications of certain SFDR principal adverse impact indicators to prevent diverging interpretations and methodologies.

Dear Mr Campa, Mrs Ross and Mr Parente,

We are writing to you to ask for technical modifications regarding certain principal adverse impact (PAI) indicators described in the draft Regulatory Technical Standards (RTS) of the EU Sustainable Finance Disclosure Regulation (SFDR) (EU) 2019/2088.

We would welcome some clarifications around specific indicators in Annex I Table 1, Table 2 and Table 3 of the proposed RTS. These clarifications will ensure a uniform interpretation of the indicators by Financial Market Participants (FMPs) and data providers, supporting comparability and transparency between reporting entities and minimising risks of market fragmentation.

We see the opportunity in the forthcoming final RTS report on Taxonomy-related sustainability disclosures (Article 8(4), 9(6) and 11(5) of SFDR) which the ESAs must deliver to the European Commission by June 2021 to insert these clarifications around PAI indicators. Eurosif provide a response to the Consultation on these draft RTS which closed this week. The response of Eurosif to this consultation is available [here](#).

We are not advocating for a revision of the RTS or the modification, addition, or deletion of any indicators but merely inserting helpful clarifications to what has already been proposed.

We have made our suggestions in the Annex to this letter. Below we highlight some of the key points:

- **Companies active in the fossil fuel sector (Table 1 - Indicator 4)** - The definition (11) in Annex I RTS still do not provide a clear categorisation of companies that are in and out of the scope. FMPs and data providers are likely to adopt a materiality threshold as currently the definition include any company deriving any revenues from the listed activities, therefore corresponding to a large umbrella of companies. This threshold would leave the interpretation appraisal on FMPs and result in incomparable disclosures. The use of GICS or NACE sub-sectors classification would make this indicator much less subject to different appreciation by FMPs and data providers.

- **GHG intensity of sovereign exposures (Table I- indicator 15)** - There is currently no definition of a country's emission to be covered. It is not detailed whether scope 1, 2 and 3 GHG emission should be measured using territorial emissions, emissions derived from national consumption or a combination of territorial and imported emissions. Depending on the methodology chosen, results may vary greatly. We believe that an approach combining territorial and imported emissions would offer the fairest picture on a country's GHG emission. Ideally, two indicators would be disclosed separately for territorial and imported GHG emissions/GDP.
- **Carbon footprint (Table I- indicator 2)** - A Carbon Footprint is generally used in the literature to quantify an absolute value expressed in tonnes of CO₂ or other Green House Gas. However, the proposed formula in RTS Annex I definition (7) seems defined to capture the weighted average GHG emission of invested assets (in T of CO₂ / €M). Therefore, we suggest renaming this indicator "weighted average carbon intensity of the portfolio".
- **Additional indicators based on companies' management policies (Table 2- indicators 4, 8, 11, 12, 14, 15)** – Several additional indicators introduce the concept of company's initiatives or policies to address specific environmental or social issues. However, no standardised definitions of these business policies or initiatives can be found in the RTS and interpretation can vary among FMPs and data providers especially as to a policy should have a binding objective or not. Standardised definitions would be welcome to narrow the text interpretation and determine minimum ambitions of such policies.

We apologise for the late notification regarding the suggested modifications. Nonetheless, we hope the ESAs will be able to consider our suggestions when addressing its final RTS report to the European Commission in June 2021.

We remain at your disposal for any questions or further information you and your colleagues may need to evaluate our request.

Yours sincerely,



Victor van Hoorn
Executive Director

Cc: Mrs Katherine Power (Cabinet of Commissioner McGuinness) Mr. Ugo Bassi (Director for Financial Markets) and Mr Sven Gentner (Head of Unit, Asset Management)

Annex

Table I: Suggested technical changes to indicators in Table I Annex I RTS and their definitions

	Adverse impact indicator	Metric	Technical change	Explanation/Justification
Indicators applicable to investments in investee companies				
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS	2. Carbon footprint	Carbon footprint	Rename the indicator “carbon intensity”	A Carbon Footprint is generally used in the literature to quantify an absolute value expressed in tonnes of CO ₂ or other Green House Gas. However, the proposed formula ¹ in RTS Annex I definition (7) seems defined to capture the weighted average GHG emission of invested assets (in T of CO ₂ / €M). Renaming is crucial for simplicity and the good understanding of this PAI indicator by FMPs, particularly retail investors.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	Amend definition (11) of Annex I to define fossil fuel sectors with GICS sub-sectors	It would make it much more practical if the definition of 'companies active in the fossil fuel sector' could be linked to the GICS sub-sectors. Else there is a likelihood that Financial Market Participants will interpret this differently, resulting in fragmentation of indicators in the market. FMPs and data providers are also likely to adopt a materiality threshold for companies such as a minimum share of revenues from fossil fuel sector. Currently the definition would any company that derives any revenues, even if it may be insignificant.

¹ The definition (7) of Annex 1 RTS is the following:

$$\frac{\sum_i^i \frac{\text{Current value of investment}(i)}{\text{investee company's enterprise value}(i)} \times \text{investee company's scope 1, 2 and 3GHG emissions}(i)}{\text{current value of all investments (€M)}}$$

5. Share of non-renewable energy	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources expressed as a percentage	Add two new definitions to define what “energy consumption” and “energy production” means.	To measure the energy consumption, we need further specification of the methodology and whether it would be possible for investee companies/FMPs to take into account the procurement of off-site generated green electricity. Our preference would be to exclude this procurement since the real-world impact can be debated. If off-site generated green electricity is eligible, we would require that the green sourcing be certified.
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Amend the definition (14) to address the inconsistency	<p>(1) Inconsistency: There seems to be an inconsistency between the metric description of this indicator in Table I and in the definition (14) of Annex I. The latter definition is: ‘Energy consumption intensity’ means the ratio of energy consumption per unit of activity, output or any other metric of the investee company to the total energy consumption of that investee company’. Looking at the definition and the metric, it is unclear if the ratio should be energy consumption over total revenue of the company, taken in separate indicators for each high impact climate sector, or if it should be the energy consumption per EUR of revenue for all high impact climate sector divided by the total energy consumption. We suggest adapting this definition to the described metric. The clearest solution would be to have a formula for this indicator, just as for indicator number 3 for example.</p> <p>(2) Materiality: For units of activity in high impact climate sector, there is an underlying question regarding the proportion of the company’s activity these activities should represent for it to be taken into account in the ratio, i.e. is there a materiality threshold or the high impact climate sector activity should</p>

				<p>be considered even if it represents 0.5% of the company's activity ?</p> <p>(3) Number of indicators: the metric should precise if different indicators are expected for each climate sector or if there should be only one indicator expressed as the weighted average of energy consumption for all high impact climate sectors.</p>
SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS	13. Board gender diversity	Average ratio of female to male board members in investee companies	Refine the metric	Further specifications are required here for the methodology, particularly on two issues. 1) Which board (executive, supervisory or both) needs to be included? 2) Within a financial group, it is at consolidated group level or an average across all entities within the group?
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Add a definition of 'controversial weapons'	<p>Further specifications are required in the form of clear references to the international agreement and treaties covered to avoid market fragmentation whereby different firms/data providers take a different scope to measure the exposure. In the definitions of Annex I, we suggest adding the following definition:</p> <p><i>'controversial weapons' means anti- personnel mines as defined in the Anti-Personnel Mine Ban Convention, cluster munitions as defined in the Convention on Cluster Munitions, chemical weapons as defined in the Chemical Weapons Convention and biological weapons as defined in the biological weapons convention.</i></p>
Indicators applicable to investments in sovereigns and supranationals				
Environmental	15. GHG intensity	GHG intensity of investee countries	Refine definition (10) by defining a 'country's	The formula of this indicators needs to be clarified in definition (10) of Annex I. A country's scope 1, 2 and 3 GHG emission lacks a definition of "country's scope", whether it is territorial GHG/GDP; Consumption GHG/GDP or a combination of territorial and imported GHG / GDP. The third definition appears to us as the most appropriate for this indicator to reflect a country's

			scope of GHG emissions'	role in GHG emission. Ideally, two indicators would be disclosed separately for territorial and imported GHG emissions/GDP.
Indicators applicable to investments in real estate assets				
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	Modify the wording of the metric	We assume the notion of 'real estate assets' here covers the traditional notion of fossil fuel 'infrastructure'.

Table 2: Suggested technical changes to definitions and metrics of indicators in Table 2 Annex I RTS: Additional climate and other environment-related indicators

Adverse impact indicator	Metric	Technical change and Rationale
Indicators applicable to investments in investee companies		
4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	A standardised definition of “emission reduction initiatives” is needed to capture a minimum threshold of ambition.
5. Breakdown of energy consumption by type of non-renewable sources of energy	Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source	(1) It should be further specified in the metric if one or numerous indicators are expected to represent the breakdown. (2) it is not specified what the denominator should be for the share of energy from non-renewable sources. Is it total revenue by company, the portfolio’s value, total energy sources, total non-renewable energy sources? The easiest would be to have a clear formula for this indicator.
6. Water usage and recycling	1. Average amount of water consumed and reclaimed by the investee companies (in cubic meters) per million EUR of revenue of investee companies 2. Weighted average percentage of water recycled and reused by investee companies	A standardised definition of “water recycled and reused” is needed.
8. Exposure to areas of high water stress	Share investments in investee companies with sites located in areas of high water stress without a water management policy	A standardised definition of “water management policy” is needed to capture a minimum threshold of ambition.

10. Land degradation, desertification, soil sealing	Share of investments in investee companies the activities of which cause land degradation, desertification, or soil sealing	Standardised definitions of “Land degradation” and “desertification” are needed.
11. Investments in companies without sustainable land/agriculture practices	Share of investments in investee companies without sustainable land/agriculture practices or policies	A standardised definition of “sustainable land/agriculture practices or policies” is needed to capture a minimum threshold of ambition.
12. Investments in companies without sustainable oceans/seas practices	Share of investments in investee companies without sustainable ocean/seas practices or policies	A standardised definition of “sustainable ocean/seas practices or policies” is needed to capture a minimum threshold of ambition.
14. Natural species and protected areas	<p>1.Share of investments in investee companies whose operations affect threatened species</p> <p>2.Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas</p>	<p>(1) Standardised definitions of “threatened species” and “biodiversity protection policy“ is needed.</p> <p>(2) Also, it seems relevant to ask whether a materiality threshold is needed to determine what proportion of a company’s operation should affect threatened species to be taken into account.</p>
15. Deforestation	Share of investments in companies without a policy to address deforestation	
Indicators applicable to investments in real estate assets		
20. Waste production in operations	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract	A standardised definition of “facilities for waste sorting” and for “facilities not covered by a waste recovery or recycling contract” is needed.

<p>21. Raw materials consumption for new construction and major renovations</p>	<p>Share of raw building materials (excluding recovered, recycled and bio-sourced)</p>	<p>(1) the metric might be refined as follow “share of real estate assets using raw buildings materials for new construction and major renovations”</p> <p>(2) Standardise definitions of “raw buildings materials”, “recovered building materials”, “recycled building materials” and “bio-sourced building materials” are needed.</p> <p>(3) It seems relevant to ask whether a materiality threshold is needed to determine what proportion of a new construction or major renovation should use raw materials to be taken into account.</p>