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ICI Global Response to the ESAs Joint Consultation Paper on the Review of SFDR Delegated Regulation regarding PAI and Financial Product Disclosures

INTRODUCTION

ICI Global appreciates the opportunity to provide feedback on the European Supervisory Authorities (ESAs) joint consultation on the review of the Sustainable Finance Disclosure Regulation (SFDR) Delegated Regulation regarding principal adverse impacts (PAI) and financial product disclosures ("Consultation Paper"). ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of €35.5 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global members invest on behalf of millions of retail investors around the world choosing funds to save for retirement, education, and other important financial goals, and therefore have a significant interest in regulatory requirements for funds that incorporate environmental, social, and governance (ESG) considerations into the investment process.

Since its inception, the SFDR has been in a continual state of flux, resulting in significant challenges for financial market participants and national supervisors. The recent progress report of the European Securities and Markets Authority (ESMA) on greenwashing risks pointed to the unstable nature of the EU sustainable finance regulatory framework, noting that regulators "need to develop new expertise and skills and to absorb a wide range of new obligations stemming from a regulatory framework that is not yet stabilised." [Link] ICI Global strongly believes that constant changes to disclosures, including those changes proposed by the ESAs, further delay stabilization and undermine consumer confidence in sustainability-related financial products and the wider sustainable finance agenda. In our view, the ESAs' proposed changes have not been adequately weighed against the knock-on effects of unstable regulatory obligations for supervisors, financial market participants, and for investors in financial products. We, therefore, urge the ESAs to reconsider introducing new obligations that would exacerbate concerns about regulatory instability.

We acknowledge that the ESAs' proposed changes to the SFDR Regulatory Technical Standards (RTS) were made in response to a mandate by the European Commission set out in April 2022 [Link]. However, this public consultation takes place within the context of impending fundamental changes to the SFDR legislation and its requirements, on the heels of new interpretations of existing terminology, and before the first set of PAI disclosures have been made. These important developments, which have occurred since the mandate was set out, should inform the ESAs' next steps.

ICI Global welcomed the announcement late last year by Commissioner McGuinness of the comprehensive assessment of the SFDR [Link], which is currently underway within the Commission. She noted that the SFDR "is intended to be a disclosure regime," and acknowledged the lack of clarity that has plagued the SFDR since its inception. She also rightly pointed out that the RTS were only coming into effect in January 2023 and that "we do need to give some time to see how these standards impact the market." If the ESAs move forward with changes to the disclosure requirements at this stage, we believe it would impair the European Commission's ability to fully assess these impacts and the utility of disclosures for retail investors. Given the impending changes to the Level 1 legislation, we question whether any meaningful benefits could come from the ESAs' proposed changes that would justify the implementation costs and interference with the Commission's review.

We also welcomed the recent responses from the European Commission to the ESAs' September 2022 questions [Link], confirming again that the SFDR is intended as a disclosure tool. ICI Global supports policies intended to promote transparency and improve comparability of ESG- and sustainability-related investment products for retail investors, especially as demand for such funds continues to grow. Therefore, it should remain a core objective for regulators to improve investors' interaction with these disclosures.

We strongly encourage the ESAs to contribute their assessment of the disclosure requirements and templates to the upcoming broader review of the SFDR Level 1 framework. The current disclosures are not fit for purpose and can certainly be improved in terms of providing investors with meaningful information about financial products. Our understanding is that the overwhelming amount and complexity of information currently included in the disclosure templates is proving to be of negligible value to retail investors. The ESAs' proposal to expand disclosure requirements and make changes to the disclosure templates will not improve disclosures for the benefit of investors. Rather, we believe changes to the SFDR Level 1 legislation are needed to simplify and streamline the disclosure requirements in order to make them meaningful for retail investors.

While our general view is that the ESAs' proposed changes to the RTS could do more harm than good at this stage in the SFDR's evolution, we do offer some concrete recommendations to selected questions for the ESAs' consideration. Given the long timeline anticipated for the review of the SFDR and improvements to the Level 1 legislation, we also offer support for targeted changes to the RTS that are consistent with the European Commission's goals of simplifying and streamlining the disclosures for the benefit of retail investors, and would likely withstand any changes to the Level 1 in the long run.

QUESTIONS & ANSWERS

Question 1: Do you agree with the newly proposed mandatory social indicators in Annex I, Table I (amount of accumulated earnings in non-cooperative tax jurisdictions for undertakings whose turnover exceeds € 750 million, exposure to companies involved in the cultivation and production of tobacco, interference with the formation of trade unions or election worker representatives, share of employees earning less than the adequate wage)?

We do not agree with introducing new social PAI indicators; however, if the ESAs introduce new social PAI indicators, they should be in the opt-in category rather than mandatory at this time.

As a primary concern, the ESAs fail to acknowledge certain limitations in data availability that will significantly impact the feasibility of reporting this information if it were mandatory.

Our members' experience with PAI reporting to date has shown there may be as little as 3% coverage for some of the existing mandatory indicators. It is notable that the ESAs have not reflected on how data gaps are impacting current reporting of PAI information before proposing to expand the list of mandatory reporting indicators. The European Commission's mandate to the ESAs included making efforts to streamline the regulatory framework. In our view, these efforts should include a review of existing mandatory PAI indicators to ensure they are achieving their intended purpose. We strongly disagree with increasing the number of PAIs without corresponding rationalization of existing PAIs, and we believe introducing additional mandatory PAI indicators at this time would only exacerbate prevailing data gaps.

The starting point for any proposed quantitative disclosure for asset managers or investment products relating to information about investee companies should be an assessment of current data availability. While steps are being taken to improve corporate sustainability reporting, it must be acknowledged that the CSRD and ESRS will not resolve the existing data gaps. Only when the CSRD is in effect and fully implemented will we know the extent to which the EU reporting framework has improved data availability on PAI indicators.

For now, the CSRD is still in development and undergoing changes. Once it is in place, the vast majority of global investments will fall outside of the scope of CSRD. For companies within scope, the Consultation Paper incorrectly states that "the ESRS disclosures requirements will have to be reported by all companies in the scope of CSRD, allowing for less burdensome disclosures." Since the Consultation Paper was published, the Commission has altered the ESRS and proposed that reporting by companies within scope of the CSRD will only apply to the extent that companies consider each individual metric to be material. This misstatement in the Consultation Paper highlights the major problem of misalignment between the ESAs' mandate and related legislative files, as well as the poor timing of this consultation in the context of evolving European Commission priorities.

Outside the context of the ESRS, we also find it notable that the European Commission is in the process of making changes to the CSRD that will significantly reduce companies' reporting requirements. We recommend that the ESAs refrain from increasing the burden for financial market participants, as this would be inconsistent with the Commission's policy goals to reduce reporting burdens for companies.

Moreover, we understand that in its review of the SFDR, the European Commission is questioning the overall value of entity-level PAI reporting and may decide to propose fundamental changes to the PAI reporting regime. While we acknowledge the importance of transparency in relation to how PAIs are considered in the investment process, we do not believe the disclosure of PAI indicators at the entity level is useful. Consumers invest in financial products. We note, however, that the ESAs have not indicated why the four proposed mandatory metrics would be useful for investors in financial products.

Without knowing the intent or likely outcome of the European Commission's review and how it will impact the PAI reporting requirements, we cannot assess the benefits of the ESAs' proposed indicators. We would recommend the ESAs undertake a more fulsome assessment of the full range of impacts of introducing additional PAI indicators, taking into account global data availability and reliability, the interaction of PAI indicators with the 'do no significant harm' (DNSH) test, how PAI and DNSH taken together affect the investable universe of sustainable investments, and consumers' experience with disclosures related to PAI indicators. Assessments of this nature of proposed changes, as well as the existing framework, would greatly benefit the ESAs, national supervisors, financial market participants, and investors in financial products. In addition, we think it is appropriate for the

ESAs to consider a rationalization of the overall PAI reporting requirements in the SFDR framework in a way that aligns with ESRS standards and allows for a materiality assessment by financial market participants.

As we note above, the CSRD will not resolve the data challenges facing market participants. At a minimum, any quantitative disclosure requirements imposed on financial market participants should be firmly rooted in the existing corporate reporting framework, developed with an understanding of the global availability and reliability of such data, and supported with an analysis of the benefits of reporting the data for investors in financial products.

Question 2: Would you recommend any other mandatory social indicator or adjust any of the ones proposed?

We recommend adjusting the proposed social indicators as follows:

- All proposed social indicators should be voluntary (opt-in), not mandatory.
- The ESAs should assess the availability of data for proposed social indicators, and adjust the proposed indicators to align with information that is currently available. All proposed PAI indicators, social and otherwise, should be supported with data reported under the existing corporate reporting framework, and in the future, with the ESRS.
- Vague terminology undermines efforts to add legal certainty to the SFDR requirements and will compound lack of comparability of disclosures. The ESAs should avoid the use of subjective terminology, such as "adequate wage", "excessive use" or "insufficient employment" in PAI indicators. The term "employee" is defined differently among different jurisdictions, as are employment disabilities. A wage that would be considered "adequate" in Europe may be different than an "adequate" wage in other countries (the ESRS allows for different methodologies for calculating fair wage). Information reported by companies will not be sufficiently consistent or comparable for the purposes of aggregating the data for PAI statements.

Question 3: Do you agree with the newly proposed opt-in social indicators in Annex I, Table III (excessive use of non-guaranteed-hour employees in investee companies, excessive use of temporary contract employees in investee companies, excessive use of non-employee workers in investee companies, insufficient employment of persons with disabilities in the workforce, lack of grievance/complaints handling mechanism for stakeholders materially affected by the operations of investee companies, lack of grievance/complaints handling mechanism for consumers/ end-users of the investee companies)?

We do not. Please see our response to Question 2, above.

Question 4: Would you recommend any other social indicator or adjust any of the ones proposed?

Please see our response to Question 2, above.

Question 8: Do you see any challenges in the interaction between the definition 'enterprise value' and 'current value of investment' for the calculation of the PAI indicators?

The ESAs should amend the existing guidance to allow PAI calculation to be based on the information available at the quarter-end. Our members have reported significant challenges

related to the interaction between the definitions of 'enterprise value' and 'current value of investment' for the calculation of the PAI indicators, based on guidance issued by the ESAs in November 2022 [Link].

The ESAs' guidance states that the share price to be used in calculating the value of a position at each quarter-end should be the share price of the relevant company calculated at the company's fiscal year end in order to align with the calculation of the company's enterprise value. This approach does not account for fluctuations in share price due to market movements or corporate actions, and may result in inaccuracies. Moreover, the ESAs' guidance raises a number of practical questions. For example, it is unclear how financial market participants should apply the guidance in the event of a stock merger, for securities no longer held, or for debt securities or derivatives that have matured.

Amending the guidance to permit using a quarterly estimation of the enterprise value based on market prices would simplify the calculation of PAI indicators and result in more accurate reporting by financial market participants.

Question 9: Do you have any comments or proposed adjustments to the new formulae suggested in Annex I?

The ESAs should allow more time for market participants and supervisors to assess whether it would be beneficial to introduce new formulae or other technical changes to the current list of PAI indicators. While we appreciate the ESAs' intent to provide additional clarity around the calculation of PAI indicators whose formulae are not indicated in the current RTS, reviewing and assessing the PAI statements disclosed by financial market participants in June 2023 would be essential to accurately identify any potential ambiguities and gaps. We note this consultation coincides with financial market participants' preparation of the first set of quantitative PAI disclosures.

Introducing new formulae or amending formulae at this time would lead to inconsistent calculation methodologies and presentation of year-over-year data, hampering the comparability of future PAI statements. Hence, any changes to formulae, presentation, and calculation methodologies of the PAI indicators should be carefully considered against the benefits of comparability over time. We note that it is retail investors who would be the most negatively affected by changes to disclosure that would impair comparability over time.

Should the ESAs decide to move forward at this time with changes to formulae, they should clarify that financial market participants will not be required to recalculate previously reported PAI indicators. Rather, financial market participants should be permitted to provide an explanation within the template noting the changes to the formulae.

Question 10: Do you have any comments on the further clarifications or technical changes to the current list of indicators? Did you encounter any issues in the calculation of the adverse impact for any of the other existing indicators in Annex I?

Please see our response to Question 9, above.

Question 11: Do you agree with the proposal to require the disclosure of the share of information for the PAI indicators for which the financial market participant relies on information directly from investee companies?

The ESAs should maintain this disclosure as a 'good practice' as outlined in Question II.1 in the November 2022 Q&As, rather than mandate disclosure at this time. We recommend an assessment of information disclosed by financial market participants in June 2023 within the sub-section in each PAI report where a financial market participant discloses details on data sources used, in order to determine if an additional disclosure requirement would be necessary.

Should the ESAs decide to make this disclosure mandatory at this time, we recommend careful consideration and sufficient clarity on what would constitute information "obtained directly" from companies. For example, clarity on how financial market participants should treat data sourced from a third party, where that data is based in-full or in-part on information publicly reported by companies would be needed. We believe this data should be included as information "directly obtained" from companies, given the relevant factor is whether the information originates from the company or rather from an estimate or assumption by an entity other than the company. This distinction will be particularly relevant as the European Single Access Point (ESAP) becomes operational, as information sourced from the ESAP would be reported directly by companies.

Question 13: Do you agree with the ESAs' proposal to only require the inclusion of information on investee companies' value chains in the PAI calculations where the investee company reports them? If not, what would you propose as an alternative?

The ESAs should not require the inclusion of information on investee companies' value chains in PAI calculations. Including this information in an aggregated PAI statement would not facilitate the consistency and comparability of sustainability impacts, which is a stated goal of the ESAs. For example, inclusion of value chain information would lead to double-counting of adverse impacts. Companies' value chains are comprised of other companies, which may or may not be among the market participants' investments.

Here it may be beneficial to note that investors often consider information on investee companies' value chains where that information is reported by companies. This information can be useful in assessing how a particular company is managing risks in its value chain, and whether it is well-poised to meet any net-zero targets. We recommend that for any PAI-related disclosure, the ESAs carefully consider and differentiate between information that is useful to investors when assessing a particular company, and information that would be useful on an aggregated basis.

Question 14: Do you agree with the proposed treatment of derivatives in the PAI indicators or would you suggest any other method?

The ESAs should reconsider the proposed treatment of derivatives in the PAI indicators, and instead take a holistic approach to ensure that the treatment of derivatives is consistent whether regarding PAI indicators, sustainable investments, or taxonomy alignment. The ESAs' proposal is based on the assumption that derivatives are used to lower asset managers' PAI while maintaining long exposure on certain assets. However, this assumption fails to take into consideration the positive contributions of certain types of derivatives in the context of sustainable investment. We encourage the ESAs to conduct further research and studies on the uses of different types of derivatives in the context of sustainable investment, which would provide the ESAs a solid foundation to identify the best approach to and methodologies for the treatment of derivatives. We also encourage the ESAs to take into

account existing market standards on the treatment of derivatives in the context of sustainable investment.

Question 15: What are your views with regard to the treatment of derivatives in general (Taxonomy-alignment, share of sustainable investments and PAI calculations)? Should the netting provision of Article 17(1)(g) be applied to sustainable investment calculations?

Please see our response to Question 14, above.

Question 17: Do you agree with the ESAs' assessment of the DNSH framework under SFDR?

The ESAs should maintain the status quo with respect to DNSH requirements at this time to avoid market disruption and facilitate implementation efforts, to align with the recent responses from the European Commission to the ESAs' September 2022 questions, and to assist the Commission's review of the SFDR, which is already underway. We agree with the ESAs' assessment that the DNSH principle leaves room for discretion, but disagree with the assertion that investors have limited ways to compare financial products within a disclosure-based framework.

The European Commission's response to the ESAs' questions regarding the definition of "sustainable investment" should be a guiding principle for the ESAs' approach to the DNSH framework. The Commission notes that the rules "require financial market participants to explain how the indicators for adverse impacts on sustainability factors have been taken into account when carrying out the 'do no significant harm' test of sustainable investments." The answer further elaborates that financial market participants "must disclose the methodology they have applied to carry out their assessment, including how investments do not cause significant harm to any environmental or social objective."

The type of disclosure described by the European Commission ensures that financial market participants have discretion to carry out the DNSH test in the most effective manner for each investment, and also responsibility to disclose, in a clear, fair and not misleading manner, how that is done. This information is made publicly available for the benefit of investors in financial products as well as investee companies, which enables investors to compare disclosures among financial market participants.

Question 18: With regard to the DNSH disclosures in the SFDR Delegated Regulation, do you consider it relevant to make disclosures about the quantitative thresholds financial market participants use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.

The ESAs should not require disclosure of quantitative thresholds for PAI indicators. Under the ESAs' proposals, asset managers would need to set quantitative thresholds for all their investments and disclose them to retail investors. This would involve substantial resources for asset managers to conduct bespoke research on all their investments, which span across jurisdictions, in relation to all 14 PAI indicators. Moreover, a quantitative threshold disclosure requirement would provide limited value to retail investors. It would add complexities to the disclosures that have been criticized for excessive length and complexity, as the ESAs have acknowledged in the consultation paper, and hinder the goal of simplifying disclosures for retail investors. Such quantitative assessments would not help retail investors understand how a fund or a portfolio manages its overall PAI targets in order to achieve the stated sustainable objective.

In addition, we caution that not all investments and PAI indicators are fit for evaluation against quantitative thresholds. Static quantitative thresholds would skew the investment process for evaluating sustainable investments in counterproductive ways. For example, it may be more appropriate to evaluate the PAI indicators of a company going through its transition journey on a trajectory basis instead of a single quantitative number. In another example, a large company managing its adverse impacts effectively could exceed the threshold, whereas a small company taking no steps to mitigate its impacts could fall below the threshold. Quantitative thresholds would also not be feasible with some PAI indicators that are binary in nature.

Moreover, introducing a requirement for financial market participants to set quantitative thresholds for PAI indicators as they relate to the DNSH test would depart from the European Commission's response to the ESAs' September 2022 questions. In that response, the Commission made clear that the SFDR is a disclosure regime. "Financial market participants must carry out their own assessment for each investment and disclose their underlying assumptions." It is notable that the Commission did not indicate that financial market participants should maintain or disclose quantitative thresholds for each PAI indicator, only that they disclose their methodologies and underlying assumptions. We agree with the Commission's interpretation. The SFDR neither sets out minimum requirements for concepts such as DNSH, nor mandates that financial market participants set or maintain minimum requirements.

Question 27: Do you agree with the proposed approach to require that, at product level, Financed GHG emissions reduction targets be set and disclosed based on the GHG accounting and reporting standard to be referenced in the forthcoming Delegated Act (DA) of the CSRD? Should the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF be required as the only standard to be used for the disclosures, or should any other standard be considered? Please justify your answer and provide the name of alternative standards you would suggest, if any.

The ESAs should not prescribe a single standard for GHG emissions reductions targets. Instead, financial market participants should have the discretion to select an accepted market standard, such as the Partnership for Carbon Accounting Financials (PCAF), the Science Based Targets initiative for Financial Institutions, or the Paris Aligned Investment Initiative Net Zero Investment Framework. Choice among standards facilitates financial market participants' transition planning, which should take into account their particular business models, geographic locations, and asset classes. To support this healthy variation in target-setting approaches, we recommend the ESAs allow flexibilities for financial market participants to use the appropriate standards for their businesses.

Imposing a single mandatory standard for GHG emissions reduction targets and restricting the use of other commonly accepted approaches would be at odds with the Level 1 text regarding Article 8, as well as the Commission's recent direction that the SFDR should be viewed as a disclosure regime. The SFDR is intended to enhance reporting transparency of existing strategies. With respect to Article 8, the legislation is neutral in terms of product design and does not prescribe the manner in which GHG emissions reduction targets should be set or which metrics should be used.

Question 30: What are your views on the inclusion of a dashboard at the top of Annexes II-V of the SFDR Delegated Regulation as summary of the key information to complement the more detailed information in the pre-contractual and

periodic disclosures? Does it serve the purpose of helping consumers and less experienced retail investors understand the essential information in a simpler and more visual way?

The ESAs should contribute their assessment of the disclosure requirements and templates to the upcoming broader review of the SFDR Level 1 framework, rather than make changes to the templates at this time. In general, we support layered disclosures and potentially a dashboard of key information. However, the inclusion of a dashboard before an in-depth review of the SFDR disclosure requirements will not solve the problems identified with the current templates, which the proposed changes would amplify.

The current disclosures are not fit for purpose, and we believe changes to the SFDR Level 1 legislation are needed to simplify and streamline the disclosure requirements in order to make them more meaningful for retail investors. Our understanding is that the overwhelming amount and complexity of information included in the disclosure templates is proving to be of negligible value to retail and institutional investors. Expanding disclosure requirements, making cosmetic changes to the disclosure templates, or adding a dashboard at this time will not improve disclosures for the benefit of investors, but these changes would result in significant implementation costs for financial market participants.

Inconsistencies across the entire EU sustainable finance framework, as noted in the ESMA Progress Report on Greenwashing [Link], exacerbate difficulties retail investors have to understanding the SFDR disclosure templates. Resolving the excessive length and complexity of disclosures will require a better understanding of the types of information that are meaningful for retail investors. We encourage the ESAs to conduct comprehensive consumer testing with retail investors before proposing changes to disclosures aimed at retail investors.

Question 32: Do you have any suggestion on how to further simplify or enhance the legibility of the current templates?

As discussed in our response to Question 30, we recommend that the ESAs contribute their assessment of the current disclosure templates to the upcoming broader review of the SFDR Level 1 framework. Significant changes to the SFDR Level 1 legislation are needed to facilitate retail investors' understanding of the SFDR disclosures. We acknowledge that the ESAs intend to conduct consumer testing on potential changes, and recommend this consumer testing also be used to inform the broader efforts to improve the SFDR disclosure requirements.

However, given the long timeline anticipated for the review of the SFDR and improvements to the Level 1 legislation, we also offer support for the following targeted changes to the RTS that are consistent with the Commission's goals of simplifying and streamlining the disclosures for the benefit of retail investors, and would likely withstand any future changes to the Level 1.

- Eliminate the asset allocation graph in the pre-contractual template. We agree with the ESAs' belief that terminology used in the templates can be challenging for retail investors and in our view the asset allocation graph can cause investor confusion.
- Eliminate requirements throughout the template to split sustainable investments between environmental and social objectives. Presenting sustainable investments as one aggregated figure would enhance retail investor understanding of the product, and reflect the reality that investments occur at the issuer level and not the economic

activity level. It is challenging and, in some cases, not possible to designate an investment as either environmental or social, as issuers may pursue both activities.

- Eliminate the requirement to produce two graphs associated with taxonomy alignment (including sovereign and excluding sovereign). At this time, sovereigns are not able to be assessed against the Taxonomy Regulation Technical Screening Criteria and the additional graph may result in more confusion than clarity for investors in financial products.
- Eliminate the calculation of Taxonomy-alignment using OPEX at product-level to promote greater consistency, as no corresponding requirement exists for financial undertakings within the Article 8 Delegated Act.
- Eliminate the requirement to provide an explanation for the use of CAPEX/OPEX to measure taxonomy-alignment, even in cases where turnover is selected.
- Eliminate disclosure of enabling and transitional activities separately within the pre-contractual template.

Should the ESAs move forward with changes to the reporting templates at this time, it is important to provide financial market participants with adequate time to implement them. We recommend a transitional period of at least 12 months for precontractual reporting templates, and an additional 12 months to implement changes to the periodic reporting templates.

Question 33: Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?

As we note in our response to Question 32, the ESAs should eliminate the asset allocation graph in the pre-contractual template. The removal of this graph should not, however, be dependent on the addition of a dashboard to the disclosure template. The ESAs should be identifying ways to simplify and streamline the existing templates without adding layers or complexity to the current reporting requirements. In our view, eliminating the asset allocation graph would facilitate retail investors' understanding of the product disclosures.

Question 35: Do you agree with the approach to allow to display the pre-contractual and periodic disclosures in an extendable manner electronically?

The ESAs should conduct consumer testing on extendable disclosures, and contribute relevant findings to the European Commission to inform the review of the SFDR disclosure requirements. In general, we support a disclosure approach that permits the layering of information, for example with the first layer containing general/key information and the second layer containing descriptive/additional information and links to external sources. In our view, a less prescriptive disclosure regime that fosters the use of digital disclosure will facilitate more innovative disclosure to the benefit of retail investors. It is helpful that the European Commission has proposed in its Retail Investment Strategy to move to a digital-as-default principle of disclosures to investors, which would allow flexibility in testing disclosures in an electronically extendable manner. We would caution the ESAs against looking at the SFDR in isolation and instead suggest examining extendable disclosures as part of a more holistic review of all disclosures to investors.

As we note in our response to Question 30, above, we believe changes to the SFDR Level 1 legislation are needed to simplify and streamline the disclosure requirements in order to make them more meaningful for investors. Introducing a dashboard or layered disclosure for the templates at this time would be merely cosmetic, since the SFDR disclosure requirements remain extremely complex and are unlikely to be understood by retail investors.

Question 36: Do you have any feedback with regard to the potential criteria for estimates?

We welcome the use of the term "estimates" in place of "equivalent information," but in our view the ESAs should not set out rigid criteria on what can be accepted as estimates at this time. Despite ongoing initiatives in multiple jurisdictions intent on improving corporate disclosures, it will take several years before these frameworks result in actual improvements to data availability and reliability. In the meantime, financial market participants will need to utilize estimates in order to fulfill their SFDR disclosure obligations. We recommend that the ESAs acknowledge prevailing data gaps and fully assess the availability of information publicly reported by issuers before considering criteria for what estimates may be used to fulfill SFDR disclosure obligations.

Question 42: What are the criteria the ESAs should consider when defining which information should be disclosed in a machine-readable format? Do you have any views at this stage as to which machine-readable format should be used? What challenges do you anticipate preparing and/or consuming such information in a machine-readable format?

We support machine readability as a general principle to enhance digital disclosure over time and the layering of information, though we note that presenting numerical data in a machine-readable format presents fewer challenges than presenting qualitative information contained in text fields.