

MEMO# 32964

December 4, 2020

EU ESG: ICI Global Submits Response to ESMA Consultation on Taxonomy Reporting for NFRD Entities (Including Asset Managers)

[32964]

December 4, 2020 TO: ICI Global Members
ESG Task Force
EU ESG Disclosure Regulation Working Group
Global Operations Advisory Committee
ICI Global Regulated Funds Committee SUBJECTS: ESG
International/Global
MiFID, EMIR, AIFMD, UCITS V RE: EU ESG: ICI Global Submits Response to ESMA
Consultation on Taxonomy Reporting for NFRD Entities (Including Asset Managers)

We submitted the attached response on Friday to the European Securities and Markets Authority's (ESMA) recent consultation^[1] on draft advice to the European Commission on how issuers within scope of the Non-Financial Reporting Directive (NFRD) will report against the EU Taxonomy (as per Article 8 of the Taxonomy Regulation^[2]). This was a tough consultation, with a lengthy and very technical consultation paper and very short four-week deadline. As you know, issuer disclosure of Taxonomy alignment is important because asset managers will need this information to meet the upcoming requirement to disclose Taxonomy alignment of investments for ESG funds—*i.e.*, Article 8 and 9 financial products under the Sustainable Finance Disclosure Regulation (SFDR).

We focused our response on the following points:

- We generally support ESMA's approach and appreciate ESMA's recognition of the importance of ensuring that issuers are required to disclose the information that asset managers will need to comply with the financial product disclosure requirements under Taxonomy Regulation Articles 5 and 6 (*i.e.*, the Taxonomy alignment disclosure requirements for SFDR Article 8 and 9 products). See Q16, Q20, Q21.
 - We support ESMA's recommendation to require issuer disclosure to distinguish between an economic activity that does not meet the Taxonomy criteria vs. an economic activity that is not covered by the Taxonomy. See Q18.
- For asset managers within scope of the NFRD, we agree that requiring disclosure of

the asset manager's share of Taxonomy-aligned investments is a more appropriate metric than metrics based on revenue or return on investment. See Q28.

- We agree with ESMA that asset manager disclosure of Taxonomy-aligned investments should consist of the value of 'Taxonomy eligible' investments (e.g., excluding investments such as sovereign bonds where Taxonomy alignment cannot be calculated) rather than the value of all investments. See Q32, Q33.
- We also support limiting reporting of Taxonomy-aligned activities to investments where the issuer discloses the Taxonomy KPIs (i.e., investments in NFRD-covered companies). See Q37.
- We do not agree with ESMA's recommendation that the Commission develop sector co-efficients for estimating Taxonomy alignment of non-reporting companies. We argue that Taxonomy reporting should be limited to where reported data is available, and that requiring asset managers to include estimated data will reduce the quality of the aggregate Taxonomy KPI disclosure. See Q38.
- We note ESMA's proposed advice will impose additional costs on asset managers. See Q36.

Next steps. ESMA will deliver its advice to the Commission by 28 February 2021. The Commission then will adopt the delegated act on NFRD entity reporting against the Taxonomy by 1 June 2021.

Forthcoming consultation on Taxonomy financial product disclosure. We expect ESMA and the other European Supervisory Authorities (ESAs) to launch a consultation in January 2021 on draft regulatory technical standards (RTS) on the details of the content and presentation for the Taxonomy Regulation's required financial product disclosure for ESG funds (i.e., SFDR Art. 8 and 9 products). The Taxonomy Regulation (Level 1 legislation) directs the ESAs to develop RTS (Level 2) by 1 June 2021 for financial product disclosure on the Taxonomy's environmental objectives of climate change mitigation and adaptation.

Update on Taxonomy screening criteria. As a further note, the Commission is expected to soon finalize the technical screening criteria for determining when an economic activity is environmentally sustainable under the Taxonomy's objectives of climate change mitigation and adaptation. The Commission is doing one final consultation^[3] on the draft technical screening criteria with a deadline of 18 December 2020, and the Commission is then expected to adopt a final version by the end of this month or in January 2021 with minimal changes.

As always, please do not hesitate to reach out with any thoughts or questions.

Linda M. French
Assistant Chief Counsel, ICI Global

Anna Driggs
Director and Associate Chief Counsel
ICI Global

[Attachment](#)

endnotes

[1] For a detailed summary of the consultation, *please see* ICI Memorandum No. 32934, *available at* <https://www.iciglobal.org/iciglobal/pubs/memos/memo32934>. The consultation is *available at* https://www.esma.europa.eu/sites/default/files/library/esma30-379-325_consultation_paper_-_draft_advice_to_ec_under_article_8_of_the_taxonomy_regulation.pdf.

[2] See Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Taxonomy Regulation), *available at* <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>.

[3] The Commission's draft delegated act with the Taxonomy technical screening criteria for climate change mitigation and adaptation is *available at* <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy>.

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