



**FINANCE
DENMARK**

Finance Denmark's response to joint consultation on the review of SFDR Delegated Regulation

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 recognize and appreciate the effort from the ESAs to align PAIs with mandatory ESRS indicators to be reported under CSRD. This will greatly help implementation and most importantly reporting on these indicators. However, while the ESAs' proposal assumes that ESRS indicators will be mandatory reportable items under CSRD, we note that there is discussion in the European Commission contemplating not to require mandatory publication of indicators which should instead be subject to a materiality assessment and thus not reported. In line with this, Finance Denmark stresses that it is important to reflect any burden reductions in the reporting requirements for companies in the SFDR delegated regulation.

At the same time, it must be recognized that a large part of the investable universe may not still be subject to CSRD, since investments are inherently global. Without clear guidance, it may be difficult to obtain meaningful data on these new indicators. Especially, it may be difficult to retrieve data for non-CSRD investments because investments with a social objective are often linked to investments in developing countries – e.g. microcredit initiatives – and therefore are likely to be non-CSRD. Introducing more mandatory PAIs means an aggravation of the data deficit and yet more estimations must be used instead by the financial market participants. Consequently, the comparability of the financial market participant will be decreased to the detriment of the investor.

Finance Denmark supports in principle the aims of reducing the risks of "false certainty" and potential "safeguard washing". Any requirements with this aim should be carefully constructed so that they are proportionate and implementable for financial market participants.

As financial market participants are reliant on the data that companies report, Finance Denmark disagrees with the introduction of any mandatory social indicator that is not covered by a corresponding mandatory reporting requirement in the CSRD and the ESRS. Identification of further mandatory indicators (both in the social and other spheres) can only take place based on a substantive analysis of

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the type of information that companies report on sustainability. Any new indicators added to the current framework must be based on available data to allow for the necessary calculations and disclosures by financial intermediaries. For the purposes of alignment and data availability, it is essential that the final version of the RTS 2.0 aligns with the first set of ESRS standards both in the content and timing (assuming that ESRS will retain mandatory requirements of social indicators - (Table 1) "in the "ESRS Reference" column of the consultative document). The entry into force of the RTS 2.0 should therefore not be before 2025 at the earliest.

Given that we are expected to see discussions on a revision of the level 1 SFDR regulation – which would again bring changes to the RTS - we would urge for a holistic approach to the revision of the RTS and the regulation. This to mature data availability and to ensure the proper alignment and sequencing, allow for more certainty on data availability and avoid too many revisions, which bear costs for the market participants and confusion for the investors. These costs will inevitably be borne by the investors.

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Comments on individual PAIs

PAI 14. Amount of accumulated earnings in non-cooperative tax jurisdictions:

Without a corresponding mandatory reporting requirement there will be no real-life data from the investees for the financial markets participants to report on. This is for example the case with the social indicator "Amount of accumulated earnings in non-cooperative tax jurisdictions" that is not covered by a corresponding mandatory reporting requirement.

"Share of employees earning less than the adequate wage" and other such social indicators:

Furthermore, some of the suggested social indicators are based on subjective assessments, difficult to measure. For example, for the social indicator "Share of employees earning less than the adequate wage", it is very difficult to rationally define what constitutes an "adequate" wage. What constitutes an "adequate" wage depends on a wide and non-exhaustive range of factors, such as jurisdiction, supply and demand qualifications, as well as experience of the relevant employees, and in the end, it will be decided by a subjective assessment made by each financial market participant. This also makes it very difficult to measure the share of employees earning less than the adequate wage. In addition, the comparability of financial market participants is reduced as the number of such social indicators increases. We therefore believe that such social indicators based on subjective assessments should be left out of Annex I.



Furthermore, the social indicators may cause practical problems outside of the EU. This is for example the case for the social indicator "Interference in the formation of trade unions or election of worker representatives". In the US, companies will not guarantee that they will not interfere with the formation of workers' unions.

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

The existing regulation of SFDR has not settled yet. The financial market participants have not even had the chance to publish a single PAI report based on the current RTS. We would caution against introducing too many untimely adjustments in the disclosures within a short span of time because it will only confuse the investors, lead to greenwashing claims and increase costs for the market participants and ultimately also for the investors. Since SFDR's introduction in March 2021, many changes have been made through issuances of Level 3 guidance, including guidelines and Q&A's. These changes are not only confusing for the investors but also expensive for them as the market participants spend a lot of resources on adjusting for example their processes, compliance and portfolios in accordance with the legal updates. Further, in general, financial market participants should not be required to disclose a piece of information that does not correspond to or is aligned with a mandatory reporting requirement in CSRD or the ESRS-standards.

Therefore, Finance Denmark does not suggest any further mandatory social indicators as these indicators will lead to a decreased comparability between financial market participants, please also see the answer to Q1 above.

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)?

In our view, many of the proposed opt-in social indicators have scopes that are very difficult to define and to quantify. It is for example very difficult to establish what is meant by "insufficient employment persons of with disabilities within the workforce", "excessive use of non-employee workers" and "excessive use of temporary contract employees". One financial market participant might use one definition for one of these indicators, while another financial market participant

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might use another definition for the same indicator. Unfortunately, this will inevitably lead to a decreased comparability between financial market participants to the detriment of the investors.

Finance Denmark does not as such oppose including additional opt-in indicators, but we do not believe that adding more disclosures will be beneficial for the simplification efforts, nor help the end investor.

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

No, please see answers above. We acknowledge the fact that the ESG markets are evolving quickly, and that there is a high demand for ESG investments. Especially due to these facts, it is essential that any disclosure framework should have the best interests of the investors at its core. With that in mind, any amendments should carefully consider how the constant updates to disclosure documentation impact consumer trust and confidence. Not just on sustainable products but the wider sustainable finance agenda.

In order to promote real investor protection, we believe that it is important that the ESG disclosures made are relevant and concise. The information given according to the delegated regulation is highly complex and diverse.

For an average retail investor, the existing disclosure requirements already constitute a certain degree of information overload and, in our view, adding further indicators would not increase investor protection, please also see the second paragraph in Q21 on the readability of the templates.

Question 5: Do you agree with the changes proposed to the existing mandatory and opt-in social indicators in Annex I, Table I and III (i.e. replacing the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work) ? Do you have any additional suggestions for changes to other indicators not considered by the ESAs?

Finance Denmark does not oppose the replacement of the UN Global Compact Principles with the UN Guiding Principles and ILO Declaration on Fundamental Principles and Rights at Work. However, Finance Denmark urges the ESAs to keep the comments made in Q2 in mind.

Question 6: For real estate assets, do you consider relevant to apply any PAI indicator related to social matters to the entity in charge of the management of the real estate assets the FMP invested in?

Finance Denmark does not consider it relevant to apply any PAI indicator related to social matters to the entity in charge of the management of real estate assets the financial market participant has invested in. However, in order to promote comparability and accessibility of the disclosures, Finance Denmark suggests

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leaving out any PAI indicator related to social matters to the entity in charge of the real estate assets the financial market participant has invested in. Adding such PAI indicators would contribute to existing information overload that the existing disclosures constitute for the investors, especially the retail investors.

Question 7: For real estate assets, do you see any merit in adjusting the definition of PAI indicator 22 of Table 1 in order to align it with the EU Taxonomy criteria applicable to the DNSH of the climate change mitigation objective under the climate change adaptation objective?

In principle, we support alignment with the taxonomy in order to simplify and standardize PAI indicators. However, before doing so, there are some practical problems that need to be addressed.

Firstly, DNSH assessments within the scope of SFDR are closely tied to the PAI-indicators while the taxonomy DNSH assessment is not. The taxonomy DNSH assessment is, on the other hand, based on predefined criteria.

Secondly, the taxonomy, including its DNSH-assessment, is based on activity-level measurements while SFDR's main definitions, including SFDR's sustainable investment in accordance with Article 2(17) and DNSH-assessment, can be entity-based. This means that a financial market participant in practice must perform two DNSH tests on one product simultaneously. One DNSH test for the taxonomy-aligned activities of the investee companies in the product and another for the non-taxonomy-aligned activities of the investee companies. Simultaneously, social features of a DNSH assessment in SFDR are not taken into consideration by the taxonomy DNSH. These discrepancies must be addressed before the PAI indicator 22 can be aligned with the taxonomy criteria.

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?

Finance Denmark sees a challenge in estimating the detention percentage (current value of the investment/investee company's enterprise value) as the delegated regulation does not include any indication on how to determine the detention percentage for periods other than year-end. The detention percentages during the year also have to be consistent with the impact figures published at year end by the company.

The approach described in the Q&A consists in calculating the detention percentage from the number of securities held by investors at the end of each quarter.

However, this

- *does not solve the consistency issue: as it focuses on how to manage the impact of financial market fluctuations, it does not resolve issues regarding*

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changes in debt profile, activity perimeter of the company, credit events, etc., but introduces significant impact in case of changes in the capital structure of the company (stock split, capital increase, corporate action).

- *introduces unwelcome complexity on the calculation approaches for only a limited number of PAIs while the others can be calculated based on quarterly market valuations, which increases operational risks.*
- *introduces a huge additional workload for reporting and is contrary to common practices for portfolio analysis (presentation of asset allocations, performance and risk calculations, look-through analysis for prudential reports), which are based on market valuations.*

To reduce the bias in the PAI impact calculation, we recommend, for transparency and consistency purposes that the Q&A is modified to allow an approach that relies on a quarterly estimation of the enterprise value based on market prices to calculate the detention percentage.

Another possible solution to facilitate timely exchanges of information and to ensure that the reported average PAI reflect the indicators considered when forming the investment decision, we could be to allow the PAI calculation to be based on the indicators available at the quarter-end, without retrospective modification of the PAI average, based on information published after year-end.

Technical Revision of the PAI framework

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

Finance Denmark suggests that the columns "actions planned" and "actions taken" are removed from Annex 1 because they do not serve the purpose of giving the investors meaningful information.

For a financial market participant offering customers a portfolio of funds from different fund providers, using different approaches to sustainability, summarizing actions planned, actions taken and targets set for a single PAI, is impossible without becoming abstract to a level, where almost no information is really given. Even for a financial market participant only investing directly, but still having a fairly diversified portfolio, there is an issue.

It must further be taken into account that a portfolio of 10 funds could easily have 5000 underlying investments, meaning 5000 investee companies with which to potentially plan or take action. Even taking a top 20 investments approach will not solve much, since top 20 investments will most likely be less than 1% of the total investment. Targets on for example CO2 emissions can hardly be meaningful without taking sector and geography into consideration.

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A further issue is that actions will to a large degree be taken on an investee company level, not on PAI level. Thus, if a financial market participant has a series of meetings with a specific investee company, covering a number of PAIs, this series of meetings should in principle be described for each PAI, each time with a certain angle of that PAI. This adds up to a lot of repetition which is extra problematic given the extremely limited page space available.

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?

Generally, we propose to simplify the list of indicators and avoid technical changes of them in order to promote comparability and the value of the disclosures for the end investor, especially the retail investors.

The list of indicators must be aligned with the mandatory reporting requirements in the CSRD and the ESRS standards as the reporting requirements in the SFDR should be limited to reported data. In this line, it should be a general rule that financial market participants should only report on data reported by investee companies.

Otherwise, financial market participants must use estimations. This use of estimations will inevitably lead to less comparability between financial market participants to the detriment of the investors.

We fully agree with the ESAs that ESG-data are quickly evolving and increasingly becoming better. Therefore, we would suggest the ESAs to bring forth further guidance on the use of updated ESG-data, especially, concerning past reporting periods.

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?

Finance Denmark does not agree with the proposal. Firstly, it is not easy to ascertain what the share of information from investee companies for the PAI indicators for which the financial market participants relies on information directly as these data are very complicated. Therefore, financial market participants would in practice be required to set up advanced and costly IT-solutions to meet the proposal.

Secondly, it is very doubtful whether this piece of information would be of any value to the end investor, especially the retail investors.

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Question 12: What is your view on the approach taken in this consultation paper to define 'all investments'? What are the advantages and drawbacks you identify? Would a change in the approach adopted for the treatment of 'all investments' be necessary in your view?

Finance Denmark is of the view that no change to the current definition of "all investments" is needed. A change of the definition would increase the complexity of the disclosures. The disclosures are already too complex for the investors to understand.

This should also be seen in the light of the fact that the financial market participants have not even had the chance to publish the first PAI report while the delegated regulation has been in force.

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?

Requiring the inclusion of information on investee companies' value chain would be a difficult requirement to fulfill in practice due to a significant lack of data. If a proposal to require the inclusion of information on investee companies' value chains in the PAI calculations is adopted, Finance Denmark would like to stress that it is important that it should apply to reported data only and that it may not be applicable to all PAIs. In general, estimations are problematic in terms of comparability and precision and should, as much as possible, be avoided.

However, as described above, cf. Q1, investments are inherently international. Requiring the inclusion of information on investee companies' value chains in the PAI calculations only in cases where the investee company reports on them would introduce a very uneven playing field. This applies in particular for EU companies that find themselves in competition with non-EU companies as the non-EU companies will not be required to report on the PAI calculations in their value chains. In this way, financial market participants would be incentivized to invest in non-EU companies as they do not report on PAI in their value chains. The requirement would also be problematic for the many EU companies whose value chains include business with companies outside of the EU.

Finance Denmark would like to stress that it is very important that disclosures for which there is no data should not be introduced or included in the delegated regulation. This is due to the fact that reporting from the estimations has to be made in the absence of real data. These estimations will inevitably differ widely across data providers and thus, decrease the comparability between entities.

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Finance Denmark would also like to raise the issue of using non-public information that could be deemed material. The ESAs should not encourage financial market participants to disclose information that would not be reported but obtained directly from the companies when that information could constitute material non-public information. This would among other create disparity in the information given concerning the same investees and hinder comparability among financial market participants.

In addition, while some additional information could be found by including information from the investee companies' value chains (e.g. scope 3 emissions), it is important to be aware of the high risk of introducing of double counting in a portfolio context, where the financial market participants invests in investee companies that are part of the same value chain. Hence, until it is possible to identify and adjust for the double counting elements from overlapping value chains, it would be preferable to calculate separate versions of the metrics with and without the inclusion of value chain contributions, if value chains are included.

In the light of the concerns above, it is highly doubtful whether introducing information on the investee companies' value chain would provide the investors with any meaningful information. This is especially the case given the information overload that investors already are exposed to, please also see Q21.

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

We welcome this Consultation Paper which reiterates the role of derivatives in the sustainable economy and aims to clarify the methodologies to take them into account in investors' ESG disclosures. In considering the inclusion of derivatives, one important issue is that derivatives do not directly finance an entity. In addition, total market exposure across derivatives nets to zero. Moreover, there is a clear danger of double counting when including derivatives.

In our view, it should be clear that a PAI for derivatives transactions is only relevant when such transactions can be seen as an alternative to a direct investment of the financial institution. In most cases, derivative transactions are for hedging purposes (e.g. hedging interest rate risks or exchange rate risks) or giving opportunity for extra return of an already existing investment portfolio (e.g. writing call options on shares in the portfolio of the client). In these cases, there are no investments in economic activities and no investment decision as meant for the PAI (see article 4, paragraph 1a of the SFDR). In those cases, derivatives should be excluded from the PAI indicators.

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If derivatives are included, it is important that only derivatives equivalent to long positions and physical ownership should be included and that the ESAs clarify this.

On that basis, Finance Denmark would like to encourage the ESAs to further elaborate which specific derivatives that should be covered by the PAI indicators and bear in mind that data for these derivative exposures might not be available.

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?

In addition to the comment made above in Q14, Finance Denmark would also encourage the ESAs to ensure alignment of the treatment of derivatives across regulations. The ESAs should keep the difference between long and short positions in mind when treating the derivatives.

Question 16: Do you see the need to extend the scope of the provisions of point g of paragraph 1 of Article 17 of the SFDR Delegated Regulation to asset classes other than equity and sovereign exposures?

Finance Denmark believes that any extension of the scope of the provision to other asset classes in Article 17 should be done with great caution. If other asset classes are included in the scope of Article 17, it should be clear from the wording that these asset classes may be netted with share capital and sovereign debt.

DNSH disclosure design options

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

Finance Denmark supports the overarching aim of increasing comparability and transparency. However, we believe that introducing new concepts and changing existing concepts is counterproductive to the aim and will confuse the investors.

On the contrary, the ESAs should, in our opinion, simplify disclosures and standardize concepts.

Finance Denmark also needs to highlight that questions concerning DNSH are questions that are integral parts of the definition of a sustainable investment in accordance with Article 2(17) of the SFDR and, thus, a part of the discussions on a level 1 revision. Therefore, the ESAs should leave these questions to a level 1-revision of SFDR. All our comments below concerning DNSH should be seen in this

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light. In the same vein, it is important that standardization of concepts is done through level 1 changes.

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 FMPs use to take into account the PAI indicators for DNSH purposes mandatory? Please explain your reasoning.

Finance Denmark finds the disclosures of possible quantitative thresholds problematic as such quantitative thresholds must take into consideration in which specific sectors investments are made.

To secure diversification and high yield for the investor, financial products contain a wide range of financial instruments covering very different kinds of businesses. Therefore, one threshold would have to be applied for one kind of economic activity while another threshold applies for another economic activity.

Introducing quantitative thresholds would also not take into account that investment products are different to each other. This also applies to products offered by the same financial market participant. Thus, in order for the minimum thresholds to be usable in practice, a minimum threshold would have to be applied on one product while another minimum threshold must be applied on another product. This would be very difficult for financial market participants to implement and even more difficult for retail investors to understand. Further, it would not be conducive to transparency.

The technology applied in different businesses will furthermore change over time as more effective and more sustainable technologies will be developed and applied over time. The investors would, therefore, be subject to further information overload if they should take very technical and business specific quantitative thresholds into account.

Question 19: Do you support the introduction of an optional "safe harbour" for environmental DNSH for taxonomy-aligned activities? Please explain your reasoning.

Allowing companies aligned to the EU Taxonomy to benefit from an "automatic pass" of the SI environmental DNSH would be welcome, however, in light of the difference between DNSH notions in the SFDR and the Taxonomy, we do not see how a safe harbor would work in practice and how it can be of more than limited assistance in demonstrating compliance with DNSH.

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DNSH assessments within the scope of SFDR are closely tied to the PAI indicators while the taxonomy DNSH assessment in the taxonomy is not. The taxonomy DNSH assessment is, on the other hand, based on predefined criteria. Further, the taxonomy, including its DNSH assessment, is based on activity-level measurements while SFDR main definitions, including SFDR's sustainable investment in accordance with Article 2(17) and DNSH-assessment, are in practice entity-based. This means that a financial market participant in practice must do two DNSH tests on one product simultaneously. One DNSH test for the taxonomy-aligned activities of the investee companies in the product and another for the non-taxonomy-aligned activities of the investee companies. Simultaneously, social features of a DNSH assessment in SFDR are not taken into consideration by the taxonomy DNSH. These discrepancies and asymmetry must be addressed by the ESAs before the taxonomy can act as a "safe harbor".

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Question 20: Do you agree with the longer term view of the ESAs that if two parallel concepts of sustainability are retained that the Taxonomy TSCs should form the basis of DNSH assessments? Please explain your reasoning.

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Finance Denmark welcomes the notion of alignment in the longer term but sees a range of difficult issues that must be addressed by the legislators.

DNSH assessments within the scope of SFDR are inherently different to the DNSH assessments made in accordance with the taxonomy. DNSH assessments within the scope of SFDR are closely tied to the PAI indicators while the taxonomy DNSH assessment in the taxonomy is not.

Furthermore, the taxonomy sets very high standards that most economic activities cannot meet. There is also the practical problem that SFDR for most financial market participants is applied at an entity-level, while the taxonomy is based on an activity level.

The taxonomy only covers parts of the real economy while the SFDR covers all of the economy.

Also, as described above in Q19, the issue concerning the taxonomy being activity based must also be addressed before the taxonomy TSCs can or should form basis of DNSH assessments of the SFDR.

Question 21: Are there other options for the SFDR Delegated Regulation DNSH disclosures to reduce the risk of greenwashing and increase comparability?

In our view, simplifications and standardizations of key concepts would serve better to reduce the risk of greenwashing and increase comparability.

Such standardizations must, however, be made within the framework of a SFDR level 1 revision.



The current templates result in information overload for the investors. The Annexes contain information and concepts that a normal retail investor cannot be expected to understand.

The readability of just the Annexes themselves without any inserted information is so difficult that it requires a university degree to read them. The Danish sector has experiences with journalists misunderstanding the concepts of for example "minimum commitments" and "asset allocation" in the Annexes. This gives rise to unfounded bad publicity hurting the image of the sector and exposing it to ungrounded accusations of greenwashing. It is also to the detriment of the investors' trust in the sector.

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Amendments regarding GHG emissions targets

Question 22: Do you agree that the proposed disclosures strike the right balance between the need for clear, reliable, decision-useful information for investors and the need to keep requirements feasible and proportional for FMPs? Please explain your answers.

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In our view, the proposed disclosures do not strike the right balance. The disclosures are too detailed and difficult to understand for the investors which means prospectuses are exclusively read by NCAs.

The main focus of the disclosures, in our view, should be on what the relevant commitments for the products in question are, and how the product in question follows its trajectory for GHG emissions reductions. Otherwise, a normal investor, including a retail investor, has no chance to understand the information that is presented to him.

Furthermore, Finance Denmark notes that there is no mandate to introduce calculation requirements for GHG emissions in the delegated regulation. Such requirements belong to SFDR, level 1. All our comments must be seen in the light of this missing mandate.

Question 23: Do you agree with the proposed approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR or would you prefer specific disclosures for such financial products? Do you believe the introduction of GHG emissions reduction target disclosures could lead to confusion between Article 9(3) and other Article 9 and 8 financial products? Please explain your answer.

Finance Denmark supports the approach of providing a hyperlink to the benchmark disclosures for products having GHG emissions reduction as their investment objective under Article 9(3) SFDR.



If hyperlinks are not introduced, the prospectuses will become even longer. The prospectuses are in our opinion already too long for the investors to read.

Question 24: The ESAs have introduced a distinction between a product-level commitment to achieve a reduction in financed emissions (through a strategy that possibly relies only on divestments and reallocations) and a commitment to achieve a reduction in investees' emissions (through investment in companies that has adopted and duly executes a convincing transition plan or through active ownership). Do you find this distinction useful for investors and actionable for FMPs? Please explain your answer.

Finance Denmark supports this distinction as financial market participants and their products often have diverging reduction targets.

Finance Denmark also supports measures enabling the possibilities to invest in companies that are in transition.

Furthermore, we would like to point out that it is a practical problem that investee companies that have reached their transition targets have to be divested by the financial market participants. In that sense, the product as a whole will not necessarily have a CO2 reduction trajectory.

Question 25: Do you find it useful to have a disclosure on the degree of Paris-Alignment of the Article 9 product's target(s)? Do you think that existing methodologies can provide sufficiently robust assessments of that aspect? If yes, please specify which methodology (or methodologies) would be relevant for that purpose and what are their most critical features? Please explain your answer.

Finance Denmark supports any approach that can cater for net zero commitments and possibilities for financial market participants to offer products with active investment strategies. Therefore, Finance Denmark supports these specific disclosures as they help the investors in a simple way to understand the trajectory of the GHG emissions of the relevant investment product.

Question 26: Do you agree with the proposed approach to require that the target is calculated on the basis of all investments of the financial product? Please explain your answer.

Finance Denmark agrees with the proposed approach.

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.

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Finance Denmark agrees with proposed approach and supports measures that align mandatory reporting requirements for investee companies and disclosures for financial market participants.

However, we would highlight that the Danish financial sector has developed a framework for financed Emissions Accounting with recommendations on how to determine the carbon footprint covering ten asset classes. The framework is inspired by PCAF but allow for specific Danish circumstances including covered bonds. We would, therefore, propose to allow for local amendments to the PCAF standard.

If PCAF is required as the only standard it is very important to ensure good governance of PCAF.

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Question 28: Do you agree with the approach taken to removals and the use of carbon credits and the alignment the ESAs have sought to achieve with the EF-RAG Draft ESRS E1? Please explain your answer.

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Finance Denmark agrees with the proposed approach and supports the alignment of mandatory reporting requirements for investee companies and disclosures for financial market participants.

Question 29: Do you find it useful to ask for disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation? What could be the benefits of and challenges to making such disclosures available? Please explain your answer.

Adding disclosures regarding the consistency between the product targets and the financial market participants entity-level targets and transition plan for climate change mitigation would increase the complexity of the disclosures and increase the total amount of information that the investors need to consider. In addition, the needed information is also published through the policies of the financial market participants and, therefore, this measure would not add any value to the investor.

Simplifications of templates

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?

Finance Denmark supports, in principle, the introduction of a dashboard in the Annexes II-V. We are, however, not convinced that the benefits for the investor



will outweigh the costs the market participant will have to incur in terms of changing administrative processes and IT development.

Further, we are not sure that the dashboard serves to simplify the template.

In our opinion, simplification should start with shortening the list of questions. Many of the following questions can be removed and/or exceeds the mandate given in SFDR. Some questions are repetitions and should be merged. This would shorten the templates and make them more readable, especially for the retail investors. For example, "How do sustainable investments not cause significant harm to any environmental or social investment objective?" in Annex III and the sub-question "How have the indicators for adverse impacts on sustainability factors have taken into account?"

We would furthermore suggest that the question "What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy"? as it should not be a goal in itself to reduce the range of possible investments.

We would urge the ESAs analyze which disclosures could be removed from the templates.

Finance Denmark would also suggest that icons and colours are removed as it would increase the usability of the Annexes. In practice, the Annexes are very difficult to handle. The Annexes both contain data from the EET as well as written information from word-documents. The icons and colors cause problems when text and the data for EET is being formatted.

In line with the comments above and in order to ease the accessibility of the sustainable information in practice, we suggest the ESAs in a future level 1 review of SFDR to work towards removing the relevant Annexes from the bottom of the prospectus and instead placed alongside the prospectuses and KID-documents as stand-alone documents that can be opened through a single click of the mouse. We believe that in practice this would help increase the actual accessibility of the information as investors do not have to scroll through a very long prospectus. We furthermore believe that information to a greater extent should be placed in the web disclosures.

We are, however, aware that these changes would entail an amendment of level 1 of SFDR.

Question 31: Do you agree that the current version of the templates capture all the information needed for retail investors to understand the characteristics of the products? Do you have views on how to further simplify the language in the dashboard, or other sections of the templates, to make it more understandable to retail investors?

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In our opinion, if the investors are to understand the disclosures, there must be fewer of them, and the remaining disclosures should be standardized. However, these standardizations currently exceed the mandate of delegated regulation and thus fall within the revision of level 1 SFDR. For further concrete proposals concerning the templates, please see above in Q30.

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

Finance Denmark would recommend removing the commitments to a split between environmental and social objectives. The NCAs have unfortunately interpreted the asset allocations information to mean that a minimum commitment percentage should be included for both environmental and social objectives when the product commits to a minimum percentage of sustainable investments. Some NCAs require a minimum percentage of environmental or social objective to be higher than 10 or 15% even when the total commitment to sustainable investments is as high as 85% if the product is classified as article 9 which is very unfortunate.

We would also recommend specifying that the commitments are pre-trade commitments and that it is at the discretion of the financial market participant to decide on the minimum percentage of commitments. Many investments can be assessed as sustainable without having a clear and distinct contribution to environmental or social objectives only. It is a very binary vision of the companies which is not in sync with the real economy.

We would also suggest removing the question: "What is the asset allocation and the minimum share of sustainable investments?" in Annex III as it confuses the investors and leads to misunderstandings. It is very difficult for investors to differentiate between the technical concepts of "asset allocation" and "minimum share of sustainable investments". For further concrete proposals concerning the templates, please see above in Q30.

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

Finance Denmark is of the opinion that the investment tree is easy to misunderstand. The investment tree could give the investor the misleading impression that the investments are either sustainable or not sustainable for example.

Therefore, Finance Denmark suggests removing the investment tree all together.

Question 34: Do you agree with this approach of ensuring consistency in the use of colours in Annex II to V in the templates?

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In our opinion, colours should be removed from the templates not only because of the problems described in Q30. Also, the removal of colours would tear down a barrier for colour blind people and ease the accessibility of the templates to them. This would be in line with national legislation protecting people with disabilities and the European Disability Strategy.

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

Finance Denmark agrees with the proposal to allow the display of disclosures in an electronically extendable manner.

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

Finance Denmark does not support the criteria for estimates. Financial market participants either have the option to procure data from a data provider or source them directly from an investee company. For a financial market participant, it is in practice very difficult to obtain missing data from an investee company. It is also very burdensome administratively to gather missing information as investments of a financial market participant normally cover thousands of investee companies.

In addition, Finance Denmark would like to point out that too many estimations may distort the overall picture of a financial product. It is very difficult to ascertain whether the result of an estimate is valid or not. Using multiple estimations increases this problem and decreases the comparability of financial products and financial market participants to the detriment of the investor.

On the other hand, data providers have much more experience with and are much more specialized in assessing and generating estimations. Therefore, legislative potential criteria for estimates should rather apply to the data providers than to the financial market participants. Further, we note that such provisions should be introduced in level 1.

Question 37: Do you perceive the need for a more specific definition of the concept of "key environmental metrics" to prevent greenwashing? If so, how could those metrics be defined?

No, not in our view. This question of "key environmental metrics" is a central question concerning many important key concepts in level 1 SFDR and, consequently, pertains to level 1 of SFDR. Accordingly, this question should be treated accordingly in a level 1-review.

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Question 38: Do you see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products? Please elaborate.

This question pertains to level 1 of SFDR and should be treated accordingly. The introduction of rules on the calculation could potentially lead to dramatic changes of investments products. Therefore, such rules must be subject to careful considerations before they are introduced.

Apart from the missing mandate to regulate this question in level 2 of SFDR, Finance Denmark does not see the need to set out specific rules on the calculation of the proportion of sustainable investments of financial products as this would not increase the comparability of financial products and financial market participants because they use different methods to determine a sustainable investment. The calculation of a sustainable investment differs a lot from financial market participant to financial market participant. Some financial market participants may use an entity-based definition of a sustainable investment while others use an activity-based sustainable investment. Therefore, it would be very difficult in practice to set out specific rules on the calculation of the proportion of sustainable investments of financial products without involuntarily interfering with the neutral product design.

This should be seen in the light of the fact that SFDR does not set out specific product design. Setting out specific rules on the calculation of the proportion of sustainable investments of financial products could indirectly limit the product design that a financial market participant may choose to use for its financial products. In case that specific rules on the calculation of the proportion of sustainable investments are to be introduced, Finance Denmark would suggest that market value of net asset value will be used as a basis for the calculation of the proportion of sustainable investments.

Question 39: Do you agree that cross-referencing in periodic disclosures of financial products with investment options would be beneficial to address information overload?

Finance Denmark has no remarks to this question.

Question 40: Do you agree with the proposed website disclosures for financial products with investment options?

Finance Denmark has no remarks to this question.

Question 41: What are your views on the proposal to require that any investment option with sustainability-related features that qualifies the financial product with investment options as a financial product that promotes environmental and/or social characteristics or as a financial product that has sustainable investment as its objective, should disclose the financial product templates, with the exception

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of those investment options that are financial instruments according to Annex I of Directive 2014/65/EU and are not units in collective investment undertakings? Should those investment options be covered in some other way?

Finance Denmark has no remarks to this question.

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?

Finance Denmark is of the opinion that only the information from the EET should be disclosed in a machine-readable format for the ESAP. By using the EET, data can be easily identified, extracted and recognized as it contains all the needed information.

Finance Denmark urges the ESAs to publish the final and editable templates (Word) in correctly translated versions in all the official languages in the EU in due time before they enter into force.

Publishing them close to the date of entry into force in formats that are not translated and cannot be edited entails significant expenses. This both applies in terms of IT-costs but also administrative costs for translations and formatting, for further arguments please see Q43.

Question 43: Do you have any views on the preliminary impact assessments? Can you provide estimates of costs associated with each of the policy options?

It is very difficult to assess the costs pertaining to the proposed amendments as it is difficult to assess their precise impact beforehand.

However, the proposed amendments to the templates and the delegated regulation entail substantive and significant costs for the financial market participants as they require changes to their IT-systems, changes to their investment products, operational changes and, thereby, a substantial amount of implementation.

Especially, any amendments that require changes to the IT-systems of the financial market participants, for example changes to the templates, are very costly because such changes cannot be easily implemented overnight and need a significant amount of testing.

Sequencing also plays a pivotal role to the costs associated with the amendments. The total costs rise drastically if the financial market participants are not given sufficient time to implement the amendments. As a general rule, the faster an amendment has to be implemented, the more expensive the implementation of the amendment becomes. Consequently, if the financial market participants are given sufficient time to implement the amendments, the pertaining costs will

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be lower. Insufficient time to implement the amendments will also inevitably lead to lower data quality. Quickly gathered information can even in some cases be misleading. The less time the financial market participants are given to implement the amendments, the worse the data quality will be. Decreased data quality hurts the investors very badly in multiple ways. It weakens the transparency that it is supposed to give the investors while it is also blurring the overall picture of the financial market participants. This, in turn, hurts the comparability between financial market participants hindering investors in taking informed decisions.

Bad data quality also makes it difficult for auditors to audit the parts of the templates that form a part of the annual reports of the financial market participants, and thereby, leads to increased costs in this relation.

Giving the financial market participants reasonable time to implement the amendments made will also, in addition to what is described above, benefit the investors as costs incurred on the financial market participants ultimately will be paid by the investors in the shape of more expensive investment products.

Therefore, we urge the ESAs to grant the financial market participants sufficient time to implement amendments in the manner described in Q42.

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