



## **COMMENTS ON THE PROPOSALS OF EUROPEAN REGULATION TO SUPPORT SUSTAINABLE INVESTMENTS**

Assogestioni shares the general appreciation and support to the action plan and the proposed legislative action as a tool to achieve a transition toward a more sustainable financial system.

As regards the specific proposal, here below are the specific Assogestioni's comments:

### **Taxonomy / EU classification proposal**

Assogestioni regards the definition of a taxonomy as a founding base on which to build a cleared and stronger framework for sustainable investing. The taxonomy will be a much needed and effective tool in guiding companies, asset managers and asset owners and in creating a common language.

We consider the use of a regulation the right tool to avoid the fragmentation of the European market which could result from a directive.

In our view, however, the regulation should set the broader framework of the taxonomy, while the finer details of the classification should be dealt at level 3. It is important for the taxonomy to be sufficiently stable over time and cross-countries to allow companies and investors to understand and act on the basis of the classification – hence a broad stable framework set as regulation is essential.

At the same time, it will be important to have the sufficient flexibility to adapt the finer classification to changes in technology and innovation. The more detailed taxonomy would probably need revising on a regular basis, possibly every 2-3 years and should be left to a more flexible tool than regulation.

As for the approach to the taxonomy, we consider a dynamic approach to be essential in guaranteeing that taxonomy does not classify economy activity on the basis or how sustainable a certain economic activity is at a certain moment in time but rather the direction towards which it is moving. It is important that taxonomy does not mainly confirm the current state of an activity but rather sheds a light on the effort and the improvement that a company is making toward sustainability.

It is important also that the taxonomy acknowledges various “Shades of green” in order not to excessively reduce the realms of sustainable (and possibly “investible”) assets.

As for the timing, we would recommend to EC to allow market participants sufficient time to incorporate the taxonomy in their operations granting 12 months for the “operational part (art 3 to 12 of the regulation) to enter into application after the delegated act entry into force – instead of the 6 months currently indicated in art. 18 of the Regulation.

### **Investor duty/disclosures proposal**

In our view with, when approaching SRI investment product or - as identified in the proposal – “a financial product that has as its target sustainable investment” some clarification would be useful, in particular:



1. **Integration of sustainability risk and remuneration:** although we appreciate the objective of the Commission to align financial market participants rewards to their ensuring the ESG factors are duly considered, we struggle to understand how remuneration can be objectively consistent with the integration of sustainability risk and with sustainability target, considering also that in most cases these are not measurable variables (see below).
2. **“Sustainable objective/policy” vs “target”** - in order to avoid misunderstanding, in the definition, the term “sustainability objective ” or “sustainable investment policy” could be preferable to the term “target” which appear to have a more specific /quantifiable connotation. Objectives are typically of qualitative nature or although the asset manager may choose to specify quantifiable objectives. The term “target” may be more suitable to define “impact investing” rather than the broader category of sustainable investing.
3. **Use of benchmark** - we consider that a different classification of the various approaches to sustainable investing to what is envisaged in art. 5 (i.e either no benchmark or an Sri benchmark or low emission target) should be considered. In our experience, the relevant distinction is between products without benchmark and product with benchmark.
  - When no benchmark is used, we agree that an explanation on how the sustainability objective is going to be achieved should be required in the pre contractual information (art. 5) and a description of how those objectives were pursued should be disclosed in the periodical report (art. 7).
  - When using a benchmark, the asset manager may choose whether to use an existing broad market index or an ad hoc sustainable benchmark.
    - When a broad market index is used, explanation should be given on how the investment objectives are pursued and achieved (see the no benchmark option). Please note that the Sri funds using a broad market index have successfully been established in Italy and do reinforce the comparability in performance among SRI and non-SRI product. They have the additional advantage of avoiding the additional cost to the fund stemming from the use of ad-hoc index.
    - When an ad hoc sustainable index is used, an explanation as to why the weighting and constituents of the designated index differ from the relevant broad market index should be provided ex ante (see art. 5.1.b)
4. **Impact investing** - When a specific target has been set in the pre-contractual information – be it a targeted reduction of carbon emission or other sustainability target - the overall sustainability related impact by the financial product by means of relevant sustainability indicators should be included in the periodical reports (art.7.1.1)



5. **Ex-post reporting:** in line with the above, it should be clarified that the periodic reporting may be of a qualitative/quantitative nature and not exclusively or necessarily quantitative.
6. **Financial products with “similar characteristic”:** we find this expression ambiguous - it should either be deleted or clarified

### **Amendments to Directive (EU) 2016/2341 – fiduciary duty**

We support the extension of the concept of fiduciary duty to include ESG consideration but we think the expression “ensuring ESG factors in internal investment decision (...) are included” should be made more explicit. In our view, in the current reading, it is unclear whether ESG factors should be considered and then possibly dismissed in the light of other considerations (possibly higher financial return in the investor’s investment horizon, for instance) or whether the investment decision has always to be based on ESG considerations.

In the latter case, we fear that may lead to an excessive restriction of the investment universe, cause market distortion and unduly reduce the discretionality and the role of asset managers in the selection of assets that best reflect the client best interest.

### **COMMENTS ON THE PROPOSALS OF EUROPEAN REGULATION TO SUPPORT SUSTAINABLE INVESTMENTS – Amendments to Regulations (EU) 2017/565 supplementing Directive 2014/65/EU - MiFID II and IDD - Suitability requirements**

Assogestioni welcomes the opportunity to contribute to the consultation and support the EC effort to bring sustainability to the fore in the dialogue between asset managers and asset owners. We would like to express appreciation and support to the action plan and the proposed legislative action as a tool to achieve a transition toward a more sustainable financial system.

As regards the specific proposal, **amendments to Regulations (EU) 2017/565 supplementing Directive 2014/65/EU - MiFID II and IDD - Suitability requirements**, here below are the specific Assogestioni’s comments:

- We are concerned about the timing of the applicability of the modification especially with regards to the application of the obligation of carrying ESG suitability assessment before the definition of the taxonomy and the obligation regarding ESG disclosure are fully in place;
- Sufficient time should also be allowed to asset manager to fully develop their offering in order to fully develop their offering taking fully account ESG factor and not to unduly restrict the client choice; in consideration of the above we would suggest delaying the deferral of the application for a longer than the 8 months suggested;
- In addition, as for the construction of a portfolio of products reflecting the client ESG preferences and in consideration also of the current experience with clients choosing ESG investment, we consider it essential to allow for different graduation of ESG preference to be expressed and to be considered in the investment selection. It is rarely the case that client choose exclusively ESG products while they can express a preference for none/some/all of



the products in their portfolio to be “sustainable”. Therefore, should the client express a “medium/low” ESG preference, it should be possible for to offer a not explicitly sustainable product.

- It should also be clarified that in considering ESG products meeting “strong” ESG preferences expressed by the clients, only products having explicit sustainability objectives (as indicate in art. 5 of the regulation on ESG disclosure) should be eligible. It will not be sufficient for the product to include ESG considerations in the investment process or risk assessment (as, once the ESG disclosure regulation applies, all investment products will have that characteristic).