AMIC response: ESMA CP on Article 8 of the Taxonomy regulation
04/12/2020

Advice related to non-financial issuers

We support the approach proposed by ESMA, which closely aligns with the TEG's recommendations, and is key to allowing asset managers to comply with their own requirements (EU Taxonomy, SFDR) and meet clients' needs and their sustainability preferences.

Advice relating to asset managers

Executive summary
AMIC suggests to consider:
- an approach based on eligible investments (for investment funds with sustainability claims)
- the inclusion of all green bonds in eligible investments
- the consideration of CapEx as a separate and optional KPI
- the optional use of proxies for non-listed companies based on a standardised methodology
- the possibility to account for an activity in several taxonomy objectives

Asset managers - Questions relating to the content of the KPI

Question 28: Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.

We agree with ESMA that a fee-based approach is not relevant to track progress made. A fee-based approach will not necessarily capture the evolution of allocation to taxonomy-aligned assets. Increase in taxonomy-linked fees could be due to other factors such as the performance of taxonomy-aligned assets or a change of the fee structure.

Looking at the share of eligible investments would also be more sensible than total AuM (as some key asset classes such as sovereign bonds cannot always be assessed against the taxonomy). It must be noted that under this approach the same figures will have to be reported twice (i.e. once by listed asset owners & again by listed asset managers).

The list of eligible investments could be widened as the Taxonomy evolves (criteria for remaining environmental objectives and social taxonomy later on) and once NFRD is reviewed.

It is important to have now (and in the future) a coherent approach for the numerator and the denominator if this reporting is to provide guidance on progress achieved.

Question 29: This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?

We do not believe that the disclosure of the Taxonomy compliance of activities such as investment advice, safekeeping or RTO would be relevant and bring any added value. Regarding individual portfolio management, asset managers are most likely going to have to help their <u>listed</u> institutional clients fulfil their own taxonomy reporting obligations and could therefore be in theory in a position to report on the taxonomy alignment of <u>some</u> mandates. But because public reporting obligations could be problematic for client confidentiality reasons and as not all institutional clients are listed companies subject to the article 8 reporting, we would argue that this should either remain optional or excluded.

<u>Question 30: Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.</u>

Yes, we agree with the weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy aligned activities of the investee companies. However, CapEx is a crucial forward looking metric because it reflects new, incremental green investments in the economy filling the existing investment gap. We therefore recommend developing a separate CapEx indicator on an optional basis (given that it won't necessarily be relevant to all type of funds).

<u>Question 31: Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset manager's investments?</u>

CapEx is probably the most interesting alternative metric for investors as it helps understand the direction of travel of the company and validate companies' strategies and will be useful for investment funds focusing on companies in transition (versus already green). Given that it will be challenging to merge both figures (revenues and capex) in a sensible way, we recommend having separate reporting based on CapEx (on an optional basis).
We are unsure what meaningful information OpEx could provide to investors and should be used only if relevant for specific cases.

<u>Question 32: Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?</u>

We believe the value of green bonds cannot be limited to those that comply with the EU GBS. While those that comply with the EU GBS will be counted for their entire value (100%) other green bonds (including the ones aligned with the Green Bond Principles or sovereign green bonds) and other relevant assets should be included for their value aligned with the Taxonomy. This is not only necessary to have an accurate picture of asset managers' taxonomy contribution; this is also a prerequisite to make the EU Taxonomy a global standard rather a regional tool causing market fragmentation. Furthermore, it will hinder the ability of the Taxonomy to fulfil its ultimate purpose which is to narrow the existing investment gap to transition to a neutral economy.

<u>Question 33: Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?</u>

Yes, the denominator should be based on the value of eligible investments. We need consistency between numerator and denominator.

Question: 34: Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?

Yes, we would support a denominator based on investment funds with sustainability claims. The line we are taking is that the Taxonomy is meant to address greenwashing and therefore it is appropriate to focus on investment funds with sustainability claims (art. 8 and 9). Another argument is that asset managers are in a position to control the 'greenness' of their investment funds with sustainability claims whilst they can't dictate to their clients how to allocate between green and brown or change by themselves the composition of existing indexes. So our view is that it is therefore better to judge the sustainability footprint/contribution of an asset manager by looking at its investment funds with sustainability claims. Another point which is relevant is that if we do extend to other funds than the larger asset managers, who are most likely to be making the most positive impact in absolute terms will most likely end up with a low performance in relative terms compared with much smaller funds/asset managers who are overall making a much smaller positive contribution. This would not represent a meaningful snapshot of the situation.

However, asset managers should be allowed to consider all investment funds in a separate KPI which could be optional, as some (but not all) may apply firm-wide exclusions or ESG integration.

Question 35: Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?

Yes, it is perfectly appropriate.

Question 36: Do you believe the proposed advice will impose additional costs on asset managers? Please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

Yes, this will generate on-going costs as the Taxonomy scope and the sustainability footprint of companies evolve. We therefore encourage European authorities to work on tools facilitating disclosures.

Asset managers - Questions relating to the methodology for preparing the KPI

Question 37: What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?

The use of proxies seems like a sensible idea to avoid capital only flowing towards large issuers (NFRD review will take several years). However establishing relevant sectorial proxies will be challenging. A European public body should be in charge of establishing such proxies and its use should be free of charge. In any case asset managers should be allowed to deviate from proxies if they happen to have a better understanding of green revenues/capex/opex generated by a non-listed investee company.

Question 38: Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?

While we agree that the EC should consider the feasibility of developing a methodology to allow KPI calculation to cover also investments in companies not reporting under the Non-Financial Reporting Directive the extent of their Taxonomy-aligned activities, we disagree that the way forward is exclusively by assigning them a coefficient derived on a sector-basis under a common methodology. We believe that the assignment of a coefficient should be applied to investee companies that lack minimum reporting. But for those that have a certain level of disclosures, a more thorough customised methodology based on proxies and estimations should apply. This will allow a) for more accurate results; b) will help encourage non-NFRD companies to disclose and will encourage investors to ask for greater transparency; and c) will not undermine those companies that make the effort to disclose. A mixed approach should be allowed. We agree that the EC should develop specific guidelines and rules for both approaches. The Sustainable Finance Platform is expected to provide advice to the EC on this.

Question 39: Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?

We agree with ESMA on allowing for netting short positions on the lines of Article 3 of the Short-Selling Regulation as this will ensure a more accurate reporting on equity exposure.

Question 40: How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?

We agree with ESMA's position that the calculation on taxonomy-alignment should exclude derivatives. It is important to understand that Contracts for Difference (CFDs) should not be included as derivatives, which are used by investors in many jurisdictions.

Question 41: What are the costs and benefits associated with the different options for non-reported activity coverage, netting and derivatives treatment presented above? Please provide a quantitative estimate for each option, distinguishing between one-off and on-going costs.

No response.

Asset managers - Questions relating to the presentation of the KPI

Question 42: Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?

We support the proposed template except for:

- The inclusion of OpEx: we see little value at asset management level.

- While the breakdown by environmental objective makes perfect sense, the activities of one company might apply to more than one objective and companies should be allowed to report it accordingly.

-The proposed template assumes that for all environmental objectives there are and/or will be transitioning and enabling activities; and that is not the case already for climate adaptation and no decision has been taken regarding the remaining activities. The breakdown should only be applied – for the time being to climate change mitigation activities.

Question 43: Do you agree with presenting accompanying information in the vicinity of the standard table?

Please see response to question 42.

Question 44: Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?

This should be left at the discretion of asset managers.

Question 45: Do you agree with adopting the same formatting criteria as presented in Section 3.4.2 for the asset manager KPI disclosure?

No response.

Question 46: What are the one-off and on-going costs of setting up the reporting and disclosure under this obligation? Please clarify the type of costs incurred and provide a quantitative estimation where possible.

No response.