

Review of SFDR Delegated Regulation regarding PAI and financial product disclosures

FAIR's contribution to the joint consultation

Q1 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) ?

FAIR welcomes the inclusion of new social PAIs, and would like to underline the benefits of fleshing out social PAIs to give them the same credibility as environmental PAIs. It's important to have a clear, rigorous methodology that puts the social and environmental dimensions on an equal footing.

Furthermore, FAIR is favorable to an alignment with ESRS rather than developing new indicators. Today, there are many initiatives in favor of transparency and extra-financial reporting, which we welcome, as it boosts investor confidence and minimizes the risks of green, social and impact washing. However, the multiplication of frameworks might stifle practitioners who wish to put forward sustainable products, risking dissuading them from developing such products or shifting the burden onto the companies financed that carry out activities with a high social and environmental impact. Indeed those companies are oftentimes of smaller size (SMEs for the most part) and have very limited resources to allocate to reporting. Any addition to mandatory indicators will increase their need for support in the declaration process.

While this alignment is a step in the right direction, there is still a real need to support small businesses in the declaration process.

Q4 Would you recommend any other social indicator or adjust any of the ones proposed?

While FAIR appreciates the efforts in trying to flesh out social indicators, we are also compelled to notice the persistent problem of evaluating social contribution. To achieve this, sustainability indicators, rather than PAIs, need to be explored in greater depth to be specifically geared to the social dimension. As of today, there is a clear lack of clarity in social indicators, which creates confusion for practitioners who specialize in social impact. More precision is currently being progressively put forward regarding environmental indicators and methodologies, which we applaud. However this also tends to underline the comparative lack of social indicators.

Q17 Question 17: Do you agree with the ESAs' assessment of the DNSH framework under SFDR?

The definition of sustainable investment is voluntarily left to the interpretation to be tailored to practitioners individually. However FAIR agrees that common guidelines are useful to ensure reasonable comparability. Furthermore, the issue addressed by the ESAs regarding the interlinkage with the green Taxonomy is paramount to the smooth interoperability of sustainability frameworks within the Union.

However, FAIR would like to differ on the analysis that is made of the social dimension, which tends to suggest that the absence of a social taxonomy simplifies the definition of a DNSH methodology and of a sustainable investment overall. FAIR deeply regrets that DNSH methodologies seem to split in two between environmental and social activities. The question of the social dimension should also be addressed, particularly

in preparation for the publication of a future social taxonomy which practitioners strongly call for. Not taking it into account would result in either a design of the social taxonomy modelled on the SFDR, or a new adaptation of the SFDR to the social taxonomy in the future. This threatens the stability of the regulatory framework, in a context where new obligations are being implemented regularly, which could further overwhelm practitioners and enterprises that need to adapt to reporting requirements.

Q31 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?

Legibility is key to ensure that all retail investors, regardless of levels of expertise, can access investment vehicles that fit their profile and their value. However FAIR fears that in the process of simplification, some information may be lost.

For instance, getting rid of the distinction between environmental and social investments may invisibilize social investments, as the indicators put forward (Taxonomy alignment, GHG emission reduction targets...) put forward only environmental investments. Therefore retail investors looking for social investments might be at a loss.

From the choice of colors to the indicators used, the new templates have a decidedly environmental feel. It is indeed important to highlight the meaningful indicators available, and no such aggregate indicator yet exists for the social dimension. However, as it stands, social products risk having an empty dashboard (with no activities aligned to the taxonomy, nor necessarily emission reduction targets, given that their contribution is social). It would be advisable to reintroduce a distinction between social and environmental, which would enable investors to understand why the product is claimed to be sustainable if it has neither.

FAIR would advise reintroducing indicators underlining the social nature of investments on the dashboard, in order to truly put all sustainable investments on the same footing.

Q33 Is the investment tree in the asset allocation section necessary if the dashboard shows the proportion of sustainable and taxonomy-aligned investments?

As it stands, and as mentioned in Q31, social investments tend to be less visible. Without any change to the dashboard, FAIR considers it essential to keep the investment tree in the asset allocation section in order to signal at least the existence of social investment, so it doesn't get diluted under a "sustainable investment" umbrella that is only measured in taxonomy alignment and GHG emissions.

The association FAIR was born in 2021 from the merger of Finansol, historic actor of social finance, and Impact Invest Lab (iiLab), innovation lab on impact. Federating social impact finance in France and representing a French expertise center abroad, FAIR gathers more than 130 social enterprises, banks, asset managers, NGOs, schools and committed individuals. FAIR manages a label, the Finansol label, which helps the public distinguish social products from other products. Near 200 products have been awarded the Finansol label as of today.

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