INREV response to ESA consultation on Regulatory Technical Standards for ESG disclosures pursuant to the Sustainable Finance Disclosure Regulation “SFDR”

28 August 2020

INREV* welcome the opportunity to respond to the European Supervisory Authorities’ (ESA) consultation on the draft Regulatory Technical Standards (RTS) relating to certain disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR).

We support the objective of the SFDR which is to enable financial market participants (FMPs) to use a coherent disclosure framework on the integration of ESG risks. The approach taken by the ESAs for transparency regarding adverse sustainability impacts as outlined in the RTS is a very important step to clarify requirements of the regulation and to address a perceived lack of transparency on how institutional investors, asset managers and financial advisors consider sustainability risks in their investment decision making or advisory processes.

As an overall comment, INREV suggests the ESAs provide more clarity on the scope of the regulation and the product classifications that is proposed with the RTS. For more details, please see our answers provided for specific questions and also see our feedback for other important areas.

On another comment, a number of proposals seem more tailored to equity and fixed income investments. However, funds, and real estate funds in particular, have specific characteristics which means there needs to be some tailoring. For instance, “Financial Market Participants” is not a term that is used by most real estate investments and could also lead to confusion on who has to report and at which level (i.e., report at the level of the fund manager as a whole and/or for each real estate fund separately and/or for each legal entity owning a real estate asset). In essence, it is important to take into account the real estate sector specificities (investments and structures), either by creating a specific section/column for real estate funds or by embedding these real estate sector specificities into the general framework and, above all, by defining more precisely the reporting scope.

Question 1: Do you agree with the approach proposed in Chapter II and Annex I – where the indicators in Table 1 always lead to principal adverse impacts irrespective of the value of the metrics, requiring consistent disclosure, and the indicators in Table 2 and 3 are subject to an “opt-in” regime for disclosure?

Under the Disclosures Regulation, financial market participants (FMPs) are required to determine whether their investment decisions had “principal adverse impacts on sustainability factors” or not. If so, they are required to disclose these principal adverse impacts. INREV agrees with that approach and supports consistently reporting principle adverse impacts of investments in order to promote comparable disclosures and to enhance transparency on sustainability impact of the investments.

As also confirmed by the Regulation (Recital 18), “materiality” is a relevant factor in determining whether an adverse impact is “principal” or not and the assessment of whether a particular impact is “principal” should be made by the FMPs. On the other hand, the Draft RTS Chapter II and Annex I provides a predefined list of mandatory and opt-in indicators; it divides the principal adverse impact indicators into 32 mandatory indicators (Table 1) and 19 opt-in indicators (Table 2 and Table 3). It could be interpreted that according to the approach proposed by the Draft RTS, the mandatory set of indicators are deemed

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to always lead to "principal" adverse impacts, irrespective of the sector differences shaping materiality of the indicator and individual assessments carried by the FMPs.

INREV acknowledges the value of having a minimum list of mandatory indicators for disclosure; however, in order to reflect the true value of principle adverse impacts of investment decisions, the materiality assessment should be taken into account with a sufficient consideration of sector specific issues; i.e., prioritising environmental, social and governance factors that are relevant to a specific sector and have significant impacts. We recommend the ESAs assist FMPs with an harmonised ESG materiality assessment approach. While doing that, instead of building a new framework for ESG materiality across sectors, we suggest the ESAs consider industry established materiality mapping frameworks as a starting point, e.g., Sustainability Accounting Standards Board's (SASB) Materiality Map.

<u>Example for real estate investments:</u> Some of indicators proposed by the ESAs in Annex 1 of the RTS could be less relevant or not material to real estate investments. For instance;

- Traditionally, real estate assets have been powered by fossil fuel-dependent heating and ventilation systems. It is estimated that the building and construction sector produced 39 percent of energy and process-related carbon emissions globally. Therefore, carbon disclosure should be considered as one of the material topics for real estate industry, hence "Carbon emissions" and "Carbon intensity" are relevant indicators. However, "share of investments in solid fossil fuel sectors" which is the metric provided for solid fossil fuel sector exposure is not relevant to real estate asset investments as it does not applicable to the investment scope. On the other hand, carbon disclosure at individual asset/property level would be more significant for real estate industry.

In relation to that, INREV supports the idea that where a mandatory indicator is irrelevant to a given investment, the financial market participant should be permitted to disclose a score of zero against that indicator and explain why it is irrelevant. However, even if that is an option, FMPs need to carry out a due diligence before concluding that an indicator is not relevant to any given investment.

On another note, INREV suggests to clarify the intention of the regulation in relation the binary nature of compliance. Our understanding is that, FMPs will have the possibility to explain the extent to which they take into account adverse impact of their investment decisions on sustainability factors. However, 36 months after entry into force all companies with 500 or more employees will no longer be have the option to explain, rather they will be subject to "comply or not comply" regime for ESG disclosure. If a firm (with 500 or more employees) cannot fully comply, it is required to include on its website a "*prominent statement that the financial market participant does not consider the adverse impacts of its investment decisions/advice on sustainability factors*" (Articles 11 and 13 of the draft RTS). INREV believes that it is important to ensure a balanced approach that promotes disclosure. Therefore, we recommend the ESAs to stick to "comply and explain" regime of disclosure for the entire scope and the life span of the regulation. "Explain" option could have several parameters, including providing information about the reasons for the compliance gap.

We also suggest providing a compliance and adoption rate approach which will allow FMPs and investors to evaluate the level of integration of the sustainability factors into decision making processes. Providing a compliance rate would also be useful for comparison. (As an example, please see below INREV's Adoption and Compliance Framework.) In addition to a compliance rate, a statement explaining the compliance level could be effective. However, we suggest to revise the wording provided in Article 11 / 13 and enable users to explain the compliance gap. Furthermore, for that statement to be clear and not misleading to readers, INREV believes it is critical to clarify that the sustainability factors referred to are the set of factors in Annex I, and to allow firms to clarify that they consider sustainability risks and also (if it is the case) consider other material sustainability impacts.

INREV's Compliance and Adoption Framework: As an association for the non-listed real estate investment industry, INREV provides guidelines to the industry to incorporate industry standards in the most important fields (such as corporate governance, reporting, sustainability reporting, etc.). To determine an investment vehicle's alignment with the INREV Guidelines, INREV provides an Assessment Tool. The Assessment Tool enables users to determine a vehicle's compliance rate with the Guidelines.

Question 2: Does the approach laid out in Chapter II and Annex I, take sufficiently into account the size, nature, and scale of financial market participants activities and the type of products they make available?

As already acknowledged by the ESAs, there might be concerns about the limited availability of sufficient and reliable data to make the disclosures required by the Draft RTS. The ESAs state that the Draft RTS only require FMPs to use "best efforts" to obtain information from investee companies and, where information cannot be obtained despite such best efforts, requires them to use best efforts to assess the adverse impacts (based on reasonable assumptions, research and third party data) (Article 7(2) of the Draft RTS). INREV recommends the ESAs to take into consideration two additional aspects in relation to data constraints:

- Global effect: Our understanding is that the regulation is intended to have extra-territorial effect. Article 42 of AIFM directive states that non-EU AIFMs need to comply with marketing regulations, which also includes SFDR. That means that non-EU financial market participants selling their financial products to Europe are in the scope of SFDR. This raises the question of how they will be able to gather and report data. In general, INREV supports the idea of having as much uniformity as possible across funds and ensuring consistency to give an overview of global impact of ESG. However, the scope of the regulation does not provide clarity on how this will be enforced. We suggest ESAs clarify the scope of the ESG Disclosure regulations and be more clear on the global intentions. A harmonised approach with AIFMD could be useful for defining the scope. We suggest the ESAs consider and align with AIFMD's process and principles on defining the scope and the extent of the data that need to be reported.

- FMPs smaller than 500 employees: Draft RTS (9) states that "Financial market participants exceeding the number of 500 employees on their own balance sheet or, where they are parent under-takings, on their group balance sheet are subject to the disclosure obligations on principal adverse impacts at entity level set out in this Regulation". The disclosure obligation applies mandatorily to financial market participants with more than 500 employees, or on a "comply or explain" basis to smaller financial market participants. As the regulation is not binding for FMPs smaller than 500 employees, or not part of a group having more than 500 employees, this might cause challenges in relation data collection from companies outside the scope of the regulation. In practice, companies might already have set business principles, also including ESG disclosure requirements, with all companies that they engage with irrespective of the size of the company. We recommended the ESAs to address these possible challenges by assisting FMPs with possible ways to create good stakeholder engagement practices.

In addition, the number of employees is not necessarily correlated with the size of the company and its operations. Especially for the real estate investment industry, it does not reflect the actual size of the investments and operations. In order to provide good coverage with the scope of the regulation, we recommend the ESAs consider the Gross Asset Value (GAV) (with a threshold to be defined) as an alternative measurement to number of employees

Question 3: If you do not agree with the approach in Chapter II and Annex I, is there another way to ensure sufficiently comparable disclosure against key indicators? Question not answered.

Question 4: Do you have any views on the reporting template provided in Table 1 of Annex I? Question not answered.

Question 5: Do you agree with the indicators? Would you recommend any other indicators? Do you see merit in including forward-looking indicators such as emission reduction pathways, or scope 4 emissions (saving other companies´ GHG emissions)?

Forward-looking indicators such as emission reduction pathways are important to consider in the strategy of the FMP. We recommend ESAs to consider the existing work carried out for different sectors to build emission reduction pathways.

Specific to real estate industry, the EU intends to decarbonise the building sector by 2050. There are a number of widely accepted tools and metrics for measuring ESG performance in the real estate asset class that would appear to correspond to the broader objectives of the EU initiative. In addition there are also industry specific initiatives aiming to set targets for decarbonisation of the buildings. For instance, INREV is supportive of the work that CRREM is doing to set out the different global decarbonisation pathways for a range of real estate types. We believe the Intensity Targets identified by CRREM Decarbonisation Pathways will be very helpful in enabling risk analysis to be grounded in the benchmark performance of asset-level operational performance.

INREV also recommends the ESAs to consider other pollution categories and resilience factors.

Question 6: In addition to the proposed indicators on carbon emissions in Annex I, do you see merit in also requesting a) a relative measure of carbon emissions relative to the EU 2030 climate and energy framework target and b) a relative measure of carbon emissions relative to the prevailing carbon price?

INREV believes that in order to achieve EU 2030 climate and energy framework targets, FMPs need to be assisted with frameworks providing relative measures of related indicators. We recommended the ESAs to consider already existing industry-specific initiatives. Any further carbon indicator should be consider as optional for reporting.

Question 7: The ESAs saw merit in requiring measurement of both (1) the share of the investments in companies without a particular issue required by the indicator and (2) the share of all companies in the investments without that issue. Do you have any feedback on this proposal?

INREV agrees with the approach as it aims to provide full picture of an investment portfolio. In addition to the data by number of companies, it is also important to see data by size of investment. These two would allow for a better understanding of what may otherwise be possibly misleading information.

As mentioned in the previous questions, however, the scope of the reporting needs to be clarified.

Question 8: Would you see merit in including more advanced indicators or metrics to allow financial market participants to capture activities by investee companies to reduce GHG emissions? If yes, how would such advanced metrics capture adverse impacts?

Another carbon measure of growing interest in the future might be embodied carbon/ whole life carbon assessment as defined by RICS. Adverse impacts from the above would be captured by taking into account the entire lifecycle of a building, i.e., embodied carbon from the construction phase, use-based carbon from the operational phase, etc. Given this, EU construction activity would also be in scope and therefore also take into account higher risk return strategies by Real Estate Private Equity FMPs. In addition, the impact of being able to run and operate a building as efficiently as possible is highest in the early planning and construction phases of any property.

Question 9: Do you agree with the goal of trying to deliver indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators?

INREV supports the goal of delivering indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters at the same time as the environmental indicators.

During the public hearing the ESAs explained that they drafted the sustainability indicators for social factors (set out in Annex I to the Draft RTS) without material input from sector specialists and the social indicators may therefore change from their current formulation. The ESAs also acknowledged the possibility that the social indicators may be finalised after the environmental indicators. INREV suggests the ESAs clarify if there will be another consultation for social indicators to be drafted and whether the final RTS will contain social indicators by March 2021.

Question 10: Do you agree with the proposal that financial market participants should provide a historical comparison of principal adverse impact disclosures up to ten years? If not, what timespan would you suggest?

INREV agrees that comparison of different time periods is important for the analysis and prioritisation of principal adverse impacts. However, it should be implemented on a go-forward basis instead of looking at time periods prior to issuance of this regulation. It is important to bear in mind the current data constraints. Please see our answer to question 2 for challenges around data availability and process setup for real estate investments

Question 11: Are there any ways to discourage potential "window dressing" techniques in the principal adverse impact reporting? Should the ESAs consider harmonising the methodology and timing of reporting across the reference period, e.g. on what dates the composition of investments must be taken into account? If not, what alternative would you suggest to curtail window dressing techniques?

The scope of the reporting needs to be clarified. INREV recommends the ESAs avoid any confusion around who has to report, what to report and at which level (i.e., report at the level of the fund manager as a whole and/or for each real estate fund separately and/or for each legal entity owning a real estate asset). Once the reporting scope is clarified, then it is important to consider having these indicators reviewed/audited as window dressing is part of audit risk.

Question 12: Do you agree with the approach to have mandatory (1) pre-contractual and (2) periodic templates for financial products?

In principle INREV agrees with the approach, as disclosure is a key principle for us. We are looking forward to see more details on the pre-contractual and periodic templates. Although a requirement for having a minimum list of mandatory indicators for disclosure is not objectionable, as stated in our response to Q1, the mandatory indicators may not be relevant for all sectors. The pre-contractual and periodic reporting obligations should be subject to sector materiality, take due account of the items relevant to sector specific issues and allow firms to focus on material data items.

Question 13: If the ESAs develop such pre-contractual and periodic templates, what elements should the ESAs include and how should they be formatted?

As a general note, pre-contractual and periodic disclosure templates need to meet a significant level of alignment with each other. Harmonised frameworks would increase the practicality of reporting and allows investors easily follow and interrogate the information provided.

Question 14: If you do not agree with harmonised reporting templates for financial products, please suggest what other approach you would propose that would ensure comparability between products. Question not answered.

Question 15: Do you agree with the balance of information between pre-contractual and website information requirements? Apart from the items listed under Questions 25 and 26, is there anything you would add or subtract from these proposals?

INREV supports transparency in ESG disclosure. Therefore, we welcome disclosures relating to various sustainability related matters.

In relation to the question, rather than the balance between pre-contractual and website information requirements, we would like to state concerns related to confidentiality obligations stated in Recital 17 which covers both periodic reports and website disclosure. Recital 17 simply defines periodic reporting as “Financial market participants should include on their website a clear, succinct and understandable summary of the information provided as part of the periodic reporting. When doing so, financial market participants should comply at all time [sic] with national and Union law governing the protection of confidentiality of information, including the protection of undisclosed know-how and business information and the processing of personal data”.

Therefore, the regulation requires that “the information” included in the periodic reports should be published and maintained on the website and does not suggest that a summary is sufficient. The Regulation could be interpreted as requiring all of the periodic disclosures (including the graphical and narrative explanations mentioned above and the list of major investments in the portfolio discussed below) to be made available on the financial market participant’s website. It also states that FMPs should comply with the confidentiality obligations set under national and EU laws.

INREV believes that this raises questions in relation to obligations related to confidentiality of the information and challenges to meet both the Disclosure Regulation and the confidentiality obligation. The question might be raised as follows:

- Do FMPs have to comply with their confidentiality obligations under other European and domestic laws even if they conflict with their obligations under the Disclosures Regulation?
- Is the confidentiality obligations applicable to the FMPs or also to the relevant financial product? What about confidentiality obligations applicable to portfolio companies?
- Does the confidentiality obligation need to arise from a piece of domestic or EU legislation, or can contractual obligations also be taken into account? What about non-EU legislation?

Question 16: Do you think the differences between Article 8 and Article 9 products are sufficiently well captured by the proposed provisions? If not, please suggest how the disclosures could be further distinguished.

Stated in the Recital 18, the Draft RTS requests differentiation between “financial products offered to end-investors as specifically targeting sustainable investments, and all other financial products which claim to take into account sustainability factors in investment decisions.” INREV supports this approach as it aims to classify financial products with various degrees of ambition with regard to the taking into consideration of sustainability factors.

Our understanding is that SFDR identifies three broader types of “financial products”: 1) Sustainable Investment products (Article 9), 2) ESG products (Article 8) and 3) Non-ESG/Sustainable Investment products (“non-Article 8 or 9” products). Article 8 products promoting environmental or social characteristics can cover various investment approaches and strategies, from best-in-class to specific sectoral exclusions. Further, if a product has a “best in class” objective, it may qualify as an Article 9 product if its investments are intended to comply with the criteria for “sustainable investment” in Article 2(17) of the Disclosures Regulation. We expect that the majority of the current ESG products will fall under Article 8; Article 9 covers a smaller sub-set of products that have a specific sustainable investment objective.

INREV welcomes the clarity provided by the Draft RTS (Recital 21) in relation to the meaning of “promotion” entitled to Article 8 products. According to the proposal, “promotion” in Article 8 is intended to refer to how the financial product is marketed to investors rather than its actual effect on environmental or social characteristics. In that sense, the Draft RTS draws a distinction between the “promotion” and the “attainment” of environmental or social characteristics, thereby suggesting that “promotion” refers to how the financial product is being marketed to investors while “attainment” refers to the actual performance of the financial product.

However, it is important to note that although the Draft RTS brings more clarity on when a financial product may be classified as an Article 8 or 9 product, there are still unclear parts on the main characteristics of these product types and the classification is still open to interpretation in many aspects. Our main concerns include:

- Article 14 of the Draft RTS lists the disclosure information for Article 8(1) of Regulation (EU) 2019/2088 and Article 23 of the Draft RTS lists the disclosure information for Article 9(1) of Regulation (EU) 2019/2088). However, it is difficult to differentiate the pre-contractual information re-quired for Article 8 and 9 products as listed in the Draft RTS. For instance, for both Article 8 and 9 products “investment strategy” is stated as a pre-contractual information; for the former it should be designed to attain the environmental or social characteristics and for the latter it should be designed to attain sustainable investment objectives. However, the difference between the in-vestment strategies is unclear; if both product types have investment strategy at the pre-contractual stage, where “environmental or social characteristics” end and “sustainable investment” begins is open to interpretation. The threshold of having environmental and social characteristics could be either too high or too low. Without having a clear definition of limits of the “environmental and social characteristic”, any “investment strategy” designed to promote these characteristics could be qualified as “sustainable investment objectives”, which would make the product an Article 9 product.

- Although, the SFDR is closely linked with the Taxonomy Regulation, the finalised SFDR defined “Sustainable investments” without reference to the Taxonomy Regulation (work on the draft Taxonomy Regulation was on-going when the SFDR entered into force). The ESAs acknowledged, both in the Consultation Paper and in the hearing, that as a potential consequence, a financial product may qualify as an Article 9 product under the Disclosures Regulation notwithstanding that its portfolio is fully or partly composed of investments which are not Taxonomy compliant. We suggest the ESAs further clarify whether the Disclosure Regulation introduces a new classifi-cation in addition to the Taxonomy Regulation or whether they are complementary to each other. It is important to avoid any challenges that might have resulted from inconsistencies between SFDR and Taxonomy Regulation.

- Article 9 products are linked to having "sustainable investment objectives". To enhance certainty, the reference to "Sustainable Investment" needs to be specified. For instance, in practice does it cover the financial instruments sought by impact-oriented financial market participants?

It is also important to provide a transition period for classification of existing products/funds as some of them may need to update their governing documentation in order to comply with one of these categories

Question 17: Do the graphical and narrative descriptions of investment proportions capture indirect investments sufficiently? Question not answered.

Question 18: The draft RTS require in Article 15(2) that for Article 8 products graphical representations illustrate the proportion of investments screened against the environmental or social characteristics of the financial product. However, as characteristics can widely vary from product to product do you think using the same graphical representation for very different types of products could be misleading to end-investors? If yes, how should such graphic representation be adapted? Question not answered.

Question 19: Do you agree with always disclosing exposure to solid fossil-fuel sectors? Are there other sectors that should be captured in such a way, such as nuclear energy? Question not answered.

Question 20: Do the product disclosure rules take sufficient account of the differences between products, such as multi-option products or portfolio management products?

Please see our comment in the Introduction on Real Estate specificities.

Question 21: While Article 8 SFDR suggests investee companies should have "good governance practices", Article 2(17) SFDR includes specific details for good governance practices for sustainable investment investee companies including "sound management structures, employee relations, remuneration of staff and tax compliance". Should the requirements in the RTS for good governance practices for Article 8 products also capture these elements, bearing in mind Article 8 products may not be undertaking sustainable investments?

INREV believes that good corporate governance is a cornerstone for the success of investment vehicles and refers to the structure, processes, policies and laws that determine how an investment vehicle is managed and controlled.

Question 22: What are your views on the preliminary proposals on "do not significantly harm" principle disclosures in line with the new empowerment under the taxonomy regulation, which can be found in Recital (33), Articles 16(2), 25, 34(3), 35(3), 38 and 45 in the draft RTS?

INREV supports the objective of the "do not significantly harm" (DNSH) principle and the approach to inform end investors as to how their investment does not significantly harm environmental and social objectives. INREV believes that it is important to have harmonisation among different regulations at a certain level, therefore INREV is pleased to see that DNSH is a core principle of both the Taxonomy Regulation and the SFDR.

However, INREV notes a major differences between DNSH principle introduced in the SFDR and the one provided in the EU Taxonomy. First, with its “sustainable investment” definition, SFDR provides a broader scope than the DNSH principle in the EU Taxonomy Regulation. Under the Taxonomy Regulation, an activity contributing to climate change mitigation must avoid significant harm to climate change adaptation and the other four environmental objectives: 1) sustainable use and protection of water and marine resources, 2) transition to a circular economy, waste prevention and recycling, 3) pollution prevention and control and 4) protection of healthy ecosystems. On the other hand, in SFDR the scope of DNSH principle goes beyond environmental objectives. It includes meeting minimum safeguards in view of good governance, social employee matters, respect for human rights and anti-corruption and anti-bribery matters. Second, while the EU Taxonomy is activity based, SFDR is factors based. The EU Taxonomy includes a DNSH principle which applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. However, the principle in SFDR is based on the list of adverse impact factors (51 factors in total; 32 mandatory and 19 opt-in) and to disclose how certain investments have been excluded.

More clarity is therefore needed on the extent to which the DNSH in the Disclosure Regulation and Taxonomy Regulation will apply to funds’ disclosure obligations under article 8 (financial products promoting among other environmental or social characteristics) and article 9 (financial products having sustainable investment as their objective). The degree of alignment between those two DNSH principles needs to be addressed by the ESAs with the final version of the regulation.

In addition, we recommend that the ESAs address practical consequences of identifying negative impacts of a total of 51 factors. Our understanding from this consultation is that for the DNSH principle, the approach proposed with the RTS requires assessment of negative impacts not only for the mandatory principle adverse impacts of the investments, but also for the additional impacts. In order to understand whether investments do not significantly harm environmental or social objectives, the full list of adverse impact indicators should be classified, measured and negative impacts should be mitigated in relation to them. This will result in assessment of negative impacts of principles that are not included in mandatory reporting. In relation to practical consequences, it is also important to clarify the degree of the significance indicated in the regulation; i.e., what is significant harm and how it can be identified for each factor. Without having clear rules on identification of the negative impact, it would be open to interpretation

Question 23: Do you see merit in the ESAs defining widely used ESG investment strategies (such as best-in-class, best-in-universe, exclusions, etc.) and giving financial market participants an opportunity to disclose the use of such strategies, where relevant? If yes, how would you define such widely used strategies?

We recommend that the ESAs consider existing ESG investment approaches that FMPs currently take toward achieving transparency on sustainability strategies. For instance, the Global Sustainable Investment Alliance’s classification on sustainable investment could be taken into account; Negative/Exclusionary Screening, Positive/Best-in-class Screening, Norms-Based Screening, ESG Integration, Sustainability Themed Investing, Impact/Community Investing, Corporate Engagement and Shareholder Action

Question 24: Do you agree with the approach on the disclosure of financial products’ top investments in periodic disclosures as currently set out in Articles 39 and 46 of the draft RTS?

We agree. As a note specific to Real Estate industry, GAV is used as the factor to disclose the Top 25 investments.

Question 25: For each of the following four elements, please indicate whether you believe it is better to include the item in the pre-contractual or the website disclosures for financial products? Please explain your reasoning.

1) an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy – in the draft RTS below it is in the pre-contractual disclosure Articles 17(b) and 26(b);
2) a short description of the policy to assess good governance practices of the investee companies – in the draft RTS below it is in pre-contractual disclosure Articles 17(c) and 26(c);
3) a description of the limitations to (1) methodologies and (2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product – in the draft RTS below it is in the website disclosure under Article 34(1)(k) and Article 35(1)(k); and
4) a reference to whether data sources are external or internal and in what proportions – not currently reflected in the draft RTS but could complement the pre-contractual disclosures under Article 17.

1) Regarding "an indication of any commitment of a minimum reduction rate of the investments (sometimes referred to as the "investable universe") considered prior to the application of the investment strategy", INREV supports pre-contractual; in line with the draft RTS;

2) Regarding "a short description of the policy to assess good governance practices of the investee companies" INREV supports pre-contractual; in line with the draft RTS;

3) Regarding "a description of the limitations to (1) methodologies and (2) data sources and how such limitations do not affect the attainment of any environmental or social characteristics or sustainable investment objective of the financial product", INREV supports pre-contractual; while the draft RTS indicate this should be a website disclosure item (in line with Article 10.1(b) SFDR), detailed information would only be relevant to potential investors, whereas a general website disclosure could be in a summary high-level form; and

4) Regarding "a reference to whether data sources are external or internal and in what proportions", INREV supports pre-contractual. Any additional information that is deemed necessary, including between external and internal sources, would be more appropriately included in product-specific pre-contractual information.

We support the current position to include the additional pre-contractual disclosures within the existing applicable disclosure framework, as a general comment, the different level of disclosure needs to be more practical to complete and to interrogate given the size of disclosure requirements

Question 26: Is it better to include a separate section on information on how the use of derivatives meets each of the environmental or social characteristics or sustainable investment objectives promoted by the financial product, as in the below draft RTS under Article 19 and article 28, or would it be better to integrate this section with the graphical and narrative explanation of the investment proportions under Article 15(2) and 24(2)?

Again, it seems key to reflect materiality for real estate purposes. Therefore derivatives should normally not be a major concern at least in direct real estate investment strategies.

Question 27: Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options? Question not answered.

* INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has 458 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.