

SWEDISH SECURITIES MARKETS ASSOCIATION

2020-10-16

SSMA's response to ESAs Survey on templates for Environmental and/or Social financial products under SFDR

Q1. How useful is the highly standardized presentation of the information in this format?

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

The Swedish Securities Markets Association (SSMA) generally supports the use of standardized information that facilitates comparisons between products, provided that the requirements are fit for purpose.

However, with the experience of PRIIPs and MiFID II in mind, we do not believe that a “one size fits all” approach works. In fact, when developing information requirements, it is very important to consider both the type of client and type of financial product at hand. Another important factor is the total amount of information that clients are able to consider before investing. Clients, especially retail clients, already receive a lot of information and adding another document to the list of prescribed information would not be helpful for the clients.

Retail clients need simple information that is written in a clear language. It is important for retail clients to be able to compare products. However, in order for the standardized information to be useful, the text should not be too long or complex.

Professional clients and eligible counterparties often request information that is more tailored to their specific needs. For such clients it is less important with a standardized presentation and more important to receive information on a detailed level.

It is also important to consider that the **financial products** have different characteristics which need to be reflected in pre-contractual information in order for clients to make

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informed investment decisions. Experience from PRIIPs shows us that it can be very challenging to find a common language and presentation that work cross-sector.

Taking the above into account, the SSMA considers that the proposed mandatory template is too complex and long for retail clients at the same time as it does not allow firms the necessary flexibility to adjust the information for professional clients and different types of products. We therefore recommend that instead of prescribing mandatory and standardized templates, ESAs should focus on developing a set of minimum set of requirements or headings that could be included in the pre-contractual disclosure documents already required under sectorial legislation.

If ESAs nevertheless proceeds with the development of mandatory templates, the SSMA considers that it is important to make such templates optional for professional clients and eligible counterparties. Moreover, to serve the needs of retail clients, the complexity and length of the templates needs to be reduced.

Considering the unclear distinction between art 8 and art 9 products, it could be further analyzed whether if separate templates should be developed for “lightgreen” and “darkgreen” products.

Q2 More specifically, how useful is the presentation of the information with the use of icons as visual aids (in mock-up 1 and 3)?

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

The SSMA does not support a mandatory requirement use the proposed icons as visual aids.

First of all, we consider that there is a very weak link between the proposed icons and the message that they intend to convey. As a consequence, there is a significant risk that the use of these icons would in fact be misleading for clients. Secondly, we consider that implementation of icons could present technical challenges, in particular when using digital media. Thirdly, icons take up a lot of space and increase the length of the document.

However, if ESAs nevertheless proceed with these icons, the SSMA considers that they should be optional.

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Q3 More specifically, how useful is the presentation of the information with the use of graphs as visual aids?

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

The SSMA does not support a mandatory requirement use the proposed graphs.

As PRIIPs have shown, it is very challenging to develop methodologies for graphical information that work for different product types. We are therefore concerned that mandatory graphs could mislead retail clients as regards the comparability of the information.

In order to be useful, it is important with flexibility for firms to present graphical information in a way that works for the type of product in question. More important than standardizing the presentation of the graphs is to be clear on what type of information that graphs should provide. The methodology for graphical presentation as well as the presentation should however be allowed to differ.

Q4. More specifically, how useful is the presentation of the information with the use of explanatory notes, in the column at the right side of the document, which are presented on a grey background)?

- Useless
- Fairly useless
- Neither useless nor useful
- Fairly useful
- Very useful

The SSMA considers that explanatory notes can be useful for retail clients, provided that the information is not too complex. However, we think that the mandatory rules should be limited to the presentation of the explanatory notes, perhaps including sub-headings. As regards content there should be flexibility for firms to present and phrase the information in

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a way that works for the type of product in question. As regards the specific proposal with a column presented on the right side, we are concerned that this would take up too much space and increase the length of the document.

Q5: Are there any presentational aspects that might make it hard to understand the sustainability-aspects of products?

- Yes
- No
- Other

The sustainability terminology used in the template is not consistent. For example, in the boxes, “An ESG Objective” should be changed to “An E/S objective” and “ESG characteristics” should be changed to “E/S characteristics”. These changes are needed in order to create an alignment with the other times “E/S” is used in the template and it would be incorrect to include the “G” into the template since the legislation only talks about “Environmental and/or social characteristics”. The abbreviation ESG is also more commonly used in the industry when doing an analysis of the ESG risks and opportunities inherent in a company/share/issuer rather than when talking about sustainability characteristics per se.

As mentioned under Q 1, considering the unclear distinction between art 8 and art 9 products, and given the uncertainty of what S and G de facto entails in relation to the section “This product has: An ESG objective or ESG characteristics” in the mock-up, it could be further analyzed whether separate templates should be developed for “lightgreen” and “darkgreen” products.

Q6 Do you have any other suggestions or comments to improve the presentation of these disclosure documents?

As mentioned in Q 1 we consider that mandatory templates should be replaced by minimum requirements to be included in the pre-contractual disclosure documents required by sector legislation (MiFID, PRIIPS, IDD). It is important to allow firms flexibility in order to caveat for the characteristics of different products. Thus, for the sake of comparability, headings should be mandatory but not the text. From a retail client perspective, it is important that the language in the templates is simplified and the length of the document shortened (6 pages for pre contractual disclosure is too long).

It should be optional to use templates/minimum requirement for professional clients and eligible counterparties.

We also note that “a portfolio” is considered as a financial product under the Disclosure-regulation which is a novelty in EU-legislation that considers portfolio management of financial

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instrument as an investment service. More guidance on the application of pre-contractual disclosure rules on portfolios as a product would therefore be welcome. In this connection we would also like to repeat our previously expressed concern regarding the requirements to publish information of portfolios on websites. Due to bank secrecy rules, this could never be done on an individual portfolio level but only on a model-portfolio level.

As regards to the top 25 investments, the SSMA considers that it could be very challenging to get hold of and present the required data e.g. as firms have different reporting periods.

Q7: When the templates are presented via digital media, can you foresee any particular challenges? Can you suggest how these particular challenges could be overcome while retaining the core aspects of the standardized template format?

The implementation of icons could present technical challenges, in particular when using digital media. If ESAs nevertheless proceed with these icons, the SSMA considers that they should be optional.
