

## EU Sustainable Finance Initiative

### Briefing Note

The Association of Investment Companies (AIC) is the trade association for the closed-ended investment company sector, representing 350 investment companies with £165bn of assets under management. Investment companies are closed-ended collective investment funds whose shares are publicly traded, usually on the main market of the London Stock Exchange. They invest in a broad range of assets including listed equity, unquoted shares, property, infrastructure, venture capital and debt (including business-to-business loans). Our members are alternative investment funds (AIFs). They appoint AIFMs to manage their assets and, in some cases, act as their own AIFMs.

They are subject to a number of disclosure obligations under the AIFMD Directive, Company Law and Corporate Governance requirements.

Our comments are made in respect of the:

- *Proposal for a Regulation on disclosures relating to sustainable investments and sustainability risks* (“Disclosures Regulation”); and
- *Proposal for a Regulation on the establishment of a Framework to facilitate sustainable investment* (“Taxonomy”).

### Approach to sustainable disclosures

The AIC recognises the importance of European Commission’s Sustainable Finance Initiative (SFI) and its objectives. However, there must be an acknowledgement, in implementing the initiative, that intermediaries will want to give proper weight to their clients’ financial needs. These might outweigh genuinely held views on sustainability.

New disclosure requirements should make the retail investor the focus of the disclosure. Institutional investors have resources at their disposal to undertake their own research about a fund’s objectives and therefore are unlikely to be as reliant on the disclosure as a retail investor may be. The disclosure should be proportionate and tailored to take account of these differing needs.

### Sustainability claims

It is reasonable for an AIFM to make a general statement about sustainability. Specific sustainability disclosures should only be required where an AIF makes a claim to have sustainability as an objective. Businesses should not be required to make disclosures about sustainability where they have not made a claim via marketing or promotional material to have sustainability as a focus of their commercial activities.

## Promoting regulatory synergy

In accordance with the [Better Regulation Framework](#) principles, policy-makers should not pre-judge the need for new disclosures before an assessment of existing sustainability disclosure requirements has been undertaken.

Under the Alternative Investment Fund Managers Directive (AIFMD) article 23, an AIF is required to provide a description of the investment strategy and objectives of the fund as part of annual disclosures. This description would undoubtedly make mention of sustainability objectives, where relevant.

The forthcoming review of the Packaged Retail and Insurance-based Investment products (PRIIPs) regulation<sup>1</sup> will also include a survey to consider the feasibility of introducing a label for social and environmental investments as part of the Key Information Document (KID) disclosure.

Outcomes from initiatives such as the Taskforce for Climate Related Financial Disclosures<sup>2</sup> should also be considered. We **recommend** therefore that any sustainable disclosure requirements take account of existing regulatory disclosure requirements and do not add to the regulatory burden.

We **recommend** that the regulations clarify that the obligation on the ‘financial market participant’ e.g. the AFM, to make sustainability disclosures, does not extend beyond the AFM’s own duty. It would be disproportionate to obligate the AFM to make sustainability disclosures for delegates with which they work or to be required to ensure that delegates make such disclosures.

## Alignment of SFI targets

In the interest of consistency, we **recommend** policy-makers seek to align SFI targets and definitions with existing regulatory requirements.

The European Social Entrepreneurship Funds Regulation<sup>3</sup> establishes that a social entrepreneurship fund is one where at least 70 % of aggregate capital is invested in social undertakings. It also states that such undertakings may include activities relating to environmental protection with a societal impact, such as anti-pollution, recycling and renewable energy (*Recital 15*).

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<sup>1</sup> EU 1286/2014, Article 33

<sup>2</sup> <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

<sup>3</sup> EU 346/2013

## SFI Taxonomy

The SFI focuses on three factors to build a sustainable financial market – environment, social and governance (*Taxonomy, Explanatory memorandum, paragraph 1*). Currently, the Taxonomy refers solely to the environmental strand. In the absence of a complete taxonomy, financial participants will not be clear as to whether disclosures are required. We therefore **recommend** that disclosures in respect of social and governance factors should not be required without first defining these elements in the Taxonomy.

## Definitions

The Disclosures Regulation proposal aims to facilitate the integration of sustainability risks into investors' investment decision-making process (*Disclosures Regulation, Explanatory memorandum, paragraph 5*). However, the term 'sustainability risks' is not defined in the Disclosures Regulation. The term also differs from terminology in the Taxonomy which refers to 'sustainable investments'. Further clarity is required as to what constitutes a sustainability risk.

The provisions must be clear on who is deemed a 'financial market participant' (*Disclosures Regulation, Article 2*). Currently, the regulations impose obligations on both authorised and registered fund managers. Typically, registered AIFMs can expect exemptions from some requirements imposed on authorised AIFMs. We do not believe an exemption for registered AIFMs would result in investors being disadvantaged.

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