



Open letter from the German Sustainable Finance Advisory Committee

Opinion and proposals to the European Commission on implementing the advice of the ESAs regarding the review of the PRIIPs Regulation, specifically the proposals relating to information in the KIDs on environmental or social objectives.

On 29 April 2022, the European Supervisory Authorities (ESAs) issued technical advice to the European Commission on the PRIIPs regulation¹. The advice had been requested by the European Commission, partly to benefit retail investors.

The German government had already outlined transparency-enhancing measures in its Sustainable Finance Strategy, which was published in 2021. One of the measures mentioned but not described in detail in the Sustainable Finance Strategy is the introduction of a “sustainability traffic light” for investment products aimed at retail investors (referred to as “products” for short in this letter).

Germany’s Sustainable Finance Advisory Committee supports the ESAs’ advice to include information about the sustainability characteristics of PRIIPs in Key Information Documents (KID). This would also further the German government’s efforts to enhance transparency with regard to products’ sustainability characteristics and should significantly increase clarity for both advisers and retail investors when discussing investments. Instead of adopting and thus duplicating the information contained in the templates of the SFDR (Sustainable Finance Disclosure Regulation, (EU) 2019/2088), **we recommend the use of a colour-based ESG scale (Figure 1)**. This should be included in the KIDs issued for PRIIPs.

We believe the following points should be taken into account in order to improve transparency on products’ sustainability characteristics:

- The initial results of the survey on sustainability preferences among investment advisers, insurance intermediaries and portfolio managers should be taken into consideration.
- The implementation must take place at the EU level in the PRIIP KIDs.
- The implementation can be carried out at Level 2 legislation.
- The implementation should focus not only on the SFDR, but also on the MiFID II and the Insurance Distribution Directive (IDD).
- It is important to take advantage of this opportunity to create a simplified system that gives advisers and retail investors better access to sustainable investments.

¹ <https://www.esma.europa.eu/press-news/esma-news/esas-recommend-changes-make-priips-key-information-document-more-consumer>

- In order to minimise the effort and complexity involved, the further deliberations should as far as possible take into account the target market definition in accordance with the MiFID. In this context, national specifics of the target market concepts must not lead to contradictions of the ESG scale.
- The information provided in accordance with Article 6 of the SFDR must also be presented in a transparent manner. In the case of products that are not covered by the SFDR, this should be based on the information in the target market definition.
- There should be enough space to present the information, with the right balance between extent and clarity.
- It should be reviewed whether any information can be cut from KIDs in order to maintain or reduce their length, which is currently three A4 pages.
- Regardless of the rating, the shares of nuclear and gas-related investments should be presented in a transparent way, directly adjacent to the ESG scale.

The way in which information is presented in the KID should correspond to the risk and reward profile. Here is one possible way of presenting the information:



Figure 1: Proposed ESG scale

Explanation of the ESG scale:

Products in the **A range** (green) meet the standard to comply with consumers' sustainability preferences. The individual categories have yet to be defined. This must be done in a way that takes practical experience into account.

Products in the **B range** (amber) place some focus on ESG criteria or contain no ESG risks, but do not meet the standard to comply with retail investors' sustainability preferences.

Products in the **C range** (red) may contain sustainability risks or are non-ESG products (if not covered by the SFDR).

The inclusion of the ESG scale in the KID is obligatory. Labels such as the EU Ecolabel can be used outside the KID (Figure 2).

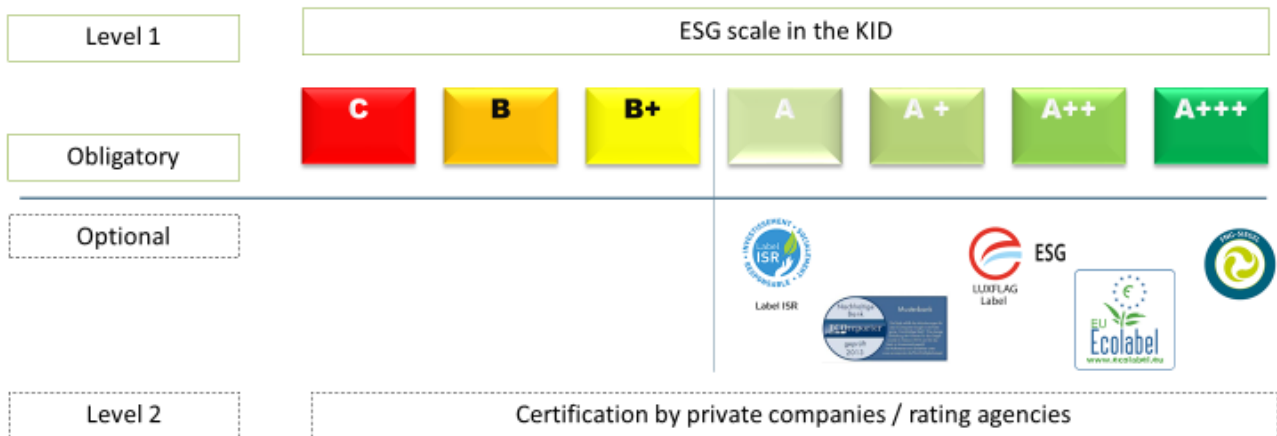


Figure 2: Obligatory and Optional Information in KID

The aim of adding an ESG scale to the KID is to present ESG information in a simple, easy-to-understand way on the basis of existing regulations.

The ESG scale cannot, and is not intended to, replace questions about sustainability preferences in the context of investment and insurance advice. The ESG scale is intended to give consumers easier access to sustainable finance products. As such, it can help them raise the subject of their sustainability preferences.

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[The Sustainable Finance Advisory Committee](#)

The German Sustainable Finance Advisory Committee advises the German government on sustainability aspects in the financial system. Consisting of 34 experts from the financial sector, the real economy, civil society and academia, and supported by 19 observers, it acts independently. It supports the German government in the implementation and further development of the German Sustainable Finance Strategy and advises relevant stakeholders on how to position themselves.