Press Release

BAI criticizes EU Supervisory Authorities' push for ESG Disclosure for financial products

- Sustainability efforts of the financial sector are in danger of being bureaucratically stifled;
- ESAs' proposals are disproportionate, far too granular and not geared to investor needs;
- Limited data availability and lack of consistency between political and industry initiatives require a fundamental revision of the proposals.

Bonn, September 3, 2020. The **Bundesverband Alternative Investments e.V. (BAI)**, the central representative of the alternative investments industry in Germany, strongly criticises the proposals for sustainability-related disclosure obligations in the financial services sector, which have been submitted for consultation by the European supervisory authorities ESMA, EBA, and EIOPA.

The draft of the so-called regulatory technical standards (RTS) is based on EU regulation on sustainability-related disclosure requirements in the financial services sector (Disclosure Regulation), which is part of the package of measures of the Sustainable Finance Initiative of the European Union. The regulatory standards contain extensive and detailed specifications on the one hand for the content, methods and presentation of product-related disclosure (pre-contractual, on the homepage, and in periodic reports), and on the other hand with regard to reporting on possible adverse effects on defined sustainability indicators.

BAI Managing Director **Frank Dornseifer** views the proposals of the EU supervisory authorities extremely critically: "Increasingly large parts of the financial sector have adopted sustainable investment as one of their priorities. This also applies to the alternative investment industry. With their proposals, ESMA, EBA, and EIOPA are clearly overstepping the mark; the initiative threatens to slow down this dynamic rather than support it. These comprehensive and detailed requirements are neither required by the underlying Disclosure Regulation, nor do they correspond to the actual risk-related information needs of investors with regard to ESG factors (environmental, social, governance). Moreover, the measures put undue demands on many affected financial companies that have developed their own methods or standards or have very limited access to this kind of information. As long as there are no corresponding reporting obligations at company or asset level, intermediaries cannot be obliged to collect such information themselves and make it available to investors."

From BAI's point of view, the Disclosure Regulation is already sufficiently specific and concrete and, as such, does not require such a level of detail and obligatory standardisation as is now being proposed by the European supervisory authorities. Furthermore, there is a lack of coordination with other political and industry initiatives aimed at improving the comprehensibility and comparability of ESG-related reports and disclosures. With this in mind, BAI particularly emphasizes the ESG disclosure standards for investment products of the CFA Institute, which specifically address the relevant requirements of investors while also taking into account the notion of materiality.

Frank Dornseifer further commented on the matter as follows: "In our opinion, the draft lacks important considerations and approaches, such as ensuring that the principles of proportionality and materiality are taken into account. Small or medium-sized financial institutions, which are generally excluded from the scope of application, will only be granted the opt-in option if they are fully subject to the very extensive and complex disclosure requirements. Anyone who chooses to opt-in on a voluntary basis or in order to comply with investor wishes will have to make a disproportionate effort. To avoid distortion of competition, we need a staggered approach. The same applies to materiality: it makes little sense for financial companies to have to comment on a list of 32 sustainability indicators regardless of whether they are relevant or not. The Disclosure Regulation on which these standards are based, however, requires that such materiality considerations be taken into account. These examples alone show that the need for improvement is considerable. "

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The Bundesverband Alternative Investments e. V. (BAI) is the central interest group of the alternative investments industry in Germany. The federation understands itself as catalyst between professional German investors and recognized offerers of alternative Investments products world-wide. It is committed to ensuring that German institutional and professional investors are able to diversify their capital investments more easily and effectively with regard to alternative investments, in particular with a view to securing German old-age provision in the long term. The BAI promotes public awareness and understanding of alternative investments and is committed to scientific research. It conducts a dialogue with political decision-makers and the responsible supervisory authorities and cultivates exchanges with national and international organisations and associations. The association pursues the goal of achieving legal reforms and further legal education in the interests of its members and their investors and of creating attractive and internationally competitive framework conditions for investing in alternative investments. The circle of BAI members recruited from all areas of the professional alternative investment business has grown to 230 businesses.