

SPTF Social Investor Working Group

December 9, 2020

Introduction and Announcements

- The next SIWG meeting will be Wednesday, January 20 at 10:30EST/16:30 EST.

EU Regulation – Sustainable Finance Disclosure Rules (SFDR) (Introduction by Karen Nierop, Triodos)

- Karen Nierop of Triodos provided an overview of the SFDR:
 - They require all financial market participants to show how they use ESG and other sustainable criteria.
 - They aim to harmonize ESG disclosure standards for different types of products and different times of end investors
 - 5 takeaways: minimum disclosure standards, define your product's shade of "green," entity and product level, be careful what you publish, data quality bottom-up
 - Other key questions:
 - *Who is it for?* Banks, investment firms and advisors, asset managers and insurance advisors
 - *What is the scope?* Direct applicability and indirect applicability (EU and non-EU institutions)
 - *What is the status?* Partly in force and legally binding
 - *What is the timeline?* First requirements apply March 2021; moving target through 2021-2023
 - *What should you be doing?* Impact assessment, gap analysis, business decisions, implementation
 - Legislation is most advanced on the topic of climate change and disclosure related to environmental and sustainable factors; unclear what is expected to be disclosed for social and governance factors
 - Will legislation become more prescriptive? There is room to provide input and determine criteria on what needs to be disclosed
 - Participants note that with SPI4, ALINUS and work with outcome measurement, the SIWG has some basis to propose proactive reporting (and potential KPI). CERISE recently updated its Impact Driven Investor Assessment tool (IDIA) to facilitate IFC disclosure on OPIM and could be used to share the strategy/ processes in place by investors on ESG.
 - In a poll during the call, participants said they would be in favor of the SIWG having a sub-group to further discuss this topic.

Next steps for client protection pathway

- **Update on Commitment to Implement proposed process:**
 - FSPs commit via a platform provided by SPTF/CERISE
 - SPTF will manage a page on its website that lists FSPs that have registered commitment.
 - Within 6 months, FSP will disclose client protection practices on its website (if possible) and with SPTF. Options for disclosure format:
 - Client protection indicators from ALINUS
 - A selection of client protection indicators that are considered minimum requirements
 - Free text format (SPTF/CERISE strongly support using either ALINUS or CP subset of ALINUS)
 - SPTF adds the disclosure document on the dedicated webpage of committed institutions + link to the disclosure
- **Update on External Evaluations**
 - 3-4 levels of External Evaluations:
 - Level 1 – Compliance with > 65% of CP indicators (including all minimum requirement indicators)
 - Level 2 – Compliance with > 85% of CP indicators (including all minimum requirement indicators)
 - Level 3 – Compliance with > 95% of CP indicators (including all minimum requirement indicators)
 - Level 4 – Compliance with 100% of CP indicators (if 3 levels, highest level will equal 95-100%)
 - No direct link between the Commitment to Implement and the External Evaluations
 - 3 years of validity for an External Evaluation
 - Still to be decided:

- Should there be one set of minimum requirements that are “must have” to access any level of external evaluation, or should there be increasing minimum requirements to achieve each level of external evaluation?
- If minimum requirements are already defined for the first level AND are expected to cover all the most relevant ones – then what are the incentives to go further?
- For the last 5 percent (between 95 and 100%): Should the indicators that can be part of the 5% missed be part of a restricted list (“nice to have”)? Gives flexibility to local regulations
- Investors noted that we need to make sure we’re not overburdening investees, given local regulations. Jurgen agreed and noted that SPTF has been increasing coordination with AFI.
- Next steps:
 - We will circulate a survey that addresses the above questions. Please fill out by the end of year.
 - All proposed minimum requirement indicators will be shared with the client protection sub-group for their feedback. Sub-group will provide comments by the first week of January and meet to discuss before the full SIWG meeting on January 20.
- **Update on Seal of Approval:**
 - In line with rater and investor feedback, SPTF/CERISE will introduce a validation of external evaluations. The name for such a “seal” has not been decided yet.
 - Majority of investors in client protection sub-group prefer a seal that verifies evaluators’ methodology and expertise
 - SPTF/CERISE will propose what the evaluation of expertise will comprise and be transparent