

UKSIF supports the EC Action Plan and the intention behind this legislation. We have consistently called for clients' sustainability preferences to be discussed in the suitability assessment and this has the full support of our members which includes over 50 financial advisers specialising in ESG. However, we have concerns over the way terms have been defined. We support the thrust of the regulation; our suggestions are intended to make it more effective.

Further clarity is needed around the language used and the meaning of 'ESG considerations', and 'ESG preferences' and how these connect to the clients' goals. It is vital to avoid language that is too vague and too prescriptive. Where terms are ambiguous they will be dismissed by investors; the risk of overly precise definitions is that they will constrain innovation and inadvertently devalue some existing methods.

Definitions in points (7) and (8) provide a new interpretation of ESG: 'Environmentally sustainable investments', 'social investments' and 'good governance investments'. New definitions, not included in the HLEG report or the Action Plan, will not help end users.

A better approach may be to use the term Sustainable and Responsible Investment (SRI), which covers more of the rich variety of investment strategies offered in Europe. As drafted the text is too narrow and fails to recognise that different, valid approaches to sustainable and responsible investment are available. We recommend a clause that gives a more permissive and flexible view of SRI. The language used by the Global Sustainable Investment Alliance (GSIA) report is a more accurate representation and is more appropriate. The GSIA define 7 SRI techniques:

- (a) Negative/exclusionary screening;
- (b) Positive/best-in-class screening;
- (c) Norms-based screening;
- (d) Integration of ESG factors;
- (e) Sustainability themed investing;
- (f) Impact/community investing, and
- (g) Corporate engagement and shareholder action.

If the Commission uses the terms outlined in the draft legislation then they should be amended as follows:

*(7) 'ESG preferences' means a client's or potential client's preference for investments which consider environmental, social, or governance factors as part of their investment strategy as per national and EU norms.*

*(8) 'ESG considerations' means a consideration related to environmental, social or governance factors as part of an investment strategy as per national and EU norms.*

There are also issues with points (9), (10) and (11):

(9) While we welcome a focus on environmental sustainability, the link to the taxonomy, which will not be developed for some years, is a fundamental problem from an implementation standpoint.

(10) "Social investment" has a specific meaning in the UK where it is coming to mean investments that have the aim of delivering positive impact; this is in contrast to the more established practice of considering social factors as part of an SRI strategy. Advisers should enquire about a client's

motivations with regard to social investment, but this should be included as part of a wider discussion about SRI preferences. This wording could therefore have a detrimental effect in the UK.

(11) The term 'good governance investments' is unhelpful and will be difficult to define given the range of governance regimes in Europe unless the legislation refers to the specificities of the member states' regimes.

Our members are concerned about the wording relating to how preferences towards ESG criteria are given. This legislation should not be interpreted as singling out one (or more) component of ESG, but rather of addressing them as one.

The UK Government is currently consulting on requiring pension schemes to integrate financially material ESG factors and members' views relating to non-financial concerns. There are clear parallels to this work: The UK Government has taken a different approach and we would encourage the EC to review the UK's draft legislation available at <https://bit.ly/2Maq9c5>.