

BAI's Feedback on the EET 1.1.1

The **Bundesverband Alternative Investments e.V. (BAI)** would like to provide feedback to FinDatEx with regard to the current version of the European ESG Template, the EET 1.1.1.

BAI members incl. regulated LPs, GPs, third party AIFMs, administrators, consultants and legal counsels have discussed on and worked intensely with the EET, and for almost two years, a BAI Roundtable on PAIs for illiquid asset classes (real estate, infrastructure, private equity, private debt) has gained a significant experience. We are happy to share our members' insights and experiences with FinDatEx and would be very happy to attend FinDatEx meetings in the future and explain the points and actively contribute to the new version of the EET.

Since alternative investments are usually not covered by typical liquid data providers and are therefore subject to processes and requirements different from liquid assets, we highly recommend considering those specifics in the FinDatEx Working Group.

Please see some of the recent webinars provided by BAI and BAI members with regard to PAIs, EET and SFDR:

- PAI Best Practices:
https://www.bvai.de/fileadmin/Events/Webinare/20220119_BAI_PAI_Webinar_gesamt.pdf
- EET webinar 1:
https://www.bvai.de/fileadmin/Events/Webinare/BAI_Webinar_EET_SOF_21.09.2022_Gesamtpraesentation.pdf ;
- EET webinar 2:
https://www.bvai.de/fileadmin/Events/Webinare/BAI_Webinar_SOF_ESG_2023_all.pdf
- SFDR RTS webinar:
https://www.bvai.de/fileadmin/Events/Webinare/BAI_Praxis-Webinar_SFDR_RTS_HSF_20.09.2022_Gesamtpraesentation.pdf.

Please note that we intend to publish this BAI Feedback incl. the suggestion for an Art. 8 Taxonomy DA template on the BAI website (www.bvai.de).

1. Clarification of definitions for coverage ratios (CR) and eligibility ratios (ER)

Problem: While PAI coverage ratios (CR) and PAI eligibility ratios (ER) are not defined by the regulations, they are crucial metrics for the aggregation on the investor level and are also sometimes required by auditors for the PAIS disclosures. Due to unclear and confusing definitions in the EET, we observe a high uncertainty of market participants with regard to how to calculate those ratios. This has been recently confirmed by the number of questions received regarding this topic in our BAI webinar as well as from BAI members in our working groups.

Specifically, the key question is around the denominator of those ratios (only covered assets vs. only eligible assets vs. total assets incl. cash and other receivables).

Solution: Clarify the definitions of the PAI coverage ratios and PAI eligibility ratios incl. a precise mathematical formula for the calculation incl. an example. Total assets incl. cash and other assets should be included in the denominator in order to be consistent with the definition of "all investments". Our suggestions in the BAI workshop on PAI reporting via EETs may be helpful for that purpose:

- [bvai.de/fileadmin/Events/Webinare/BAI Webinar SOF ESG 2023 all.pdf](https://bvai.de/fileadmin/Events/Webinare/BAI_Webinar_SOF_ESG_2023_all.pdf)
- [BAI Web: European ESG Template EET - Lessons Learned from the First PAI Reporting for the Year 2022 - YouTube](#)

2. Redundancy of eligibility ratios

Problem: Eligibility ratios exist on the levels of PAI categories – investee companies (IC) / supranationals / Real Estate (RE) –, and not on the level of every single PAI KPI. The only exception are NACE specific PAI KPIs where there are PAI KPIs on the level of NACE.

Practically, it means that 58 PAI eligibility ratios could be replaced by 1 PAI IC eligibility ratio field. 11 RE eligibility ratio fields could be replaced by 1. 10 supranationals fields would be replaced by 1. In other words, instead of 79 eligibility ratio fields we would have 3 -> that would be **76 fields less!**

Besides, such a large number of redundant fields leads to a high number of mistakes (e.g., empty ER or inconsistent ER in one EET) which may make a usable EET unusable.

However, we also received feedback from some members who define eligibility ratios as PAI- and investment-specific. For instance, certain PAIs for investee companies are considered as

not eligible in the construction phase. Once the construction phase is completed, they become eligible.

In order to avoid different interpretations, a clear definition of the eligibility ratio would be helpful given that it is currently only contained in the EET and introduced by FinDatEx.

Solution: Redundant eligibility ratios to be summarised in one field per PAI category based on the definition (see point 1). NACE-specific ER have to be kept.

3. EET reporting frequency

Problem: In our opinion, the base case for the EET reporting frequency should be annual for the reason that all outputs also have to be created annually:

- Art. 4 PAI Statement (by 30 June)
- Art. 7 PAI Statement (based on the fund annual report cycle)
- Art. 11 annual report for Art. 8 / 9 SFDR funds incl. Art. 5 / 6 Taxonomy DR (based on the fund annual report cycle)
- NFRD / CSRD disclosures are part of annual reports.

Moreover, PAIs are defined as annual values in SFDR RTS and have to be calculated for the reference period 1.1.-31.12. Calculating them for quarterly periods may not always make sense and be in line with regulations.

The requirement to calculate PAIs based on quarterly observations does not lead to the requirement to calculate quarterly PAIs! The ESAs provided an explicit example of calculating PAIs on an annual basis from quarterly % market values – see pages 4-5:

[JC 2022 23 - Clarifications on the ESAs' draft RTS under SFDR \(europa.eu\)](#).

The ESAs' Q&A from November 2022 clearly states that the requirement is not about quarterly PAI values but about quarterly holdings of investments: *"The intention behind the use of at least four data points is to capture the change in the financial market participant's investments across a given financial year, as some investments made by the financial market participant may not be held by the financial market participant from beginning to end of the period in consideration, and their relative weights may change across time. Therefore, the provision of data by undertakings on a quarterly basis is not a pre-requisite to perform at least four quarterly calculations"* [JC 2022 62 JC SFDR Q&As \(europa.eu\)](#).

Making an assumption for the industry that EETs have to be provided with quarterly PAIs on a quarterly basis means increasing the reporting cost and effort by 4 times although it is not

even required by the regulator!

So far, all institutional LPs in alternative investment space (pension funds, insurers, AIFMs) require EETs on an annual basis.

Solution: In summary, it is absolutely crucial that EET's specifications also accommodate for the annual reporting cycle which is in line with regulatory requirements and in the best interest of the industry. Of course, you can still use EETs for quarterly reports, but the base case should be annual and the fields should be calibrated in a way that an annual reporting frequency is possible. Please see comments on the field 70010 reflecting this point in the chapter "specific datapoints" below.

4. Specific Datapoints

#30420 - #30490: Share % Energy Production / Consumption from Non-Renewable Sources

Problem: While the SFDR RTS displays the KPI as one metric in the Annex I, the EET splits the KPI in 2 sub-KPIs. Some market participants understand that SFDR RTS allows splitting the KPI in 2 sub-KPIs, while others (incl. some large ESG data providers) report the KPI as one metric. The current consultation on the SFDR PAIs also splits the metric in 2 KPIs.

The issue with reporting an aggregate value is that (i) it may not be very meaningful from the interpretation perspective and (ii) it is difficult to aggregate it with consumption and production calculated separately, since they may have different coverage ratios which doesn't allow a meaningful aggregation.

The issue with reporting 2 different values is that while it makes sense, it is difficult to aggregate them to one value.

Solution: In our view, there is no perfect solution provided that the market is currently using 2 different approaches due to an unclear interpretation. We recommend leaving two values separately even if there may be issues for market participants to aggregate them into 1 value. This approach is consistent with the SFDR consultation and is also meaningful. We don't recommend replacing 2 values by 1 or by adding an additional field with 1 combined value.

#31520 – 31630: Breakdown Energy Consumption by Non-Renewable Source

Problem: While the SFDR RTS doesn't specify the non-renewable sources of energy, the EET

has 3 sets of datapoints (oil, gas, coal). However, other market participants incl. liquid data providers have further non-renewable sources (e.g., nuclear, lignites, other). Aggregating data from liquid providers and the EET may therefore be challenging due to different structures.

Solution: We recommend adding further datapoints for non-renewable sources (e.g., lignite, nuclear, other). In any case, we recommend adding a datapoint “other non-renewable sources”, otherwise it may be not possible to report all non-renewable sources.

#33150-33180: Number and amount of fines

Problem: While the SFDR RTS requires 2 KPIs, (i) number and (ii) amount of fines, the EET has only one set of datapoints for this. Therefore, the amount of fines can’t be reported via EET.

Solution: We recommend adding a new datapoint “amount of fines”.

#70010: Total Fund AuM or Notional

Problem: The field is defined as of the PAI Reference Period end date (e.g., 31/12/2022). However, in an annual reporting cycle (see our point above) at least 4 values would be required if the calculation is in accordance with the economic approach suggested by EFAMA, or the value should be as of the fiscal year end date of the fund suggested by the ESAs.

It is also not clear how exactly the value is defined.

Solution: We recommend adding 3 additional fields for Notional as of the quarter end date. This will enable users calculating GHG emissions via an annual EET and with the economic approach. We recommend defining the Fund AuM as “total assets of the Fund incl. cash, other assets and derivatives”.

5. Extension of the EET to the NFRD / Article 8 Taxonomy DA reporting

Problem: Currently, the EET doesn’t contain the relevant datapoints required for the NFRD investors who need to report data based on Annexes to Art. 8 Taxonomy DA (e.g., Annex 10 and 12 for insurance NFRD investors). At the same time, it could make sense to bundle different LP regulatory reporting topics in one EET format and reporting process.

Solution: We recommend adding additional datapoints to the EET that will cover the relevant Article 8 Taxonomy DA requirements. Please see a suggestion for the datapoints that could cover Annex 10 and 12 for insurance NFRD investors that some of BAI members are currently using. This template could be used as a basis for the discussion and extended to further Annexes, e.g., for asset managers or banks.

If NFRD datapoints are added to the EET, they should be distinctly separated from the current EET SFDR datapoints so that Taxonomy-related fields between those two regulations are not confused.

Contact:

Michael Bommer

lic.iur. HSG, Attorney-at-law (CH)
Bundesverband Alternative Investments e. V.
Poppelsdorfer Allee 106
D-53115 Bonn

Phone: +49-(0)228-96987-51
Email: bommer@bvai.de
Internet: www.bvai.de

The **Bundesverband Alternative Investments e.V. (BAI)** is the cross-asset and cross-product lobby association for the alternative investment industry in Germany and we consider ourselves as a catalyzer between professional German investors and suppliers of Alternative Investment products worldwide. The overarching goal is that German institutional and professional investors must be able to diversify their investment with regard to Alternatives better and more easily. The BAI is promoting a broad diversification which includes Alternative Investments as indispensable, in particular in terms of safeguarding long-term retirement pensions and the provision of money for construction, maintenance, and development of public infrastructure and renewable energies.

BAI members are recruited from all areas of the Alternative Investments' industry, e.g., AIF managers and banks as well as service providers. At present, the BAI counts almost 300 national and international member companies and is growing continuously.