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Feedback on the Proposal for a Corporate Sustainability Reporting Directive

To	European Commission
From	DUFAS (Dutch Fund and Asset Management Association)
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Subject	**Proposal for a corporate sustainability reporting directive (CSRD)**
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In this document, the Dutch Fund and Asset Management Association (DUFAS) has summarized its feedback on the proposal for a Corporate Sustainability Reporting Directive with reference to COM(2021) 189 final as announced by the European Commission on 21st April 2021.

General comments

DUFAS strongly supports the development of a solid corporate sustainability reporting framework and sustainability standards.

We believe that CSRD will improve the quality of sustainability information and increase the comparability of ESG data between investee companies. Moreover, we support the expansion of the scope to large undertakings as it will increase the coverage of sustainability data for investment portfolios. We also see merit in making sustainability information available in electronic format as this will spur the roll-out of a European Single Access Point (ESAP).

Next to these general comments, we have remarks about six specific subjects and one observation:

1) Alignment with global sustainability standards initiatives

DUFAS stresses the importance to look for global alignment of sustainability standards as asset managers invest globally and comparability of information is therefore key. We encourage the Commission and EFRAG to take notice of initiatives like the development of a global sustainability standard by the IFRS Foundation.

The materiality perspectives for sustainability information of IFRS and CSDR will likely differ, which means that information will not be fully comparable as the topic boundary is not the same. Therefore, there may be a common basis for sustainability reporting in both frameworks, but for CSRD companies there will be a double materiality 'overlay'.

We support the principle of 'global reporting standards where possible and additional European reporting standards only where needed'.

2) Assurance of sustainability information

DUFAS supports the obligation for limited assurance for companies subject to CSRD. As suggested in the CSRD proposal, the obligation could be extended to 'reasonable assurance' through time to reflect the increasing importance of sustainability information. In our view, an obligation for reasonable assurance should be proportional, which means that smaller companies and asset managers should be exempted to avoid excessive assurance cost burdens.

3) CSRD should include reporting on principal adverse impacts (PAIs)
Article 19b-1(a) of the proposed amended Directive 2013/34/EU stipulates that ' *... undertakings are to report ... at least specifying information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088*'.

Although this is likely the intention of Article 19b-1(a), we stress that investee companies should be required to report on their principal adverse sustainability impacts (PAIs) as described in the SFDR draft RTS to enable asset managers to fulfill their entity level and product level disclosures.

4) Disclosing information on sustainable investments/activities
DUFAS suggests that companies subject to CSRD should not only disclose the Taxonomy alignment of their revenue, CAPEX and OPEX, but also to which degree their activities qualify as 'sustainable' as defined in recital 17 of the SFDR level 1 text (the term 'sustainable investments' is used in SFDR).

This is important as asset managers need to know to which degree a company's activities qualify as sustainable to report the proportion of sustainable investments in pre-contractual information and periodic reporting. Reporting on 'sustainable activities' is not dealt with in the Article 8 Delegated Act of the Taxonomy Regulation.

As long as the Taxonomy is not extended to all environmental activities and social activities, investors will have no reliable information on the broader concept of sustainable activities of an investee company. Consequently, the risk is that different asset managers will have different opinions on whether an investment is a sustainable investment.

5) Exemption for listed fund vehicles
DUFAS believes that listed fund vehicles (like UCITS and retail AIFs) should be exempted from CSRD reporting requirements as the funds will already report extensively on ESG matters under the SFDR. Next to that, the management companies of the listed funds will in many cases be subject to CSRD, which means that they will report the sustainability information at entity level.

6) Reporting by non-listed SMEs in high-risk sectors
In the CSRD proposal, non-listed SME companies may choose to report sustainability information on a voluntary basis. DUFAS understands that non-listed SMEs should not be confronted with disproportional reporting burdens. However, for non-listed SMEs in high-risk sectors the Commission could consider proportional, simplified reporting standards at some stage to improve transparency to investors and lenders.

There is currently no definition of a high-risk sector in European sustainable finance legislation. Potentially, the (extended) EU Taxonomy could be used to define what sectors/activities are considered to be high-risk. For example, an activity could be considered high-risk if the thresholds of certain screening criteria are exceeded or if the activity is in a sector where there is evidence that meeting minimum social safeguards is a challenge.

Observation on the timing of reporting
CSRD will help asset managers to report on the sustainability of companies in their investment portfolios. However, we note that SFDR reporting on PAIs and Taxonomy alignment by investee companies will relate to reporting periods that are not always the same as the reporting period of the asset manager.

The reason for this is that asset managers need to gather all data before they can report information on fund or portfolio level. The annual reporting cycles of investee companies and asset managers will often overlap (February-May).

Therefore, part of the sustainability data of investee companies will refer to previous reporting years as the data are not yet available when asset managers need to make their SFDR disclosures. Asset managers are familiar with this time-lag issue as it also is the case when they report about the carbon footprint of their investments.

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More information

Would you like to respond, or should you have any questions? I would be pleased to hear from you. Please feel welcome to e-mail Maurits Heldring, DUFAS, sustainability advisor, at mhe@dufas.nl.

DUFAS: Dutch Fund and Asset Management Association

Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.