European Fund and Asset Management Association

EFAMA's POSITION PAPER ON THE SCOPE OF CSRD AND INTERPLAY WITH SFDR

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The asset management industry recognises the much-needed adoption of mandatory European sustainability reporting standards under the Corporate Sustainability Reporting Directive (CSRD) proposal. Insufficient availability of meaningful, comparable, reliable, and public Environmental, Social and Governance (ESG) data is a key impediment to realising the full potential of the EU's sustainable finance regulatory framework. Financial market participants' sustainable investments need to be driven by real, verifiable and reported ESG metrics of company's activities and financial risks. We, therefore, encourage the co-legislators to maintain the ambition of this proposal. From the perspective of information users, the CSRD is a crucial piece of the puzzle which allow us to meet more accurately our disclosure obligations under Sustainable Financial Disclosures Regulation (SFDR) and the Taxonomy.

However, as information preparers under SFDR, we call on the co-legislators to avoid unnecessary duplication of reporting layers with the application of CSRD. In this position paper, we outline the rationale for excluding financial products under the scope of CSRD and for enabling a waiver/cross-reference of asset managers' SFDR disclosures under their entity-level CSRD disclosures.

Funds should be excluded from the scope of CSRD

As outlined in the Commission's renewed Sustainable Finance strategy (page 3)[1], the EU's sustainable finance disclosures regime comprises two legislative acts – the CSRD and SFDR. The scope of CSRD applies to "all large undertakings and all listed companies" and SFDR to "financial market participants offering investment products and financial advisers" (ibid, p.3). With the proposed scope of CSRD capturing all large undertakings and all listed entities, for as long as they meet two of the three pre-defined criteria, the CSRD proposal is highly likely to cover financial products/funds listed on a regulated market (such as Exchange-Traded Funds) and any financial products meeting two out of the three criteria, including exceeding a balance sheet total of €20m, and a net turnover of €40m.

Such capture of financial products by the CSRD proposal could come in addition to the product and entity-level sustainability disclosure obligations asset managers have to comply with under SFDR. For example, at the entity level, asset managers will have to disclose whether or not principal adverse impacts of investment decisions on sustainability factors are considered. If so, they must assess this impact on sustainable factors based on specific indicators, to be adopted in the SFDR RTS. With SFDR being the appropriate regime for financial products' sustainability reporting and CSRD for company's reporting, we call on the co-legislators to exempt financial products/funds from CSRD.

An exemption for financial products/funds would be the only workable solution despite the flexibility offered in Article 11 (3) of SFDR to leverage NFRD/CSRD disclosures in addressing the SFDR disclosure requirements. The scope of the current Non-Financial Reporting Directive currently does not cover financial products/funds due to the 500 minimum employee threshold. Therefore, for the 2022-23 reporting period, before reporting under CSRD expectedly starts in 2024, no financial products/funds would be able to leverage NFRD/CSRD disclosures and avail of the flexibility in Article 11(3) SFDR. This

[1] https://ec.europa.eu/finance/docs/law/210704-communication-sustainable-finance-strategy_en.pdf

means the relevant financial products/funds will need to adopt SFDR requirements in full in 2022 and subsequently also comply with CSRD from 2024.

Moreover, the draft SFDR RTS requires disclosures to be included in a specific appendix to the annual report in set templates. In contrast, CSRD mandates disclosures in the management report section of the annual report. This would result in unnecessary duplication of information and will make it challenging for investors to follow. To address this problem, the CSRD should ensure that a firms´ separate ESG report would be eligible, instead of requiring all CSRD reporting in the consolidated management report in the annual report.

Avoiding duplication in entity-level reporting between SFDR and CSRD

We also see a duplication risk with the CSRD coverage of all asset management companies meeting two out of three criteria suggested in the new legislative proposal. It is essential that CSRD does not introduce duplicative reporting requirements on the same or similar ESG issues which they already report under the SFDR principle adverse impacts and sustainability risks. Asset management companies already provide substantial sustainability reporting for their products, under SFDR. An overlap with CSRD would be burdensome from a management company's perspective and detrimental to a clear and consistent understanding for investors, who could receive similar information related to the managers' activities in different templates and formats.

Therefore, we call on the co-legislators to introduce a waiver/cross-reference possibility under asset managers' CSRD disclosures to the extent that they already submit such information under SFDR at the entity level. In addition, the CRSD proposal should ensure that the foreseen mandatory sustainability reporting standards are meaningfully aligned with the information disclosed under SFDR to avoid duplicative entity-level reporting and enable the application of such a waiver/cross-reference.

An alternative solution could be to permit financial services firms to report under CSRD at group level where appropriate, given that some subsidiary legal entities might be holding companies, for which such reporting might not be meaningful or additive to the policy objective of providing company level sustainability information.

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About EFAMA

EFAMA is the voice of the European investment management industry, which manages over EUR 27 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors. Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities.

EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org

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