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POSITION PAPER

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ONDERWERP: Corporate Sustainability Reporting Directive

The Dutch Federation of Pension Funds welcomes the proposal for the Corporate Sustainability Reporting Directive (CSRD), which will replace the current Non-Financial Reporting Directive (NFRD).

Most Dutch pension funds have responsible investment policies in place. A significant majority of pension funds has joined a sectoral agreement to implement the OECD guidelines on due diligence. Most of the large pension funds have committed to contribute to the realization of the Paris Agreement and the Dutch Climate Agreement and signed up to a commitment for mandatory reporting on the climate impact of their investments from 2020 onwards. In addition, they agreed to have action plans in place by 2022 that contribute to reducing their climate impact. As a result, many Dutch pension schemes, representing a significant majority of participants and AUM, are categorized as a ‘light green’ financial products under the Sustainable Finance Disclosure Regulation (SFDR). Moreover, a significant number will report principal adverse impacts.

In order to meet the objectives of their responsible investment policies, pension funds need information about environmental, social and governance factors of the companies that they invest in. They also need sustainability data in order to comply with regulatory requirements under the SFDR and the Taxonomy Regulation (TR). We therefore call for an ambitious review of the NFRD that leads to more comprehensive, quantitative and comparable reporting.

We would like to make the following specific remarks.

Scope

For the implementation of the responsible investment policy and own reporting obligations under the SFDR, pension funds need information on the companies they invest in across the spectrum of asset categories. The majority of these investments are in listed companies that would have already been subject to reporting under the NFRD, but some investments may be brough in scope. This applies to private equity investments and smaller listed companies. It is good to note that a very significant share of investments is located in the US or emerging markets and these will continue to be out of scope.

We welcome the extension of the scope as it helps to develop responsible investment strategies in areas where data may still be lacking, such as private equity. At the same time, a broad coverage of companies should not come at the expense of the depth of information.

Link with the SFRD

We welcome the clear link with the SFRD in the CSRD proposal. The SFRD introduces reporting requirements on principal adverse impacts (PAIs) along a broad set of 18 quantitative and qualitative indicators. Therefore, the financial sector essentially is required to report on information that does not yet need to be made public by companies. This means that pension funds will need to obtain information, partly based on estimates, from specialized data providers. As a result, data sets can diverge significantly and come at a significant cost.

The CSRD should fill this data gap by inclusion of the PAI indicators in the EU sustainability reporting standard. We therefore welcome the statement in both recitals and articles of the CSRD proposal that the EU sustainability reporting standard needs to fulfil the information needs under the SFDR and that there should be coherence between the two pieces of regulation. Nevertheless, the proposal could be improved by explicitly requiring that the forthcoming list of PAI indicators will become part of the EU sustainability reporting standard.

Assurance

The quality of sustainability data is of paramount importance to enable pension funds to translate sustainability objectives in investment strategies that meet those objectives. While data providers strive to fill the current data gap, data quality should be assured at the source – i.e. the company – in order to ensure data quality downstream in the investment chain.

- Over time, the assurance of non-financial reporting should therefore develop to the same standard as the assurance of financial information. However, it should be recognized that this will take time. We therefore support the proposal's requirement for the limited assurance of sustainability reporting.

Link with the ESAP

We applaud the envisioned link with the European Single Access Point (ESAP). The Dutch Federation of Pension Funds believes that the ESAP should be first and foremost developed to foresee in the need for sustainability information by investors. Uploading CSRD information to the ESAP will reduce costs for investors to access this information. This is particularly important for smaller pension funds, for which data costs represents - relatively speaking - a much higher cost than for large schemes.

Global convergence

With pension fund portfolios being allocated to a significant degree to non-EU investments, it is important that EU initiatives towards more sustainability reporting by companies go hand in hand with global convergence in the area. We recognize that European leadership is necessary to engender international action and we welcome developments towards sustainability reporting at the IASB. The meeting of the G7 finance ministers in London on 4-5 June 2021 led to an important agreement, under which G7 nations will mandate climate reporting in line with the recommendations of the global Task Force on Climate-Related Financial Disclosures (TCFD).