Position Paper

FERMA position paper on the Corporate Sustainability Reporting Directive (CSRD)

24 June 2021

Introduction

FERMA is pleased to have the opportunity to provide the European Commission with feedback from the risk and insurance management community on its proposal for a Corporate Sustainability Reporting Directive [CSRD] ('the proposal').

FERMA as the EU-level representative of the risk management profession has an important voice on the topic of sustainability. The task force on climate-related financial disclosures (TCFD) recommends focusing on four thematic areas of how organisations operate: governance, strategy, metrics and targets, and *risk management*. How organisations identify, assess and manage climate-risks (i.e. risk management) is a key part of their strategies, and essential for ensuring both sustainability and resilience.

Furthermore, risk and insurance managers regularly both *produce* and *use* sustainability information on behalf of their enterprises. This therefore means that a revision of the requirements for sustainability information directly impacts both our profession, as well as the way that information is produced.

Bearing the above in mind, FERMA wishes to express its support for the Commission's ambitious CSRD proposal but would, however, like to make the following comments.

While we wholeheartedly agree that companies should do 'double materiality' sustainability reporting, we are concerned by the quantity-quality tradeoff, especially when problems exist currently with application of double materiality.

As risk and insurance managers taking an enterprise-wide view of risks and opportunities is a fundamental part of our role. For example, for many risk managers, the so-called 'inside-out' and 'outside-in' perspectives are used as part of risk identification and mapping that is presented to Boards. However, in our processes for determining what risks to report on internally there is normally a threshold. Whether that threshold is defined by an impact-probability matrix or otherwise, there is some guidance in terms of what is important to focus on. With the 'double materiality' principle in reporting as we understand as proposed, we are concerned the priority is on reporting exhaustively rather than on selecting the priority areas. As we are also users of sustainability information there is an appreciation of information on a wide range of topics. As ever there is a tradeoff between quantity and quality. We await the further development – and necessary clarification – of this concept as the standards are developed.

In practice, and as the CEPS study for the impact assessment found, there are problems for some in understanding the concept of the 'double materiality perspective'. It is our view that it is not necessarily the *what* or the *why* that are being misunderstood. The *what* and the *why* have been clarified in NFRD guidelines, and informs at least part of the philosophy behind the forthcoming initiative on corporate sustainable governance. It is our contention that the misunderstanding with double materiality reporting is on the *how* and *how much* to report. To begin with a definition of ‘material’ is key. This is especially important since organisations must report information over ‘short, medium and long-term horizons’ (Ref. Article 19a, 2.) as well as forward-looking and retrospective information. Clarity here is also important for organisations in the process of having their reporting assured or audited. We have for instance been made aware by our Members that there have been diverging understandings between them and the auditor of what is material and needs to be reported.

FERMA supports an expansion of the scope, however, we have two concerns with this: i) timing, and ii) knowledge-gaps.

On the scope expanding, we are broadly positive about more companies reporting sustainability information to a common standard. In principle, this will lead to more consistent and comparable sustainability information. However, there is a risk that the scope expanding over a short timeline may create a situation where there are more entities reporting but at a poorer quality due to lack of comprehension or time to understand what it is they must report on. While we appreciate the urgency of action in all matters related to the climate, and sustainability more broadly, there may be some benefit in the Commission considering revising its ambitious timeline. The point on timeline is especially important considering there will likely be important knowledge-gaps among companies that now need to report according to an EU standard. FERMA would support, for example, an EU-level helpdesk on sustainability reporting to help with FAQs.

FERMA welcomes the proposal for a common standard on sustainability reporting to be developed but urges that this work is led by industry.

Unfortunately, there appears to be a paradoxical situation where companies have converged around a limited number of standards (for example TCFD or GRI) yet there is not yet an appropriate level of consistency and comparability in the information being reported. This situation warrants further investigation. For risk managers—and other key stakeholders—the ability to compare and evaluate information on sustainability will help us more accurately assess risks and opportunities related to sustainability. Industry-led development of standards will help to drive a workable standard that draws on what’s already out there, not just for the EU but also internationally. FERMA offers its support to EFRAG, and rests at its disposal should there be need for risk expertise.

Going digital is welcome but those reporting will likely need some guidance on the process.

FERMA supports the Commission’s intention to make sustainability reporting adapted to the 21st century with the requirement for sustainability information to be disclosed in a digital, machine-readable format. What we are missing, however, is a clear set of guidelines on how to do this as well as information on how to perform the required ‘tagging’. Furthermore, and related to the tagging, it will be important for the European Commission to ensure that the tags are meaningful and adaptable, since the area of ESG-related data is subjective and evolving – this is illustrated by the fact not all parts of the EU Taxonomy are yet agreed upon and articulated.

Quality assurance is indeed desirable, however, we hope the ‘standard’ will mirror the reporting standard.

While FERMA supports both the intention behind requiring an assurance (i.e. seal of quality approval) of the sustainability information and developing assurance standards for sustainability reporting, we do have two concerns. First, an external audit of sustainability reporting will imply direct and indirect costs to enterprises. While we appreciate that the Commission intends to put some work here to making the costs more manageable, for some enterprises this requirement will be easier to bear than for others. Second, we understand there will be an audit/assurance standard developed for sustainability reporting and we are concerned that this may lead to divergence between the auditing standards and the specific reporting standards for companies. A situation could conceivably arise where the auditor requires either different information entirely, or a different level of detail in the information reported by the company than would otherwise be the case for the reporting entity. This is a situation that should be avoided.

About FERMA

The Federation of European Risk Management Associations brings together 22 national risk management associations in 21 European countries. FERMA represents the interests of nearly 5000 risk and insurance managers in Europe active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. More information can be found at www.ferma.eu