Position Paper

Response to EC consultation on the Corporate Sustainability Reporting Directive

Our reference:	ECO-FRG-21-090	Date:	12 July 2021
Referring to:	EC CSRD legislative proposal		
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Pages:	4	Transparency Register ID no.:	33213703459-54

Key comments

Insurance Europe is very supportive of the Corporate Sustainability Reporting Directive (CSRD) initiative. As Europe's largest institutional investor with €10 trillion of investments, it is vital that consistent, comparable and machine-readable sustainability data is available so insurers can make appropriate investment decisions and comply with the European regulatory disclosure requirements (Sustainable Finance Disclosures Regulation (SFDR) and Taxonomy). The CSRD will play a vital role in ensuring that consistent and comparable sustainability data is available and, together with the European Single Access Point (ESAP) initiative, that data can be accessed and used efficiently.

The industry is particularly supportive of the following important aspects of the Commission's proposals:

- **Mandatory reporting in machine-readable format, freely accessible to users.**
- **Data needed for Taxonomy and SFDR reporting prioritised and included in the first set of sustainability reporting standards (SRS).**
- **Increase in scope of companies covered — with large and listed companies having mandatory reporting and SMEs reporting on a voluntary and potentially simplified basis.**
- **Target timeline for first mandatory reporting in 2024 on the year 2023.**
- **EU sustainability reporting standards build on and contribute to standardisation initiatives at global level through constructive two-way cooperation between EFRAG and international initiatives.**
- **Limited assurance, with a later review to consider if this should change to reasonable assurance.**
- **Role of EFRAG to develop standards in consultation with stakeholders.**
- **Option to publish sustainability reports at consolidated (group) level.**

The industry notes, however, the following important elements where clarification/refinements are needed:

- There should be no decision now to move to automatically reasonable assurance. Given the very significant cost difference, the assessment of whether such a change is needed should be made after the CSRD is up and running. The current text makes the change to reasonable assurance automatic if standards for a reasonable assurance audit are defined, however the decision to move from limited assurance should be separated from any decision to define audit standards.

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- While the scope increase is welcome, the definition of large undertakings included in the draft text does not work for insurers because their balance sheet and revenue are fundamentally different from companies in other sectors. As a result, almost all SME insurers will be wrongly treated as large companies. For example, even a run-off insurer with a staff of five would be included as a large company under the current definition. One solution to this would be to apply only the employee criteria to insurers in order to identify which non-listed insurers are large enough to be included in the scope of the CSRD.
- Insurers support the EC's ambitious timeline and the need for rapid progress, but if it takes longer than hoped to finalise the EU's SRS then the timetable for reporting will also have to be adjusted to allow sufficient time for preparers to adapt systems and procedures and produce data of reasonable quality. Should there be any delays in the development of the SRS, the first set of requirements should focus on reporting information as defined by the SFDR and Taxonomy.

Detailed comments

Scope

Insurance Europe welcomes the EC's decision to extend the scope to all large companies and all listed companies. This will ensure that a very wide range of companies recognise the importance of taking ESG considerations into account in their strategy and operations and provide reporting on their progress. These companies will provide the data that insurers need to fulfil their reporting requirements under the SFDR and Taxonomy Regulation. The proposals to encourage companies out of this mandatory reporting scope to also report on a voluntary basis and to consider whether simplifications are appropriate for SMEs is also supported. European insurers likewise welcome the fact that the EC included level playing field considerations in its proposal. It is important that non-EU entities should also be subject to the same requirement as EU entities. The objective should be to minimisse misalignment to ensure a level playing field.

However, Insurance Europe notes that the definition of a large company used by the EC does not work for insurers because, for example, even very small insurers will have balance sheets above €20m. Therefore, the important steps taken to recognise that the full CSRD requirements will be too burdensome to apply to all SMEs will not work for "SME insurers" considered as large undertakings. It is expected that many "SME insurers" and insurance enterprises in run-off will want to report under the voluntary simpler standards that will be designed for SMEs and Insurance Europe asks that the Commission consider how refinements to the definition of large companies can be refined to work for insurers or how other proportionality measures can address this issue.

In addition, Insurance Europe recommends analysing the possibilities of proportionate measures and phase-in approaches for non-listed undertakings.

Intangibles

The draft CSRD requires undertakings to disclose information on intangibles, including information on intellectual, human, and social and relationship capital. Insurance Europe believes a proportionate, flexible and progressive approach is needed to this topic. The reporting on intangibles is not mature enough to be compulsory or framed through normalisation. Maximum flexibility should be left to undertakings to report on intangibles: they should not be included in the first standards and undertakings should only report on a voluntary basis.

Timeline

European insurers welcome the EC's proposed timeline for the application of the forthcoming EU SRS, with the first set of figures being produced in 2024 for the year 2023. Insurance Europe recognises that the timeline is very ambitious, given that EFRAG will have to provide a first set of standards by June 2022 and the final standards should be adopted by the Commission by 31 October 2022. Insurers would like to urge that sufficient time be granted to preparers to adapt systems and procedures between the issuance of the standards and first reporting dates, as two months is very challenging. Insurance Europe welcomes the requirement that the first standards must include the data needed for Taxonomy and SFDR reporting and encourages a phased-in approach for the development of standards beyond this first core set of data.

Insurers also ask that it be clarified that reporting according to the sector-specific standards (due from EFRAG by 30 October 2023) will not have to apply before 2025. As a general rule, the application of SRS should be required for the first financial year following the adoption and publication of the SRS as the first reference period. For example, SRS adopted and published in Q4 2022 results in application for the reference period 2023 and publication of the report in 2024. Any delay to the adoption and publication of the SRS should automatically result in a delay to the application.

Despite certain welcome mitigating measures taken by the Commission, insurers (and other financial market participants) face a significant issue due to the timing mismatch between regulations because the reporting requirements for investors (RTS SFRD — January 2022) will be effective before companies from all sectors start providing the necessary data under the new Taxonomy Regulation and the CSRD. While the industry will make all reasonable efforts to cope with this timing issue, it may not be possible in practice to fully comply with all reporting and disclosure requirements, especially in the first years of application. It therefore urges the Commission to consider any further steps that could help the industry cope with the timing issue and to ensure that it does not lead to liability risks for financial service providers.

Assurance requirements

Insurers welcome the EC's decision to propose limited assurance requirements for information disclosed under the CSRD. Financial market participants that use the data published by investee companies in their disclosures (ie, Taxonomy alignment disclosures for SFDR art. 8 and 9 products) will indirectly benefit from this new assurance regime for the transparency of their own financial products.

Limited assurance is sufficient to achieve the objectives mentioned above and it is not necessary to change automatically to a "reasonable assurance" regime within three years. There is a very large difference in costs between a limited assurance and reasonable assurance both in terms of fees to be paid and the time taken by company experts to interact with the company doing the assessment. The current text makes the change to reasonable assurance automatic if standards for sustainability assurance are defined, however the decision to move away from limited assurance should be separate from any decision to define sustainability auditing standards.

Insurance Europe welcomes the proposed changes to the Audit Directive aimed at avoiding further concentration of market share with big audit firms in relation to the assurance requirements of sustainability data. Reporting entities should be able to call on independently accredited third parties to perform the limited assurance audit. The assurance provider should not automatically be the statutory auditor. European insurers welcome increased competition in the field of sustainable reporting assurance, which should lead to competitive pricing and better service.

In cases in which member states have taken up the option to require reasonable assurance for the management report, the figures relating to sustainability reporting should not be subject to reasonable assurance; that is to say the sustainability reporting should also in these cases be limited to limited assurance.

Role of EFRAG

Insurers welcome the fact that EFRAG was designated by the Commission to develop sustainability standards and they support the private/public partnership model under which EFRAG operates. European insurers also recognise the importance of having appropriate insurance industry representation at EFRAG.

Both preparers and investors are key stakeholders who should be well represented in EFRAG's governance. The financial services industry and in particular the insurance industry, as the biggest institutional investor in Europe, should be represented on all three boards (financial reporting, sustainability reporting and supervisor boards).

This is essential given that insurers are doubly impacted, both as providers of sustainability reporting and as institutional investors.

Insurance Europe also believes that the financial resources dedicated to EU sustainability standardisation must match the declared ambitions by the European Commission. The resources provided by the EU on sustainability standardisation should be comparable to the support given to accounting standardisation to have a chance to meet the ambitious timeline and be considered in the global standardisation process.

The role of ESMA in the standard-making process should be carefully considered as is currently explored in the EC consultation on the European supervisory authorities. Insurers are of the opinion that direct supervision of sustainability disclosures by ESMA is not appropriate.

Publication of the sustainability report

The option to publish sustainability reports at consolidated level should remain. This is particularly important for large insurance groups where publishing sustainability reports at each reporting-entity level would bring significant additional cost and would not reflect group-level sustainable strategies.

As to the publication language for subsidiaries, Insurance Europe believes that the official language of the member state should always be allowed and translation to English should only be required if the parent company is situated in a different member state. There should be no member-state option to require the publication of the consolidated management report of the parent undertaking in an official language of the member state. Furthermore, from a timing perspective, the exempted subsidiary should only be required to publish the consolidated management report once the parent undertaking has published it.

Given the depth and scope of sustainability reporting requirements in the EU reporting standards, as proposed by EFRAG's Project Task Force, having all sustainability data in the management report will create information overload for users and would make it difficult for a reader to distinguish the essential and material sustainability information, thus actually reducing its effect. As long as the indicators are tagged and appear in the ESAP, Insurance Europe believes that not all indicators are relevant for the management report. Furthermore, as EU SRS are implemented over the years, the digital taxonomy should be adapted accordingly.

As noted earlier, Insurance Europe welcomes the requirement (article 19b of the proposed CSRD) that the first set of the EU SRS includes the information needs of financial market participants relating to the SFDR and Taxonomy Regulation. The requirement that the information reported under the CSRD should be machine-readable is also strongly supported. It is very important that these first standards (relating to the SFDR and Taxonomy Regulation) are machine-readable (eg, XBRL tagged) so ensuring that this is all in place should be a priority.

Alignment with international initiatives

Insurance Europe welcomes the EC's engagement with international bodies in order to align and influence international initiatives on sustainability reporting. It is important that EU sustainability reporting standards build on and contribute to standardisation initiatives at global level through constructive two-way cooperation between EFRAG and international initiatives.

The EU is already taking the lead in developing sustainability standards and Insurance Europe fully supports the EU's initiative. The EU initiative comes at a crucial time given the current climate emergency and is one of the EU's top priorities on which it will further engage (through the EU Taxonomy, SFDR and CSRD).