Position Paper

Insurance Europe response to NFRD review inception impact assessment

Our reference:	ECO-FRG-20-037		
Referring to:	Ares(2020)580716		
Related documents:			
Contact person:	Philippe Angelis, Policy Advisor, Financial Reporting	E-mail:	ecofin@insuranceeurope.eu
Pages:	2	Transparency Register ID no.:	33213703459-54

As Europe's largest institutional investor (€10 200bn of assets under management), the insurance industry is in a unique position to help finance the transition to carbon-neutral, resource-efficient and more sustainable economies. The insurance industry is both an issuer and a preparer of non-financial information. As investors, insurers need to have access to reliable and comparable ESG data on investee companies - meaningful, consistent and comparable ESG reporting from companies helps investors to consider and account for sustainability impacts when making investment decisions. As preparers, we want to ensure that any requirements and standardisation are as effective and efficient as possible to avoid unnecessary costs and unintended consequences.

Insurance Europe welcomes the European Commission's revision of the Non-Financial Reporting Directive (NFRD). The industry recognises the need to update the directive to address the increased requirements for sustainability data and to achieve consistency with the scope of wider reform on sustainable reporting, including the regulation on sustainability disclosures in the financial services sector and the regulation on a classification system (taxonomy) of sustainable economic activities. In particular, there is strong support in the insurance industry for transparent ESG data/assessments directly reported by investee companies. This will help address the issues with data availability and quality which affect insurers' compliance with their regulatory obligations in relation to ESG data

The European insurance sector would like to stress the importance of taking into account the following factors when considering policy options:

- To the extent that ESG reporting is to satisfy the needs of stakeholders other than insurers and other investors, the NFRD should define who these stakeholders are and what their reporting needs which are different from those of insurers and other investors.
- The scope of investee companies who provide the information should be defined to satisfy insurers and other investors' Environmental Social and Governance data needs.

Insurance Europe aisbl
Rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail : info@insuranceeurope.eu
www.insuranceeurope.eu

- While strong requirements would be helpful for companies in determining what to report on, it is important that a certain level of flexibility remains to avoid rendering the NFRD obsolete in the near future. It is important that the revised NFRD remains principles based – which can be best achieved if the NFRD provides a general framework for reporting, and that more detailed requirements are set out as level 2 measures.
- The investee companies should be required to provide the data and the assessments (e.g. assessment against taxonomy) on a mandatory basis.
- The revised NFRD should be consistent with the requirements of the disclosures and taxonomy regulation to help investors comply with their data requirements. Therefore, the data and assessments provided must be aligned to the regulatory requirements set by the disclosure regulation and taxonomy regulation. Therefore, it is key that the Level 2 measures of the disclosure and taxonomy regulation are well known before the new mandatory reporting from the revised NFRD becomes applicable.
- Beyond what is required to comply with the disclosures and taxonomy regulations, no mandatory requirement should the benefits of introducing additional requirements outweigh the costs.
- The data and relevant assessments should be published in a standardised data format and available electronically in a way that facilitates access and minimises the cost for the investors and other users of the information.
- The materiality of disclosures should be taken into account to avoid costly processes which fail to deliver the required information at a proportionate cost. It is key to include this point in the revised text.
- Proportionality should be another strong focus point. The size and complexity of undertakings should be considered when developing guidance or requirements.
- Under the current NFRD, subsidiaries are exempted from the obligation to report if they are included in the consolidated management report or the separate report of another undertaking. This exemption should be kept in the future requirements of the revised NFRD.
- There should be a separation of financial reporting requirements and ESG reporting – a) to avoid operational overload and allow flexibility in terms of how companies design and implement internal processes and reporting timetables and b) to avoid that audit requirements are applied to ESG which have been developed to be appropriate for financial reporting.