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DUFAS Position Paper on Embedding Sustainability Risk in the Organisation of Asset Managers

Summary



DUFAS fully supports the view that sustainability risks should be integrated into the organization of an UCITS or AIF.



We envisage that sustainability should become part of the DNA of each UCITS and AIF. We believe that the integration of sustainability risks within the UCITS and AIFMD framework should be done through a high-level principles-based approach.

A flexible approach is key. A too descriptive framework may stifle innovation by asset management firms where it concerns integration of sustainability risk and factors. Given the dynamics of the development of European Taxonomy and dynamics of the notion of sustainability risks, a high-level principles-based approach seems therefore the only way forward at this stage.

We believe that the notion of sustainability risks and factors should primarily be integrated into the investment policy of the fund involved and should be considered as a non-financial risk which normally will be taken into account in the risk management framework of the fund. **Therefore, we advocate that the obligation of integrating sustainability risks and factors into the general requirements on procedures and organization of a UCITS or AIFMD should focus more on an individual investment fund level only.**

Although, sustainability risk is already defined in the SFDR, DUFAS believes that sustainability risks should not be limited to the portfolio management itself and financial impact arising from ESG practices. It should also encompass adverse negative impacts of the chosen investment strategy on the environment or society as a whole. A similar 'double materiality' perspective is also reflected in the discussions on the review of the EU Non-financial Reporting Directive (NFRD).



We advocate that the UCITS and AIFMD framework also anticipate on the inclusion of the 'double materiality' as part of the obligation of integrating sustainability risks and factors into the general requirements on procedures and organization of a UCITS or AIFMD. However, having said this, and considering the principle of proportionality and the high-level approach, we do believe that inclusion of principal adverse impact should not be too prescriptive. The level of granularity of such disclosures should be carefully considered.

Questions or suggestions?

A lot is happening in the field of sustainability. We are constantly adapting our positions accordingly, where necessary. For questions or suggestions, or our latest opinions on sustainability, please feel welcome to contact Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.