DUFAS

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Omnibus: Simplification without compromising the objectives of the Sustainable Finance Framework[1]

The Dutch Fund and Asset Management Association (DUFAS) supports simplification and increased coherence of the EU Sustainable Finance Framework. DUFAS calls on the European Commission to create long-term policy stability while safeguarding the integrity and ambition of the Framework. In particular, corporate sustainability data and due diligence are key to sustainable investment decisions and allow the investment management industry to comply with disclosure requirements under the SFDR.

While **the relevance of global sustainability issues requires the upholding of the previously established policy objectives** of helping improve the flow of capital towards financing the transition to a sustainable economy, **DUFAS understands and supports the need for simplification of the Sustainable Finance Framework** to reinforce European competitiveness and resilience. Removing duplications and improving the Framework's internal alignment would lower administrative burden and at the same time increase the effectiveness of the Framework.

To support long-term policy stability and successful simplification of the Framework, DUFAS suggests that **a proposal should cover both short and medium term actions**:

1. the short term covers **a limited number of targeted technical amendments** to reduce duplications and improve consistency, **while steering clear of fundamental changes,** to retain the Framework's objectives and thus to support the financial sector's contribution to the EU's sustainable future;
2. the medium term should cover **a holistic evaluation to improve the coherence and effectiveness of the Framework and all its individual regulations,** in order to identify areas requiring further improvement.

The short term action plan should cover technical amendments with respect to:

1. **Removal of reporting duplications,** between asset management transparency requirements under the SFDR and corporate reporting requirements under the CSRD. Most notably, DUFAS calls on the European Commission to confirm that mandatory CSRD and Taxonomy (article 8) reporting obligations for asset managers do not extend to client assets, as clients' investments are not part of an asset manager's balance sheet and should not be seen as part of their value chain for reporting purposes.

[1] Disclaimer: Although this statement reflects viewpoints taken by DUFAS members, it does not necessarily represent the views of all members, either individually or collectively.

2. **Align data requirements between the financial and non-financial sectors,** to support an actual reduction in reporting requirements. If non-financial entities are exempt from reporting certain information relevant to financial entities, or if non-financial entities have different timelines for reporting, this data will still need to be collected bilaterally, creating no real reduction in reporting requirements; and
3. **Prioritization of key reporting topics and metrics,** by focusing on the sustainability information that aligns with the needs of investors for their investment decisions and reporting obligations.[2] A too detailed approach does not only complicate implementation by market actors but may ultimately risk insufficient progress on the key sustainability challenges of our times.

The medium term action plan should cover:

1. **Alignment of all regulations under the Framework, especially with respect to information and definitions.** An 'omnibus legislation' carries implications that stretch beyond the specific initiatives it targets. Transparent and reliable information from the Taxonomy and CSRD will be key to fulfilling financial sector requirements, especially SFDR and MiFID II obligations tied to client sustainability preferences. By not taking these regulations into account, the EU risks inconsistencies and fragmented implementation, which could undermine the effectiveness of the legislative framework. Alignment should be realized between e.g. the definitions of 'value chain' under CSRD and CSDDD, which should not cover client assets; Taxonomy requirements under the CSRD and SFDR; and definitions and concepts such as sustainable investment and minimum safeguards. The CSRD, CSDDD, Taxonomy and SFDR are closely connected and should be viewed in conjunction. For example, data points prescribed by the Omnibus simplification package should be fully aligned with the data points required by financial market participants to meet their SFDR obligations. In short, it is crucial for the Commission to account for the wider consequences on interlinked legislative initiatives;
2. **Reduce the room for interpretation by market participants,** for example regarding central concepts such as sustainable investment and transition finance, as it hampers harmonization and effectiveness of the Framework. In particular, the European Commission should determine whether the Taxonomy is ultimately the designated standard to determine what a sustainable investments is under the Framework. As long as the Taxonomy is limited in scope, it cannot eliminate this excess room for interpretation. The Commission could e.g. consider making the definition of sustainable investment more prescriptive, simplifying the definition of Taxonomy-alignment (e.g. in terms of the 'do no significant harm' test or the minimum safeguards), and providing user-friendly guidance to companies via e.g. guidelines, recommendations, Q&As, and, where relevant, sector specific guidance.

[2] As also expressed in the European Commission's Competitiveness Compass, published on 29 January: "In line with the objectives of the sustainable finance framework to mobilize investment in the clean transition, the Commission will ensure better alignment of the requirements with the needs of investors, proportionate timelines, financial metrics that do not discourage investments in smaller companies in transition, and obligations proportionate to the scale of activities of different companies" To promote consistency between reporting standards and EU legal obligations, the European Commission could consider as a minimum: (1) key climate disclosure indicators, including Scope 1, 2, and 3 GHG emissions, climate targets, and transition plans, (2) key environmental and social disclosures for SFDR compliance, the Benchmark Regulation, and Climate Benchmark Delegated Acts, (3) mandatory nature of certain disclosures, including materiality assessments on sustainability topics, biodiversity, and workforce data.

3. **Provide a level playing field for all market participants, especially in relation to the SFDR.** DUFAS is in favor of standardized SFDR disclosures that apply to *all* financial products offered in the EU, regardless of their sustainability-related claims or sustainability characteristics. Currently, the reporting requirements for financial institutions engaging in sustainable investments are significantly higher than less sustainable ("grey") investment activities. This disparity is unfair and creates an uneven playing field, where those striving to invest sustainably are disproportionately burdened. A fair and balanced approach to reporting obligations is essential to ensure that sustainability efforts are supported rather than penalized;
4. **Assessment of the effectiveness of the Framework,** in terms of the suitability of the current set of regulations to achieve the policy objectives of helping improve the flow of capital towards financing the transition to a sustainable economy, after having allowed some time for the initiatives to mature. This year marks the first time that large companies are required to produce reports under the CSRD. Meanwhile, the CSDDD has not yet come into force, and the Taxonomy Regulation has only recently become fully operational. As such, we have not yet had the opportunity to evaluate the impact and effectiveness of these initiatives. To conduct a meaningful and well-informed review, we should first observe what works and what does not. By allowing these regulations to take effect and mature, we can better identify pain points and areas that require adjustment. Conducting a review at this stage may lead to addressing issues that are not yet fully understood or accurately identified; and
5. **Acknowledge and operationalize the real economy as principal agent of sustainable transitions**, as the financial sector cannot move faster than the real economy allows and cannot be expected to enforce systemic change by itself. It is therefore essential that sustainability legislation is not solely focused on the financial sector but also involves and supports the real economy in this transition. Operationalizing this could mean developing regulation that incentivizes, facilitates, and holds companies in the real economy accountable for sustainable changes. The Framework should reflect alignment with such regulations through relevant information and data. This will in turn enable the investment management industry to align investment decisions, also those made on behalf of clients, with these efforts.

DUFAS: Dutch Fund and Asset Management Association
Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.