DUFAS-EY WEBINAR REPORT

Navigating ESG reporting and assurance in a changing landscape

During this three-part, joint Dufas-EY webinar series, experts discussed the current ESG landscape, reporting challenges, good practices, legal practices, and how to set up and validate ESG reports. This was highlighted by case studies and real-world experiences with ESG assurance and reporting from Apex Group, a.s.r., FMO Investment Management and Privium Fund Management. Iris van de Looij, Director at Dufas, and Remco Bleijs, EY's Associate Partner Asset Management and Sustainability Services, hosted the sessions. Bleijs summed up one of the webinar series' most salient points regarding ESG assurance and reporting: "Start today!"

Call for action as promoted by Dufas & EY

1. **Start today with the impact assessment of the EU Sustainable Finance plan (SFDR, EU Taxonomy and MiFID II/AIFMD/UCITS), see also AFM letter July 3**
2. **Apply the 5-step approach for ESG reporting and ESG assurance**
3. **Be patient for the upcoming harmonization of ESG/NFI reporting standards and start**
4. **Prepare for ESG assurance: 50 shades of green versus 2 flavors of assurance**
5. **Be aware of and be careful for greenwashing**

Status and challenges

Dutch ESG reporting landscape for asset managers: room for improvement and rising numbers

Offering background on ESG reporting, EY's Remco Bleijs noted that just one-third of Dutch investment funds reported on ESG policy. Reporting is also made via a broad range of channels--annual reports, investor reports, ESG/RI reports (not public), websites etc. Amongst asset managers reporting on ESG, it's a mixed group, with in-house managers, institutional and retail managers, and managers overseeing multiple asset classes. In terms of assurance, practices are limited: only about 20% of the reported ESG data has external assurance. "So, there's room for increase and improvement," Bleijs said, "and we are convinced that will be the case this year and over the next years, mainly because of the EU Sustainable Finance Plan, client demand, and commitment of the financial sector."

The Global ESG overview: ESG on the agenda

Bleijs mentioned that many investors perform a structured and formal review of ESG disclosures (72%) and that this number is rising. Regarding ESG risk disclosures, an increasing number of investors are dissatisfied with current practices of companies' disclosures. Over one-third of investors state that companies do not adequately disclose their environmental, social and governance risks. Bleijs noted that one would assume environmental issues would garner a higher place, but they do not because these risks are already being prioritized.

ESG reporting challenges: data and standards

As ESG reporting is coming into form, Bleijs explained that the biggest challenges companies face in ESG reporting involve information. They include:

1. Increasing and complex regulatory requirements
2. Availability and reliability of data
3. A lack of generally-accepted ESG reporting standards
4. The complexity yet importance of impact measurement and monetization of externalities
5. How to determine benchmarks and avoid greenwashing
6. A lack of ESG risk and disclosure tooling

On the investor side, Bleijs highlighted that "investors want independent, third-party assurance on ESG information."

EY'S 5-step approach to ESG reporting and assurance at financial institutions

ESG disclosures for asset managers: SFDR

Randy Pattiselanno, Manager Strategy & Regulatory Affairs at Dufas, gave an overview of the legal requirements for ESG reporting in the European Union, first explaining the Sustainable Finance Disclosure Regulation (SFDR), and its draft Regulatory Technical standards, the latter which are currently in consultation and will hopefully be finalized at the end of 2020 or beginning of 2021.

The SFDR applies to financial market participants, financial advisors, and governs financial product-level disclosures. Here, Pattiselanno highlighted the principle disclosures under the regulation:

- **Integrate sustainability risk in the investment decision or advisory process**
- **Principle adverse impact disclosure: the adverse impact of investment decisions on sustainability factors.**

Additionally, Pattiselanno noted that both of the above points are also incorporated in MiFID, AIFMD, and UCITS requirements. Principle adverse impact disclosure, Pattiselanno said, "is based on the 'comply or explain principle'. If you don't want to disclose, you have to explain why you're not doing that. There's one exemption for the financial market participants who also qualify under the NFRD (non-financial reporting directive) criteria, where financial market participants with over 500 employees must comply."

Concerning product-level disclosures, Pattiselanno said, "Basically, the SFDR puts financial products into three buckets, starting with the Article 8 bucket, which are the products where ESG characters are being promoted. It's not entirely clear what is meant by 'promote', so we'll see how that works out in the final draft." The other "buckets" are Article 9, financial products with sustainable objectives, and Articles 6&7 where institutions do not have to fulfill all of the disclosures, but are required to integrate certain sustainability risks. Articles 8 and 9 link to MiFID's sustainability preferences.

ESG disclosures for asset managers: Taxonomy

Both asset managers and NFRD companies fall under the EU Taxonomy, something Pattiselanno defines as: "A classification system on how to determine whether a particular economic activity contributes to certain sustainable objectives." This taxonomy focuses on the environmental part of sustainability, and is based around three pillars:

- **Sustainable contributions**
- **Do no significant harm**
- **Comply with minimum safeguards on social and governance issues.**

The social aspect of the Taxonomy, according to Pattiselanno, "will be developed in the future." The SFDR and Taxonomy timelines for asset managers can be obtained on request.

How to do ESG well

Annebeth Roor, Advisor Climate Change and Sustainability Services at EY, provided four good practices which leading ESG reports have in common. They are:

- An integrated strategy on sustainability and/or impact investing
- A strategy containing objectives and targets
- Regular reporting with updates on objectives
- Transparency regarding challenges and changes in metrics.

Examples of ESG reporting

Good examples of ESG reporting are Kempen's 2019 Jaarverslag 'Verantwoord en betrokken beleggen' and NN Investment Partners' Global Sustainable Opportunities Fund.

How to set up ESG reporting and manage data

The second Dufas EY webinar zoomed in on real-world examples of forward-thinking funds and asset managers and how they approach ESG data. Here, Apex ESG Ratings' Managing Director Andy Pitts-Tucker highlighted his company's philosophy and data-management approach. EY's Annebeth Roor discussed KPI-setting, measurement, and using a RACI-table (Responsible, Accountable, Consulted, Informed), while a.s.r.'s Joost Notenboom, Senior Advisor Responsible Investments, spoke about a.s.r.'s approach to ESG.

How to turn data into positive action

Before diving into how to manage data, Apex's Andy Pitts-Tucker noted that, for financial institutions wanting to position themselves around ESG, change begins with leadership, "It starts at the top of the organization," he said, when it comes to doing good for people and planet.

Additionally, Pitts-Tucker cited the following as responsible for the ESG push:

- Pressure from governments and regulators
- Fiduciary
- Employee pressure
- Moral obligation.

About Apex ESG ratings and Advisory
Apex ESG Ratings and Advisory was established to satisfy the urgent market requirement for a high quality, global, independent service to fulfil private sector ESG needs by scoring and rating companies based on quality ESG data, intelligence and insights. Apex ESG aims to influence significant behavioural change in order to drive capital flow towards ESG centric companies.

In terms of the data itself, Pitts-Tucker set 4 primary questions gained from speak-ing with clients, most of which were recur-ring themes through the webinar series:

- **What data? Differing methodologies and ratings are confusing**
- **How to collect data? Collection is fragmented and manual**
- **How to turn data into positive action?**
- **How to avoid greenwashing.**

The key to managing these issues involves consolidation into a single system for ESG, making data-input digital, online, and user-friendly, benchmarking companies against peers and global standards, portfolio analysis, and figuring out where the gaps are. "A lot of companies are doing ESG, but they now have to do it efficiently," Pitts-Tucker says. As for greenwashing, Pitts-Tucker said that the key is for companies to hire independent, third-party actors, like his. "You can't check your own homework."

It's not only about reporting: it's about collective action
Joost Notenboom gave an overview of a.s.r.'s approach to ESG, outlining steps asset managers can take. Speaking on the SFDR, Notenboom suggested first looking at which products and business lines are affected, "so making an inventory of these and their respective benchmarks would be a great start on your SFDR journey."

"Once you have that inventory," he says, "it's up to each individual market participant to assess your portfolio, also within the broader context of the MiFID II and AIFMD requirements to ask clients their ESG preferences, and of course you want strategic decisions on positioning. Remember: the SFDR is in essence a transparency tool, not so much a normative judgement on whether you should be green; rather, that if you choose to be green then here's the list of requirements that make you green under the EU standard."

However, determining which business lines will be impacted by which part of the SFDR is "quite a job already," he admits, going on to point out that a.s.r. accomplished this via cooperation between its ESG and regulatory affairs teams.

"Then it might be a good idea to start an internal project, bringing people together," he said, noting that for some asset managers the "newness" of the regulation may come as a shock. "It's also a lot of jargon and a lot of moving parts." Here, setting up a RACI-table which defines who is Responsible, Accountable, Consulted, and Informed within the organization is useful, according to Notenboom and EY's Annebeth Roor. It also helps with measuring progress, risks, results, and defining KPIs, which is critical since there are many methods/standards for ESG.

"A good next step in your journey is to make an overview complemented with any pre-contractual or prospectus documentation which will need to be updated." In terms of avenues for disclosure, a.s.r. uses annual reports, its website, and fact sheets.

Reporting is the means for collective action

Lastly, in explaining how a.s.r. is continuously looking to improve its ESG reporting, Notenboom remarked that it's really not just about reporting. "Standardized frameworks and reporting make sense and can only help make more informed investment decisions, but reporting is not the goal here. Reporting is the means for collective action. The goal is to get back to that 1.5 or 2 degrees pathway if possible because we're currently massively overshooting it, and to deliver on the 2030 Agenda for Sustainable Development. So right now, there's unclarity and uncertainty on several timelines and the alignment between some of the EU Regulations, but remember that we're in a process and that might mean we won't get it right 100% at the first go."

Assurance in ESG reporting

The third Dufas-EY webinar session highlighted assurance, and included a case study where Martine van Aalst, Communications Advisor, and Erik Smeets, Investment Manager, of FMO Investment Management, and Mark Baak of Privium Fund Management presented their FMO Privium Impact Fund.

Jan Germs, EY's Manager Climate Change & Sustainability Services, kicked off by mentioning that calls for third-party, independent assurance are rising amongst investors. Again, echoing Apex Group's Andy Pitts-Tucker's remarks in the second session, he gave three reasons for needing assurance: Non-financial information is being used in decision-making, lower cost of capital due to a reduced risk and enhancement of reporting reliability & maturity of disclosures. Emphasising that it is also critical to avoid greenwashing. "There's no generally-accepted definition of 'green', that's why it's important to have good assurance."

How to prepare for assurance

With the help of an ESG assurance roadmap, preparing for assurance should include focusing on identification and defining ESG requirements, methodologies, and sustainability criteria, and then collecting data and measuring data according to and against defined standards. Of the EY roadmap for good assurance, Bleijs noted: "There are a lot of pitfalls, but you have to learn by doing."

In terms of the types of assurance, Germs notes an approach with little emphasis on effectiveness of internal controls, "limited assurance," and an approach with emphasis on design and effectiveness of internal controls and testing-oriented approach, "reasonable assurance."

How to do ESG assurance and validation

"SDGs have become the common language in the world of impact investing," says FMO's Erik Smeets," so what FMO did was connect its impact measuring model, which was also used to report, to relevant SDGs. On top of this, Smeets reiterated the importance of third-party validation: “We developed a methodology on top of the impact model so third parties can validate the connection that FMO is making between its investments and the SDGs.”

FMO Privium Impact Fund
The FMO Privium Impact Fund invests in financial institutions, agribusiness, food and water, and renewable industry across 4 regions. Funds invested by Privium investors flow through FMO towards projects in the aforementioned sectors: fmopriviumimpactfund.nl/en/

“Start doing. You’ll learn”
Privium’s Mark Baak mentioned that measurement and reporting is done at the level of FMO, and from there is passed on to its co-investors, such as the FMO Privium Impact Fund. FMO’s Van Aalst noted the difficulty of choosing indicators to measure impact and get numbers to the assurance level they would like in reporting. “We now show our investors that we’re using the SDGs. We’re looking at the current status of a portfolio no longer looking back, because those are the figures we keep updated. Those are the figures that we can recalculate and track back so we can get assurance up to the level we want it.” Van Aalst added, “This also means we learned a lot by doing. Not doing something is the worst thing you can do. Start doing. You’ll learn. The help of someone who can provide you some assurance is so insightful and can help you take that next step to what you want to achieve.”

Wrap-up

Importance and trends in ESG data validation and assurance

1. Non-financial information is increasingly being used in decision making by stakeholders including investors
2. Risk reduction leading to a lower cost of capital
3. Balanced assurance level on financial and non-financial information
4. Scope and level of assurance influence rating on ESG benchmarks
5. In-depth assurance findings enable further enhancement of reporting reliability & maturity of disclosures
6. Accelerating change and differentiation with competitors.

Links for further reading:

Dufas website

EY Climate Change and Sustainability Services

FMO Privium Impact Fund

FMO 2019 Annual Report

Apex ESG Ratings & Advisory website

a.s.r. vermogensbeheer

Q&A webinars Dufas-EY ESG reporting and ESG assurance

Webinar #	Name	Question	Assigned to answer	Answer
1	Anonymous (Unverified)	The focus is very much on investors as the key users of NFI. How do we make sure other stakeholders are also sufficiently provided with decision-useful information?	EY	Fair point, the EY survey only focussed on investors in this case.
1	Ruud (Unverified)	Other challenges we experience are target setting and reporting on progress towards such targets. Is that something you have guidance on or experience with?	EY	Yes, very much, will be discussed in webinar 3 as well.
1	Tjeerd Krumpelman (ABN AN	Hi Remco, could another challenge be the lack of direction from investors/other stakeholders as well?	EY	Yes indeed, they are part of the chain as well so they could direct more indeed. Can be done a.o. during stakeholderdialogues including materiality assessments
1	Michelle (Unverified)	SFDR scope is only for funds or also for discretionary mandate?	DUFAS	Yes, if the mandate is offered by an investment firm or credit institution.
1	Anonymous (Unverified)	How to deal with the PAI indicators when shorting stocks?	DUFAS	The question is whether you can argue that PAI is relevant when shorting stocks.
1	Anonymous (Unverified)	If a mandate has as main objective to generate returns and as a side objective to reduce CO2, does it qualify as an article 9 product?	DUFAS	It is about the main intention of the mandate. If sustainable investments as an objective are subordinated to the return goal, you could question whether it is wise to qualify such a product as a art.9
1	What is the position for pens	When a Pension fund has segregated mandates managed by an external asset manager. Is the mandate in scope of SFDR? Who is responsible to comply?	DUFAS	Yes, if the mandate is offered by an investment firm or credit institution. In such relationship the ESG disclosures does not seem to apply to the pension fund. However, where a pension fund (IORP) offers subsquently a pension schema being a financial product under SFDR they have to comply as well.
1	Anonymous (Unverified)	do precontractual disclosures also require disclosures in KIIDs (in addition to prospectuses)?	DUFAS	At this stage, we have not seen legislative proposals that ESG disclosures also need to be included in the PRIIPs KID.
2	Frank (Unverified)	1. Could we describe APEX as an EMS? (=Environmental Management System) 2. Would it be possible to extract data - like energy, water and waste data - via APEX for an asset portfolio or should a company deliver the data itself. "	APEX	The company provides the data and uploads it into the system. Environmental footprint is part of the pre defined data set.
2	Anonymous (Unverified)	,Why don't you just check the company website for policy documents instead of asking them to upload and basically read it to you? Companies suffer from survey fatigue and you will see that there is a large cap bias. Those with the resources will be able to fill out tiring questionnaires....	APEX	many private companies don't upload any docs onto websites . Our system is designed for ease of use by the inputter
2	Rob van de Kamp (Unverified	Could you say something about the way you rate?	APEX	we compare the data provided by the companies with the leading global standards and rate accordingly. It is not Apex defining what is good but the standards.
2	Anonymous (Unverified)	how you differentiate APEX with CDP, sustainlytics, also environment and ESG data platform?	APEX	our system is focused on private companies and combines the best in class standards across E, S and G. We also provide a gap analysis as part of the output which provides companies with a road map to improvement.
2	Anonymous (Unverified)	How do you know that the data are reliable?	APEX	Yes, we ask for scope1,2 and 3 data and if companies cant provide we ask for electricity use and energy use
2	Adrie (Unverified)	How do you view the role of these esg data in M&A activity in private sector as ESG could make hidden value visible?	APEX	its becoming increasingly talked about. ESG is embedded into the DD process in many cases now and in some cases no activity can take place without a full ESG rating report.
2	René Smits (Unverified),	Perhaps a dumb question: does the gap analysis result in an ESG score overall for the client's services, or in specific recommendations for behavioural changes in financial services for that particular client?	APEX	yes. The idea of the gap analysis is to highlight were the biggest gaps and hence opportunities are. We then provide recommendations on how these specific gaps can be filled to achieve the best in class standard
2	Marketa Schutte (MN)	How can you assess the realiabitiy of the data?	APEX	we not only ask for data but also for proof in the form of uploaded documents, policies and other materials. We cross check the data with the uploaded documents.
2	Bogna Tomaszewska (Unveri	Does asset managers need to be ready with PAI (Principal Adverse Indicators) on March 10?	DUFAS	10 March 2021 is the first date to start considering PAI. It is the start of the first reference period.
3	JOOP (Unverified)	What is the value / risk of limited assurance	EY	The word limited already indicates it, the extent of procedures are in less depth compared to a reasonable assurance engagement where the emphasis is on effectiveness of internal controls. When NFI reporting is new for your organization we would always recommend to start with assurance readiness or limited assurance to identify gaps as a step in enhancing quality of integrated thinking, reporting reliability and maturity on sustainability disclosures. The auditor will also provide you with high-level management letter review findings and you keep in par with competitors. In short this is the business value of a limited assurance engagement.
3	Anonymous (Unverified)	similar to ISAE3402: is there a type 1 or type 2 report?	EY	No, ISAE 3402 type 1 focuses on design and implementation of internal controls. Type 2 also takes the operating effectiveness of these controls in consideration. In some way you could compare this a bit to limited and reasonable assurance where the emphasis for a reasonable assurance engagement is on effectiveness of internal controls.
3	J. van der Meulen (Unverifie	WHat is necessary to come from limited to reasonable, can you give an example	EY	The simple answer is an effective internal control environment. The emphasis for a reasonable assurance engagement is on the effectiveness of internal controls. In case the auditor can't rely on the organization's internal controls in a reasonable assurance engagement, he/she needs to apply a substantive only strategy. This will result in a lot of test work and is time consuming. e.g.: When testing greenhouse gas emissions in an investment portfolio where the auditor identifies a strong internal control environment, there is a only a little (and acceptable) risk that the organization didn't identify and correct misstatement themselves. In this case the auditor would only select a few investments for testing - and tracing back the reported number to a source document / evidence. When there is a weak control environment, there is a higher risk of misstatements and the auditor needs to select a lot more investments for testing.
3	Gail (Unverified)	How does FMO get the information from investments in order to report out what their outcome actually is? How many investments (organisations) does FMO include in their reporting?	FMO	FMO currently has ~500 clients in portfolio all of which provide reporting regardng their own organisation and/or project. A substantial part of the data comes from or is based on financial and non-financial reporting by these clients, e.g. nr of employees or size of the SME portfolio and nr of clients in certain sectors. Another part of the reporting is based on data which is sourced for usage in models to calculate GHG emissions or GHG avoided emmissions. These include macroeconomic data as used in the Joint impact model for arriving at a good indication of the jobs that are indirectly supported. Have a look here for much more detailed info: https://www.fmo.nl/l/en/library/download/urn:uuid:88635b7a-c1f9-4842-9213-dc4ba161e485/jim+methodology+-+jim+1.1.pdf The reporting delivered by the clients is part of the legal documentation between FMO and the client .
3	Anonymous (Unverified)	How do you measure greenhouse gas avoided?	FMO	Please refer to this document for more background information: https://www.fmo.nl/l/en/library/download/urn:uuid:88635b7a-c1f9-4842-9213-dc4ba161e485/jim+methodology+-+jim+1.1.pdf
3	J. van der Meulen (Unverifie	when do you see (calculated) results 'as reasonable reliable proof'. whom do you see as institutions that are able to give assurance (f.i. on CO2 accounting). can you give an example	EY	When they meet all the reasonable assurance requirements as mentioned in the sheets as well and in the answer above. Many companies have (indirect) assurance on their CO2 accounting, both in asset management, pensions, banking and assurance.
3	Daniel (Unverified)	What was the main lesson learned from being audited which you would share with other funds/asset managers that are considering assurance to be provided on their non financial (ESG) information.	FMO	Even if you believe it was correct at the time, if you can't reproduce it, you can't really prove it. So make sure you not only store it properly, but more importantly if the methodology turns out to be too complex, it may be time to reconsider. You may still have been directionally right, but you want to provide a higher level of certainty if you are sincere about measuring impact or ESG for that matter. Just make sure you still focus on what you measure and for which purpose. There is no value in measuring e.g. the number of branches to compare the outreach of financial institution. It does tell you something about the character of the financial institution, but perhpas not much on the number or types of clients, where they are based etc etc.
3	JOOP (Unverified)	have hou ESG reporting and assurance examples at Pensieon Funds ?	EY	ESG reporting by pension funds mostly relates to the greenhouse gas emissions of the investments. In addition, some pension funds link their strategy to the Sustainable Development Goals and measure progress by reporting on KPI's. For example the impact measurement of FMO (this is not a pension fund, but the principle is the same). Many pension funds are planning for reporting more (see also f.e. PME 2019)
3	Carlo (Unverified)	Was the reason for not being able to cumulate the output the (changes in) data availability?	FMO	Main reason was the change of macro economic data that was refreshed in the system. It did not allow for a roll back.