

Aligning the SFDR to the CSRD

All sustainability information to be reported according to the SFDR should be derived from the CSRD and the ESRS

Introduction

As association of German listed and capital markets-oriented companies as well as German CFO network, Deutsches Aktieninstitut welcomes the review of the Sustainable Finance Disclosure Regulation (SFDR). Against the backdrop of the current debate on the competitiveness of European enterprises, the review bears a unique chance to fully align the SFDR with corporate reporting requirements under the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Regulation.

Deutsches Aktieninstitut suggests:

- Full alignment of the reporting obligations according to the SFDR with those of the CSRD/ESRS
- Reduction of the Principal Adverse Impacts (PAIs) to the mandatory PAIs
- Same Materiality Assessment of the CSRD should be applied to the PAIs
- Coherence with other EU Legislation

1 Alignment of SFDR and CSRD/ESRS

Both the CSRD and the ESRS mark the boundary of corporate sustainability reporting. All information that financial companies are obliged to report under the SFDR or the regulatory framework governing the banking sector need to be derived from the sustainability reports of corporates subject to CSRD/ESRS disclosures.


CSRD/ESRS and SFDR are interdependent parts of the same reporting ecosystem and should be closely aligned. The same goes for the prudential requirements of the banking sector. Although the SFDR does not address listed companies as such, they are indirectly required to not only cater to the reporting obligations of financial companies but also to report data points under the SFDR due to capital market requirements (ratings and direct investor dialogues). It is therefore essential that any future changes to the SFDR reflect current developments within the reporting ecosystem. That applies especially to the Commission's first Omnibus proposal. In order to maintain a balanced ecosystem, the objective of substantially reducing reporting data points is to be reflected in the SFDR review. These reflections should also be incorporated into the framework governing disclosures for banks.

2 Reduction of the Principal Adverse Impacts

Against this backdrop, a removal of the PAIs statement on entity level is necessary. In any case, the number of PAI should be reduced to the mandatory PAIs, which should be both based on and limited to the ESRS.

3 Same Materiality Assessment of the CSRD should apply to the PAIs

The materiality assessment of the sustainability information enshrined in the CSRD should also be applied to the PAIs of the SFDR, e.g. if water isn't a material topic in the company's ESRS reporting, the company should not be obliged to report on it because of the PAIs.



Coherence of Definitions

Coherence must be ensured, duplicative or misaligned reporting requirements avoided at all costs. As stated in the public consultation of autumn 2023, the SFDR and the Taxonomy Regulation introduce definitions of “sustainable investment” (SFDR) and “environmentally sustainable economic activities” (taxonomy). The differences between the two definitions create unnecessary practical challenges for market participants. Although the European Commission adopted a FAQ in June 2023 clarifying that investments in taxonomy-aligned “environmentally sustainable” economic activities can automatically qualify as “sustainable investments” in those activities under the SFDR, the FAQ does not provide sufficient legal certainty to market participants in which circumstances this is the case. Therefore, we urge that this is clarified also on Level 1 Legislation.

Also, the Do no significant harm (DNSH) principle of the SFDR should be based on the same understanding as the DNSH principle of the Taxonomy Regulation.

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