



Ms Kerstin Lopatta
Acting EFRAG SRB Chair
**European Financial Reporting Advisory
Group (EFRAG)**
35 Square de Meeûs
1000 Brussels
Belgium

Paris, August 2nd

Re: Cover letter on the EFRAG Consultation

Dear Ms Lopatta,

The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 680 management companies, with €4355 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

This letter sets out the most important matters that French asset managers have identified.

We welcome and fully support the work carried out by EFRAG to ensure an effective and useful sustainability reporting framework.

The fight against climate change is a priority at European level. Climate reporting plays an important role in achieving global climate-related objectives, notably keeping the temperature below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels. As a member of the G20 countries, France is committed to promoting a convergence in international reporting standards on climate and recognized that climate-related objectives would be hard to achieve without a harmonization of jurisdictional reporting standards. We believe that investors that operate globally will benefit from such convergence and harmonization. We also believe that such change should also integrate other environmental objectives, as well as social and governance objectives to embrace a complete sustainable approach.



Such convergence in international reporting standards across different jurisdictions will be beneficial to:

- investors operating globally,
- preparers that will have their reporting costs reduced
- and all stakeholders that need relevant, consistent and comparable 'sustainability related information' to avoid greenwashing and redirect capital flows towards sustainable investment.

To maximize the efficiency of the collective efforts in converging sustainability standards at EU and global level, we would like to raise EFRAG's attention on the following recommendations:

1. Ensuring interoperability and dialogue with the ISSB and the SEC

In the context of the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, we believe that **interoperability between reporting frameworks must be a priority**.

Such operability is essential to ensure that undertakings reporting under the future ESRS are also compliant with the ISSB and SEC frameworks to avoid double reporting operational burden and secure legal certainty.

In this regard, **we support the ISSB initiative to set up a working group of jurisdictional representatives** – including the SEC and the European Commission – **to establish dialogue for enhanced compatibility between the various jurisdictional initiatives on sustainability disclosures**.

2. Principal Adverse Impact indicators

We welcome EFRAG's effort to ensure consistency between EU regulations and particularly the mentions to the Sustainable Finance Disclosure Regulation (SFDR), the Taxonomy Regulation and the future Corporate Sustainability Due Diligence Directive (CSDDD). **This consistency will allow investors to comply with their own regulatory requirements**.

In this matter, we would like to remind that, pursuant to the SFDR, financial institutions are required to disclose '*principal adverse impacts*' (PAI) of investment decisions on sustainability factors. To fulfil this requirement, financial institutions will have to publish a list of '*adverse sustainability indicators*' among a list of 48 indicators (14 mandatory indicators and 2 additional indicators to be published by



financial institutions). Financial institutions rely on information from their counterparts to comply with this requirement.

EFRAG, when drafting the ESRS Exposure Drafts, made its best to make sure that most of SFDR PAI indicators (48 indicators) would be covered by the proposed disclosure requirements. **We fully support this approach and believe that PAI indicators (mandatory and additional) should be the priority indicators to disclose under the CSRD.**

3. The ‘double materiality’ principle

We fully agree with the importance of the ‘double materiality’ principle, we are convinced that that impact of companies on the people, planet and economy is relevant for investors to assess the entity’s enterprise value over the short, medium and long term. This principle is essential to grasp a company’s efforts to shift towards low carbon activities in line with Paris Agreement.

While we agree with the ‘double materiality’ principle, **we believe that further operational guidance should be provided to help companies’ implementation.** In particular, we think that **the introduction of a materiality matrix** where companies report on the result of their materiality assessment **would be beneficial.**

4. The ‘rebuttable presumption’ principle

We fully support the ‘rebuttable presumption’ principle that allows companies to disclose only sustainability matters that they deem ‘material’ hence improving the reporting conciseness and readability.

Although we support this principle, we understand that it may be operationally burdensome to implement. Indeed, a systematic justification of ‘non-materiality’ could be quite burdensome for the entity to prove. In this regard, **we believe that the publication of the materiality matrix should be a sufficient explanation for the company not to report justifications disclosure by disclosure.** The work performed by the auditors will review the robustness of the process that has conducted the undertaking to rebut some information.

We understand that all ESRS are mandatory and can use the ‘rebuttable presumption’ except for the Disclosure Requirements related to ESRS 2 Disclosure Requirements SBM, GOV and IRO. **AFG believes that the ‘rebuttable presumption’ should also not apply to some information:**

- **SFDR PAI (mandatory and optional):** To allow financial institutions to comply with their obligations under the SFDR, **PAI disclosure should be**



made mandatory for all companies without the possibility to use the ‘rebuttable presumption’ to opt-out from disclosing such information.

- **Some climate-related information (ESRS E1)** that are essential to understand a company’s strategy: net-zero scenario, decarbonation plans, forward-looking information.

5. Phase-in approach

We welcome EFRAG proposal to include a phase-in approach that will allow a progressive implementation of the CSRD.

The current state of ESRS may lead to a huge amount of qualitative information that will reduce the readability of the sustainability reporting. In this regard, we believe that **there is a need for simplification and prioritisation. To enhance readability, transparency and comparability of the sustainability reporting**, we need a succinct reporting allowing for more:

- **Consistency between financial and sustainability information.**
- **Quantitative and monetary information (instead of juxtaposition of qualitative information).**

As already mentioned above, asset managers are required to disclose PAI under the SFDR. Therefore, **PAI disclosures (mandatory and additional) should be a priority and should be disclosed by companies from day one. Such priority should also be given to some climate-related information** (net-zero scenario, decarbonation plans, forward-looking information...).

As already indicated, EFRAG requirements have a high level of granularity, **to alleviate companies’ operational burden and facilitate implementation, we believe that some flexibility should be provided:**

- **Value chain:** to reduce operational difficulties due to the reporting on the broad value chain, **companies should, as a first step, focus only on direct relationships and cover the full value chain in a later stage (three years after the implementation date).**
- **Social:** we believe that ESRS S2 to S4 are highly descriptive and detailed due to the lack of maturity on the matter. **As a first step, we believe that ESRS S2 to S4 could be merge in a single ESRS. This phase-in should be reviewed 3-year after the implementation date to determine whether and which information should become mandatory.**

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- **Governance:** we believe that that '**Governance**' requirements should be treated in a differentiated manner depending on whether the addressed company is listed or private. It seems important not to burden unlisted companies with inappropriate rules. The main difference, being that in listed companies, there are always minority shareholders, and they need protection.

Should you need any further information, please refer to our answer to the consultation and do not hesitate to contact us.

Yours sincerely,



Philippe Setbon