

AFME views on the CSRD proposal in the context of the trilogues

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AFME welcomes the progress made by Member States and the European Parliament with the discussions on the Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD). As the negotiations between the co-legislators (trilogues) move forward, AFME wishes to contribute our members' views and recommendations on the key outstanding issues under discussion. We build on AFME's previous contributions aimed at delivering an [effective and proportionate CSRD](#) in the EU and in an [international context](#).

Reporting for SMEs

Expanding the personal scope of the NFRD is a key feature of the proposal and is expected to greatly benefit the availability of sustainability information. We support the Commission's proposal to extend the scope of the CSRD to listed SMEs. The broader scope will capture a larger proportion of entities with significant environmental and social impact. Harmonised standards can also make SMEs' reporting more streamlined and comparable, facilitating their access to capital markets by supporting banks' risk management and financing decisions.

The Commission's proposal takes a proportionate approach by minimising the reporting burden through a dedicated, simplified standard and by allowing three additional years for listed SMEs to start reporting. Excluding listed SMEs from mandatory sustainability reporting would work against the policy objectives of the initiative, particularly given the large proportion of SMEs which make up the EU economy and the ever increasing need for sustainability information across financial markets.

Reporting for global entities

In addition to EU companies, the Commission's proposal captures non-EU companies with transferable securities listed on an EU regulated market. Global entities will face significant challenges trying to obtain reliable data to report accurately on their non-EU activities under the CSRD and the Taxonomy Regulation. It is therefore essential that a proportionate approach is adopted for the application of CSRD requirements to internationally active EU companies and non-EU headquartered companies and their international activities, while maintaining a level playing field between EU and non-EU undertakings.

We support efforts to grant the Commission flexibility, through delegated legislation, to adapt the CSRD standards applicable to EU and non-EU firms' disclosures on their exposures and activities in third countries, thus reflecting the availability of sustainability information in non-EU jurisdictions and practises in non-EU jurisdictions for the location of sustainability disclosures.

In light of recent developments at the international level towards developing sustainability disclosure standards, we welcome the willingness signalled by international standard-setting bodies to ensure close cooperation with the aim to reduce fragmentation. The interoperability of standards will be essential to ensure the availability of sustainability information needed to report under the CSRD on international activities and exposures.

Reporting for subsidiaries

We support the Commission's proposal to exclude subsidiaries from the reporting obligation when they are already included in their parent's consolidated management report and the latter reports in accordance with CSRD or equivalent standards. Removing this exemption would significantly increase the burden for entities, without benefits for transparency, and clash with the provisions in the Accounting Directive and with established financial reporting practices.

Nevertheless, financial institutions require certain entity-level information from their clients to manage ESG risks, comply with regulation and meet supervisory expectations. Where relevant, material subsidiaries could also provide a breakdown of how their business model, and related

sustainability indicators, may differ from that of the group they belong to. While maintaining the exemption, the directive could provide for a level 2 mandate to define limited entity-level information for such material entities.

Scope of information to be reported

Detailed requirements on the scope of information to be reported under the CSRD should be defined by the sustainability reporting standards and informed by EFRAG's technical work, particularly in relation to forward-looking information and on companies' transitioning efforts.

Further, companies are not yet in the position to report accurate information on the sustainability of their intangible assets. In addition, intangibles-related information can be confidential or sensitive for businesses' competitiveness. Until definitions and standards evolve, it should be the company's choice to provide additional disclosures on the intangibles that they deem material to their sustainability profile, besides those already provided under IFRS standards.

Other examples include reporting on social factors across the value chain, or for corporates active in high-risk sectors. Granular requirements embedded in the text of the CSRD may hamper market-led initiatives and authorities' efforts to identify the most appropriate metrics. Another risk is for these requirements to overlap or clash with other EU initiatives and workstreams, including the proposal for a Corporate Sustainability Due Diligence Directive and the forthcoming review of the Taxonomy Regulation. High-level provisions and a clear mandate for standard setters, on the other hand, can ensure flexible and dynamic sustainability reporting requirements.

Assurance and verification of reporting

Given the current level of maturity in sustainability reporting practices and the capacity of auditing firms, we support the Commission's approach to require limited assurance of the sustainability information reported by companies. Although the objective is to have a similar level of assurance for financial and sustainability reporting, a progressive approach is needed. We wish to emphasise that the adoption of reasonable assurance standards should be subject to a careful assessment by the Commission in the context of future reviews of the Directive.

We also note that, to ensure the overall consistency of reporting, relying on a single auditor is preferable. Audit relies on a detailed knowledge of the bank's businesses and strategies. Having two different auditors would increase costs and the workload of ensuring that each auditor acquires the necessary knowledge. Therefore, the Directive should not deny the possibility to choose a single auditor by requiring separate auditors for financial and sustainability reporting, as this would increase costs for companies, without benefits to the reliability of information, and would also clash with the proposal for sustainability reporting to be included in the management report, causing confusion for users of the report as different audit firms would have to provide opinions on the same document.

Timeline and sequencing of reporting

Despite the urgency to deliver on the proposal and the problematic sequencing of ESG disclosure rules, we understand the concerns expressed by some MEPs and Member States with the tight timeline to prepare the first reporting under the CSRD, and related call to defer the application of the CSRD by one year to facilitate transposition.

To meet their own sustainability disclosure requirements and accurately assess sustainability risks, however, financial institutions' require a more appropriate sequencing and to begin reporting under the CSRD one year after non-financial companies, similarly to the sequencing provided by the Delegated Act on disclosures under Article 8 of the Taxonomy Regulation. This is important to improve the availability and reliability of the sustainability information on which our members depend. To allow all companies appropriate time to prepare against the relevant sustainability reporting standards, the roadmap for EFRAG's mandate should remain unchanged.