
AFME's priorities for an effective and proportionate CSRD

24 January 2022

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). The CSRD represents a vital step towards improving the quality and quantity of sustainability information and a key enabler of banks' role in financing the transition towards a sustainable economy. ain

As the first EU transparency requirements for financial services firms begin to apply, including those under the Taxonomy Regulation and the CRR, finalising the proposal remains a key priority for policy makers and financial market participants alike. In this context, our members are keen to contribute to the next steps for the development and application of the CSRD.

Early in this process AFME highlighted how **delivering on the CSRD proposal has become especially urgent to address the problematic sequencing of ESG disclosure rules**. As well as enhancing the availability of sustainability data generally, the CSRD provides banks with the sustainability information needed to facilitate sustainable finance and for banks to meet their own sustainability disclosure requirements and accurately assess sustainability risks. The CSRD should help restore an appropriate sequencing of disclosures, improve consistency with other EU regulatory initiatives and with international standards.

The CSRD is also an opportunity to leverage digitalisation, facilitating access to sustainability data, as well as new and improved assurance standards, enabling third-parties to provide limited assurance on the information disclosed under the CSRD. Crucially, **while we find that the Commission's proposal takes a proportionate approach to the inclusion of SMEs, we believe that it should be improved for international firms and their subsidiaries**, especially when reporting on their activities outside of the EU where sustainability reporting practices do not yet meet the ambition shown by the CSRD. [AFME and ISDA's paper from July 2021 elaborates further on our feedback to the Commission proposal.](#)

As the flow of sustainability information increases across borders, it is important to consider the CSRD in the evolving international context for sustainability reporting. While the EU remains a frontrunner, there is increased momentum at the international level and across other jurisdictions to develop corporate disclosure regimes and sustainability reporting standards. **Policymakers globally should seek to maximise the consistency and interoperability of frameworks. Standard-setters can do so by supporting each other's efforts and ensuring continuous and effective coordination across jurisdictions.** EFRAG and the ISSB, in particular, should work closely to maximise the compatibility of their standards, and we welcome the statements made by the two bodies confirming their willingness to operate in a 'co-constructive' approach. The ISSB standards should provide for a global baseline for different jurisdictions to build upon. A high degree of compatibility would also allow the application of the equivalence regime foreseen in the Commission's proposal, thus simplifying transparency regimes across borders.

Association for Financial Markets in Europe

London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

Frankfurt Office: Bürohaus an der Alten Oper, Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany
T: +49 (0)69 153 258 963

www.afme.eu

It is vital to carefully address the application of the CSRD to companies which are active internationally and mitigate the challenges that international firms will face, as the proposal reaches beyond EU borders and will require both EU and non-EU companies to report on their global activities and exposures. As many global jurisdictions have not yet put in place reporting frameworks that ensure the availability of sustainability information, **we recommend implementing more proportionate criteria to ensure that companies are required to report only relevant and reliable information.** [AFME's paper from January 2022 elaborates on the importance of considering the international context of the CSRD.](#)

The Parliament's JURI Committee tabled in December a long list of draft amendments for discussion.¹ A number of issues are also under discussion in the Council. Negotiations revolve around the inclusion of SMEs and non-EU companies in the scope of the CSRD, reporting on corporate governance and along the value chain, as well as on the content of the standards. Our views on the key issues under discussion include:

- **Proportionate inclusion of SMEs in the scope of the CSRD:** we support the Commission's proposal to extend the scope of the CSRD to SMEs listed on EU regulated markets. The broader scope will capture a larger proportion of entities with significant environmental and social impact. 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 SMEs to start reporting. Reverting the proposal to the original scope of the NFRD would work against the policy objectives of the initiative, particularly given the large proportion of SMEs which make up the EU economy.
- **Non-EU companies captured in the scope of the CSRD and international consistency:** the Commission's proposal already captures non-EU companies with transferable securities listed on an EU regulated market. Any further extension of the scope would exacerbate the challenges for firms to accurately report on activities outside the EU and the need for greater proportionality in the criteria for non-EU companies to be included. Instead, we echo the calls for close cooperation with international standard-setting bodies to reduce fragmentation and ensure the availability the sustainability information needed to report on the CSRD on international activities and exposures.
- **Exemption for subsidiaries covered by consolidated reporting:** we agree with 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 increase the reporting 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. While maintaining the exemption, the directive could provide for a level 2 mandate to define limited entity-level information for certain material entities, to be included in the consolidated report.
- **Intangibles:** we share the concerns that 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 very 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.

¹ European Parliament amendments tabled in JURI committee: [1-53](#); [54-269](#); [270-616](#).

- **Corporate governance and due diligence across the supply chain:** the Commission is expected to launch a directive this year introducing new directors' duties and due diligence requirements across companies' supply chain for sustainability purposes. To avoid fragmentation and improve the coherence of the EU ESG regulatory framework, the CSRD should not duplicate these requirements. In due course, the CSRD should make this link explicit by referencing the sustainable corporate governance directive.
- **Assurance of sustainability reporting:** 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, we do not consider it necessary or appropriate to require separate auditors for financial and sustainability reporting. This prohibition would increase costs for companies, without benefits to the reliability of information, and also clash with 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 for the application of the CSRD:** 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. Financial institutions' implementation efforts, however, would benefit the most from an appropriate sequencing of the requirements and 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.

Contacts

Oliver Moullin, Managing Director, Sustainable Finance and General Counsel

Oliver.Moullin@afme.eu

Giorgio Botta, Senior Associate, Sustainable Finance

Giorgio.Botta@afme.eu

Carlo De Giacomo, Manager, Advocacy

Carlo.DeGiacomo@afme.eu