
The importance of the international context for the CSRD

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AFME strongly supports the proposal for a Corporate Sustainability Reporting Directive (CSRD). Please see our full position paper for our views on the proposal as a whole.¹ This short paper considers recent developments at the international level towards developing international sustainability disclosure standards and explains how this context is important as the co-legislators finalise the CSRD.

Establishment of the ISSB and growing momentum towards international sustainability disclosure standards

As recognised by the G20², in order to have an effective framework for sustainability reporting, it is essential to maximise the interoperability of international reporting standards. This should avoid fragmentation, promote greater consistency and comparability of disclosures, and reduce reporting costs. We welcome the conviction of the European Commission that “it is clearly in the interests of the EU and European companies and investors to have standards that are globally aligned. EU standards should aim to incorporate the essential elements of globally accepted standards currently being developed.”³ We also welcome the EU’s support for the development of robust international sustainability disclosure standards and encourage the EU to continue its dialogue with other jurisdictions in support of maximizing the consistency and coordination of the development and implementation of sustainability disclosure requirements to avoid fragmentation.

Since the publication of the CSRD proposal, momentum has grown towards the development of, and international support for, international sustainability reporting standards. AFME welcomes the establishment of the International Sustainability Standards Board (ISSB) as a positive starting point to develop a common international baseline standard for sustainability reporting, starting with climate-related financial risk reporting before extending to other sustainability dimensions. The ISSB was widely supported at COP26 by 41 finance ministers from across the globe.⁴ A prototype standard for climate-related financial risk was made available and is expected to be published for consultation in early 2022 and subsequently adopted by the ISSB in 2022.

¹ See AFME/ISDA feedback on the CSRD proposal, available [here](#)

² See G20 Finance Ministers and Central Bank Governors Meeting [Communiqué](#), 9-10 July 2021; G20 [Leaders Declaration](#) 30-31 October 2021

³ Q&A on the CSRD proposal available [here](#)

⁴ Including Australia, Brazil (Central Bank Governor), Canada, Chile, China, Costa Rica, Egypt, Ethiopia, European Commission, Fiji, France, Germany, Greece, Guatemala, India, Indonesia, Italy, Jamaica, Japan, Kenya, South Korea, Luxembourg, Maldives, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Paraguay, Philippines, Russia, Saudi Arabia, Seychelles, Singapore, Spain, Switzerland, Tonga, Turkey, UK, Uruguay, USA

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As the co-legislators are working on the finalisation of the CSRD and EFRAG pursues its mandate, it is essential that they give due consideration to this international context for sustainability reporting. It is particularly important to:

- 1) Maximise the compatibility and consistency between EFRAG reporting standards under CSRD and the international standards developed by the ISSB; and
- 2) Ensure a proportionate application of the CSRD requirements to internationally active companies through limiting the scope of reporting with respect to activities and exposures outside the EU, and introducing greater proportionality in the scope of application to companies based outside the EU.

We trust that the co-legislators finalising the CSRD, as well as EFRAG in pursuing its mandate, are duly considering this international context for sustainability reporting and we elaborate below how this should be reflected in the directive.

Maximising consistency with international standards

International standards are important to provide an effective international baseline framework for sustainability reporting, enhance the comparability of sustainability credentials globally, and minimize fragmentation and overlap of requirements for internationally active companies.

We welcome that the European Commission and EFRAG are giving due consideration and support to the development of international sustainability disclosure standards. It is important that the EU, while maintaining ambitious objectives in sustainability reporting, demonstrates its support for international standards through ensuring that its own reporting requirements and the ISSB standards are consistent and compatible as they are developed.

While we understand, and support, the desire for the EU to build upon the international baseline standards to provide a double materiality perspective and to supplement it with sustainability objectives beyond climate financial risk, it is important that EFRAG and the ISSB continue to work hand in hand to ensure compatibility and interoperability of EU and international standards. It would also be beneficial for EFRAG to map its standards against ISSB standards to be clear where the EFRAG standards are consistent with the ISSB standards and which elements, or modules, build upon the common baseline standard. This would assist companies in applying the standards and aid consistency and interoperability. It may also inspire other jurisdictions to adopt the EU's approach and/or provide input as the ISSB develops further standards in the future.

Ensuring a proportionate application to EU and non-EU companies operating internationally

The Commission's proposal applies the CSRD disclosure requirements to EU consolidated groups, EU subsidiaries of EU and international groups (unless they are included in their parent's consolidated report) and also companies based outside the EU which have transferable securities listed on an EU regulated market. The proposal also extends to reporting on the worldwide activities and exposures of entities within its scope.

We understand that this is intended to promote a level-playing field and to further improve the availability of ESG information. In practice, however, for EU and non-EU financial undertakings, it will translate into an obligation to report sustainability information in accordance with the EU sustainability reporting requirements including for activities outside of the EU and exposures towards non-EU counterparties. It should also be noted that the definition of transferable securities covers not just listed shares and debt securities, but potentially encapsulates a broader set of issued securities, including listed structured products, significantly expanding the number of non-EU corporates that are captured by the CSRD obligations.

For a large number of banks, including EU-headquartered banks operating worldwide as well as banks headquartered outside the EU which issue transferable securities directly through their parent undertakings, the CSRD reporting requirements will apply to the group consolidated reporting for their entire portfolio across the group operations, including outside of the EU. The application of the CSRD disclosure requirements also results in Article 8 Taxonomy disclosure being extended to the global parent group.

Banks and other multinational corporates will face a very significant challenge in complying with the CSRD requirements and related Article 8 Taxonomy reporting requirements with respect to activities and exposures outside the EU. This is because many relevant counterparties in other jurisdictions are unlikely to be under an obligation to disclose sustainability data in line with the EU requirements, making it very difficult, if not impossible in certain cases, for banks to obtain sufficient information to fulfil the EU disclosure obligations.

In this case, EU and non-EU banks will have to report largely based on estimated data for exposures located outside the EU, which might well represent a large portion of their business (for third-country banks at group level, the vast majority of their business). We believe that this approach risks seriously compromising the accuracy and comparability of reported information, given that there is no widely agreed-upon international methodology for estimating such data, and it should therefore be avoided, at least until global consensus is reached.

Banks and non-financial corporates will therefore not have access to reliable data to enable them to accurately report on their non-EU activities under the CSRD. This is one reason why progress on the development and adoption of global sustainability reporting standards is so important.

Banks and multinational corporates may also be subject to multiple conflicting and overlapping reporting requirements from different jurisdictions. For example a non-EU headquartered bank which has issued transferable securities listed in the EU at the level of its parent entity would be required to report under its home regime and also the CSRD, leading to potentially inconsistent or overlapping requirements, duplicating information for investors.

It is therefore essential that a proportionate approach is adopted to the application of CSRD requirements to EU and non-EU headquartered internationally active companies and their international activities, while maintaining a level playing field between EU and non-EU undertakings. We propose that the following changes should be made to achieve this:

- a) Limiting the scope of reporting to EU activities and EU exposures to companies that are subject to the same CSRD and Taxonomy transparency rules, at least for an initial period; and
- b) Introducing greater proportionality in the scope of application for companies based outside the EU through introducing additional criteria.

Scope of reporting

For the above reasons we believe that it is important to limit the scope of reporting to EU activities and EU exposures to companies that are subject to the same CSRD and Taxonomy transparency rules, at least for an initial period while international standards are put in place in other key jurisdictions. Further, as regards the forthcoming development by EFRAG of the draft sustainability reporting standards under the CSRD, we strongly recommend taking into consideration the specific challenges linked to reporting sustainability information for exposures towards non-EU counterparties, and adapting as necessary the substance and granularity of the CSRD reporting standards based on a proportionate approach.

Proportionate scope for companies based outside the EU

In order to provide a more proportionate approach to the scope of the proposal, we propose additional criteria based on two core pillars: the level of economic activity undertaken in one or more Member States, and the level of trading activity of securities listed on EU regulated markets issued by a third-country firm.

We propose that the scope should be limited to firms offering products and/or services in the EU (measured by KPIs and thresholds to be determined for non-financial and financial undertakings separately), or issuing securities actively traded on EU venues for which transactions have been effectively reported under the current MiFIR transaction reporting regime since the entry into force

of the CSRD. The issuers of instruments listed on EU regulated markets before the date of entry into force of CSRD, for which no transactions have been recorded since that date, should be out of the scope.

Finally, we welcome the inclusion of an equivalence provision in the proposal. It is important that this is workable to avoid companies having to comply with duplicative requirements which have the same objective, but we would appreciate guidance on the interpretation of this provision. It is unclear at this stage whether this equivalence provision will require an assessment by the European Commission of an equivalent framework in the home jurisdiction, or voluntary compliance by third country headquartered firms that meet the CSRD standards. Again we hope that this would be supported by the progress on international standards and would encourage other jurisdictions to take a similar approach.

In conclusion, AFME strongly supports the EU's continued leadership on sustainability reporting. We also welcome the progress made on the development of international sustainability reporting standards. We trust that the co-legislators carefully consider the international context of sustainability reporting, in particular ensuring the consistency and interoperability of EU reporting standards with international standards as they are developed and a proportionate application of the CSRD requirements to internationally active companies.

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