Joint recommendations: CSRD Policy CoLab with Accountancy Europe

Background:

We recently organised a Policy Colab on "Corporate Sustainability Reporting Directive: Roadmap to Implementation", jointly with our Ally Accountancy Europe in May 2021. This roundtable on the Corporate Sustainability Reporting Directive (CSRD) aimed to reflect upon how this initiative will improve transparency and access to reliable non-financial information from companies, as well as the phases required for effective delivery. The pubication of the CSRD marks a seismic shift to revolutionising the current context of corporate reporting on environmental, social and governance information. These are essential elements to understand a company's growth, performance and position, as well as the impacts of its activities on society and the planet. The event gathered 50 participants, representing the interests of the investor, regulatory, supervisory, reporting standards and civil society sector. The event was part of the WBA Policy Collective Learning & Action Labs (Policy CoLABs), which are designed to find policy pathways to address critical bottlenecks that unlock a transformative business sector contribution to the SDGs. The roundtable marked a series of future dialogues with policymakers to develop practical recommendations on how to better define the relationship between non-financial reporting and financial performance through more explicit linkages of disclosure data to corporate sustainability goals.

These are some of the key reflections and policy recommendations that emerged during the event:

Session 1: Dialogue with experts on the implications of the CSRD

- The EU published its revised sustainable finance package in April 2021, a set of policy initiatives and tools contributing to the EU Green Deal and Sustainable Finance agenda. The CSRD proposal attempts to provide companies and investors with comparable, accessible and actionable sustainability information by creating a clear framework to put sustainability reporting on an equal footing with financial reporting.
- The key purpose of the Directive is to support the more sustainable allocation of capital through making sustainability information transparent, relevant and usable for all stakeholders.
- By introducing specific requirements for issuers, the European Commission intends to make it easier for companies to know what is expected, and for investors to make more informed investment decisions and fulfill their stewardship duties.
- When it comes to the scope of the CSRD , the proposal is inclusive of all companies, including listed SMEs. Speakers agreed that this is essential to drive systems change, while remaining proportionate towards different actors across value chains.
- Sustainability information can only drive change if it considers the full depth and breadth of the economy. One area of concern for many participants is that the CSRD could exempt large companies that are part of corporate groups. Speakers also indicated that future standards have to be linked to existing policies and reporting requirements, to ensure consistency and policy alignment.
- The standardisation of sustainable reporting is one of the most important pillars of the new CSRD. Therefore, while pressing ahead with EU standards to meet the objectives of the Green Deal and the growing information needs of investors, the Commission's ambition is to move towards convergence of sustainability reporting at

a global level, building on existing reporting initiatives. The proposal provides a window to allow sufficient space for a review of reporting standards once created, to ensure they respond to dynamic shifts in policy and societal expectations. In addition, there is space to develop more sector- and issue-specific standards where relevant.

- The CSRD proposal requires a “responsibility statement” on sustainability reporting at a senior management level. Some speakers commented that this is proof that the CSRD proposal has improved its “control systems” compared to the previous Non - Financial Reporting Directive. Such an explicit statement is expected to bring more discussions on sustainability into the board room.
- Additionally, the CSRD proposal introduces a requirement for mandatory audit at EU level. Some speakers noted that mandatory audit should help further improve the control environment.
- Lastly, the proposal clarifies that before adopting any standards, the Commission will consult the Member States Expert Group on Sustainable Finance and seek the opinion of the European Securities and Markets Authority (ESMA) as well as other core European financial supervisory insititutions. These consultations will help to ensure a comprehensive agreement on the content of the standards, and coherence with relevant EU legislation and policies

Session 2: EU sustainability-reporting standards and global convergence

- The EU has set an ambitious agenda within the EU Green Deal and Sustainable Finance Strategy for which future EU reporting standards need to align. Other jurisdictions are embarking on a similar journey.
- A roadmap for the development of a wide-ranging set of EU sustainability reporting standards was prepared by the project taskforce of the European Financial Reporting Advisory Group (EFRAG) in March. The aim is to guarantee that that future EU sustainability reporting standards are part of a multi-stakeholder process. This means detailing the rules of engagement for European authorities and member states with strong involvement from civil society and the private sector. Overall the reports highlighted the need for alignment and coordination between EU sustainability reporting standards and existing and evolving global initiatives.
- The EFRAG Taskfroce concluded that the overall target architecture of standards should be coherent and comprehensive and reflect appropriate layers of reporting (sector-agnostic, sector-specific and entity-specific), relevant reporting areas and a coverage of sustainability topics classified under an ESG+ categorisation.
- The proposals refer to building and contributing to the global convergence of sustainability reporting in a ‘co-construction’ mode. Some of the speakers indicated that in order to create a globally effective sustainability reporting landscape, there are several challenges including how to ensure that corporate disclosure leads to more accountability on commitments and the transitions needed to achieve global and EU sustainability objectives.
- In addition, to align the EU regulatory framework, the right market incentives connected to credible targets for the transformation of the economy are needed. The impact of the CSRD and other regulations fully depends on how information and data can be made actionable. For that, a collective goal is required to meaningfully assess sustainability performance.

- Another question raised by the speakers was how global and regional reporting standards can accommodate different policy objectives, needs and levels of ambition, without causing fragmentation or a race to the bottom.
- The IFRS Foundation, working on a global standard setting initiative, finds that there will not be one standard to address all. Hence, they propose a building block approach, to ensure interoperability of standards in different jurisdictions without restricting higher ambitions. The IFRS focus will be on materiality as a dynamic concept, and the focus will be on climate first, later also including other environmental, social and governance topics, building on existing frameworks. This may cause two risks, namely that: the full array of stakeholder impacts is not taken into account in company reporting, and the focus of reporting will only be on climate, not paying sufficient attention to material topics such as human rights and biodiversity.
- Ensuring disclosure principles that are chosen – and relevant – to ensure the incorporation of the SDGs into business strategy and transparency in relation to risks, opportunities, and impacts would therefore be important.