



## Key messages of the ASCG Administrative Board on the proposal for a Corporate Sustainability Reporting Directive (CSRD)

### Background

On 21 April 2021, the European Commission adopted a comprehensive and highly ambitious legislative package including a proposal for a Corporate Sustainability Reporting Directive (CSRD). The package aims to improve the information available on sustainable economic activities in the EU and to help channel more capital towards sustainable investment projects.

### CSRD - Key messages of the ASCG Administrative Board

#### **STANDARDISATION: EU standards for sustainability reporting need a clear international orientation**

It is laudable that the CSRD proposal creates the legal base for uniform sustainability standards. By means of a flexible legal instrument, the European Commission will thus be able to impose sustainability standards for mandatory application in the EU. However, attention must be paid to the situation of reporting companies, which are already confronted with a large number of voluntary frameworks and individual requests for information from the international sphere. The use of uniform international sustainability standards, as currently planned under the umbrella of the IFRS Foundation, would allow European companies to significantly reduce existing complexities and administrative costs. If sustainability standards were primarily tailored for the EU environment, the opposite would be the case. Companies would perceive such EU standards as an additional compliance exercise due to a lack of international acceptance.

From the perspective of the ASCG Administrative Board, the European legislator should enable international orientation from the outset by including an optional endorsement process comparable to the one for the international financial reporting standards IFRS.

#### **FEASIBILITY: The implementation of reporting obligations must be feasible, both in terms of content and application deadline**

The interplay of the various aspects of the CSRD proposal presents too high challenges for companies, at least in the initial phase. This is due to the steep increase in the number of companies subject to reporting, the lack of clarity as to the design of the applicable EU reporting standards, the simultaneous digitisation of data and the extremely ambitious timetable for initial application as early as 2023. In addition, all companies are affected by the reporting requirements under the EU Taxonomy Regulation. Companies need sufficient time and clarity to adapt their reporting processes to the new complex requirements. This is particularly true for those companies that have so far not been subject to sustainability reporting and in many cases do not yet have appropriate organisational structures. In Germany, the scope of reporting companies is expected to rise from about 500 to approx. 15,000 companies - this means a thirtyfold increase! It is therefore essential for the European legislator to ensure that such requirements can actually be met by the reporting companies concerned.

In the view of the ASCG Administrative Board, clear and practicable reporting standards are needed, which are proportional to the regulatory purpose and company size, which are provided in a timely manner and which allow for sufficient preparation time for their implementation, especially for initially reporting companies.

**RELIABILITY OF DATA: A quality-enhancing environment is important - proportionality must be maintained**

One of the main reasons for the CSRD proposal was the increased demand from financial market participants for reliable sustainability data. The CSRD proposal therefore contains a range of measures aimed at improving the quality of data. This includes an external assurance obligation as well as internal governance measures, such as the explicit responsibility of the Executive Board and Supervisory Board for sustainability reporting or special monitoring obligations on the part of the Audit Committee. For capital market-oriented companies, the CSRD Proposal foresees a special enforcement by the financial supervisory authorities.

From the perspective of the ASCG Administrative Board, it is important that this is handled with proportion. In practice, the maturity of the relevant processes and the control environment in the companies is likely to develop gradually. This is accompanied by a progressively increasing data quality. This gradual development should also be reflected in the legislative design of both the assurance requirements and the enforcement measures.

**STAKEHOLDER INTERESTS: Legitimate interests must be channelled through national standard setters, such as the ASCG**

The CSRD proposal wants to commission the European Financial Reporting Advisory Group (EFRAG) with the technical work to develop draft sustainability reporting standards. EFRAG is already advising the European Commission on the adoption of the international financial reporting standards IFRS into European law.

This additional role for EFRAG also corresponds to the international developments regarding the establishment of an International Sustainability Standards Board (ISSB) under the umbrella of the IFRS Foundation. The current proposals of EFRAG President Jean-Paul Gauzès – basically suggesting a mirroring of the current EFRAG structure with regard to sustainability reporting – should be filled with more concrete measures. In the area of financial reporting, EFRAG is supported by the national standard setters, not only financially but also in its technical work.

From the perspective of its Administrative Board, the ASCG – as a highly regarded German institution acting in the public interest – is ideally placed to form this link not only in the area of financial reporting but as well in the area of sustainability. The ASCG is currently overhauling the organisation of its technical work and is setting up a particular technical committee for sustainability reporting. In this way, it will be possible to discuss the legitimate interests of German stakeholders in a central location and to channel a condensed German opinion towards EFRAG. This is particularly important in the light of the rapidly increasing number of German companies subject to sustainable reporting requirements as foreseen under the CSRD proposal.