

Towards better Sustainability Reporting – Call for an Integrated Reporting Option –

The European Commission's (COM) proposal for a Corporate Sustainability Reporting Directive (CSRD) of 21 April 2021 marks an important step in implementing the European Green Deal and to reach the Sustainability Development Goals. The Green Deal's sustainable finance actions aim at channelling investments towards sustainable activities and enabling stakeholders to evaluate the activities of an entity regarding sustainability. As a result of the actions taken market participants now expect entities to integrate sustainability considerations in their corporate management, including risk management and to provide meaningful ESG performance information which connect to the financial position of the entity. The current Accounting Directive, however, not yet promotes an integrative approach as Member States may allow entities to publish non-financial information separately from the management report. In its CSRD proposal (recital (50)) the COM inter alia points out that separate reports hinder the availability of information that connects financial and information on sustainability matters. It also hinders the findability and accessibility of information for users, especially investors, who are interested in both financial and sustainability information.

Many entities have been enhancing their approach on sustainability for years. Entities have worked on considering sustainability matters throughout their organisation by, for example, establishing a sustainability strategy, integrating it in their corporate governance structures and operational decisions, and, last but not least, by reporting on sustainability matters in detail and in reference to financial information. While many entities are still working on developing and establishing these processes, they have found that the connection of financial and sustainability information is most valuable not only for their stakeholders but also for the entities themselves. Entities have found that integrating sustainability information in the management report instead of separate reporting has raised the awareness for sustainability matters within the entities. This facilitated the integration of sustainability matters throughout the organisation, while at the same time increasing the visibility externally. Essentially, integrating sustainability considerations in the entity's structure and operations allows for the most efficient way to achieve the goals set out in the European policy.

Consistent with this integrative approach the COM emphasized the importance of connecting sustainability and financial information and proposes to require entities to disclose financial as well as sustainability information within the management report. The COM (recital (45)) also points out that reporting standards should promote a more integrated view of all the information published by entities in the management report to provide users of that information with a better understanding of the development, performance, position, and impact of the entities.

While we acknowledge that there are still numerous entities that do not prepare integrated reports, we believe that an integrated reporting is a logical consequence of integrating sustainability matters at an organizational and operational level of the entity. It is the fair presentation of the structures implemented; the structures which are deemed most appropriate for reaching

sustainability goals. An integrated report helps to outline the entire spectrum of factors that affect the company's ability to generate value for its different stakeholders and for the society. This provides a better understanding of an entity's strengths, weaknesses, opportunities, and threats. Integrated reporting enables the entity to effectively communicate its business activities, resources used, results and impacts. In a nutshell, it helps to better understand and explain the company's business model and its resilience.

In the light of these considerations, we would therefore like to confirm our support for the CSRD's approach to integrate financial and sustainability information. We were, however, surprised by the current developments which focus on *separate* sustainability reporting in dedicated sections within the management report. This is depicted in the CSRD proposal of the Council of the European Union published on 18 February 2022. This proposal will be subject to discussions among the European institutions in the coming weeks (trialogue).

Regardless of this ongoing discussion of the CSRD proposal the EFRAG PTF has published its working paper on the presentation of sustainability statements (ESRS P1 *Sustainability Statements*) on 3 March 2022. According to this working paper entities are limited to separately report on sustainability information, i.e., in a separate part or several clearly defined separate sections of the management report. In the working paper ESRS P1 (BC5) EFRAG's PTF argues, for example, that a separate presentation enhances comparability across entities, eases access to information and avoids fragmentation. In our view, these concerns can be addressed by including meaningful location tables in an integrated report. In the past entities have developed these tools to allow for comparability and easy access to all sustainability information. ESRS P1 (BC6 et seq.) also refers to the different assurance levels required for financial information on the one side and sustainability information on the other side. While, in general, in our view audit considerations should not determine reporting requirements, entities have already addressed these concerns in the past by marking information in the management report according to the information's different assurance levels.

In the light of the overall aim of the European Green Deal to develop towards a more sustainable economy entities should be supported in their efforts to integrate sustainability matters in the entities' operations including the entities' reporting. In support of this development the CSRD as well as EFRAG's ESRS should include an option for entities to present integrated reports. We would therefore strongly encourage the COM and its co-legislators as well as EFRAG – which was asked by the COM in the letter dated 12 May 2021 to develop draft sustainability reporting standards consistent with the requirements set out in the CSRD proposal – to take this opportunity to reconsider the current approach (focus on separate reporting) and to allow for reporting that integrates sustainability and financial information.