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Unit C1 - Corporate reporting, audit and credit rating agencies
DG FISMA
European Commission
*Copy:*
Rogier Wezenbeek
Senior Expert

Brussels, the 30th of June 2021

*Object: ecoDa's comment letter to the public consultation related to the draft Corporate Sustainability Reporting Directive*

*Attachment: ecoDa's detailed position regarding the draft CSRD*

Dear Mr. Deckers,
Dear Mr. Wezenbeek,

ecoDa, the European Confederation of Directors Associations, would like to share with you its various remarks relating to the public consultation on the Corporate Sustainability Reporting Directive.

In general, ecoDa backs the approach of the European Commission which aims to encourage companies to more take into account the impact of their company on the surrounding ecosystem and to adopt a sustainable strategy.

However, ecoDa supports a long-term convergence of European and global sustainability reporting standards but questions the very ambitious schedule which is now proposed.

In addition, ecoDa is not in favor of combining the sustainability report with the financial report given that they will not be subject to the same level of audit. It also risks generating a very heavy report.

The European Commission should further specify how the assurance system will apply proportionately to SMEs.

In addition, the Commission should place more emphasis on the importance of narrative in order to understand the specificities linked to a company and a given sector beyond a purely quantitative approach. The narrative also allows an essential prospecting dimension to the reporting exercise.

Furthermore, our view is that it is essential that the framework will be principle based and focused on risk and materiality for the individual company. Finally, the reporting should only be based on the needs connected to the relevant stakeholders of the company, based on a rigorous stakeholder analysis.

In order to know the details of our position, we invite you to consult the elements below.
We thank you for your consideration and remain at your disposal for any further information.

Yours sincerely,

Michel de Fabiani
Chair of the Policy Committee

Béatrice Richez-Baum
Director General

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**Detailed ecoDa's statement** :

INTRODUCTORY REMARKS:

- ecoDa welcomes the leadership position taken by the European Union in defining European non-financial reporting standards.
- ecoDa shares the European Commission's ambition to ensure that human, social and environmental aspects are integrated into the business models of European companies.
- ecoDa agrees that businesses must take into account their dependencies and impacts on nature and society.
- ecoDa encourages the European Commission to take into account EFRAG's main recommendations regarding the elaboration of EU non-financial reporting standards (namely that the CSRD should not be too prescriptive, but on the contrary, should let room for adaptation, and that the scope should be extended to non-European companies present in the EU market).
- ecoDa favors a long-term convergence of European and global sustainability reporting standards. Specificities of the European market could be added on top of the international standards.

- ecoDa is afraid that the timetable set by the European Commission is not realistic. It would be difficult to realize without endangering the effectiveness of the regulations.

COMMENTS:

- **Integration of stakeholders' interests:**

  - The proposal requires the companies to report on *«how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders»*. ecoDa would like to stress that taking into consideration all stakeholders' interests is not only impossible in itself, but it also places obligations on companies to reconcile conflicting interests. As an alternative, ecoDa would suggest focusing on the company's relevant stakeholders, who should be defined and prioritised case by case, by board members. It is important to recall that the management is responsible to define who are those relevant stakeholders. It is then up to the board to challenge the proposal and to validate it.
  - The proposal may consider to include ESG rating agencies and proxy advisers as significant users of corporate sustainability disclosures considering: a) the wider audience their rating and reports are addressed to , and b) the administrative burden companies have to deal with in providing answers to questionnaires.

- **Standardization**: The proposal largely enhances standardization of non-financial reporting requirements:

  - The reporting requirements should be more sector-specific driven. Each company should identify and report on information that make sense for their business model, their sector and their size (the main issues and risks arising from/faced by a textile company are by essence different than by an automotive company or a food distributor). The importance of the 3 dimensions, E, S, and G may vary from one sector to another.
  - The standardization might risk hampering the flexibility companies need in order to correctly reflect their sustainability strategy.
  - Too much standardization risks not taking into account the specific issues of transitional energy sectors.
  - The non-financial report should not be reduced to a quantitative approach and comparability. Narrative remains very important to understand how companies manage risks and opportunities in order to have a true picture of reality. The prospective dimension is also essential to understand the company's strategy.

- It is important that companies are not subject to two different reporting levels: European and international. There is a need for convergence building on existing reporting recommendations, such as the one developed by the TCFD.

- **Reporting requirements:** The reporting requirements appear oversized regarding the level of detailed information expected:

  - The European Commission's approach is too bureaucratic and it tends to impose an administrative model to the corporate world.
  - Companies will have to bear an extra burden and additional administrative work and time commitment to comply with the proposal. It may somehow be counterproductive to put such an emphasis on the reporting phase while the implementing phase is the real game changer.
  - The European Commission should refrain from being too prescriptive on which committee should be responsible to review the sustainability report. This could be done by the Audit Committee or another committee like the Sustainability Committee when it exists.
  - Clarity on what is meant by intangibles should be made to facilitate the implementation.
  - Insofar as the sustainability report will not be audited in the same way as the financial report, ecoDa questions the advisability of aggregating the two reports. The risk is also to have a final report that is extremely heavy and difficult to digest. As mentioned in previous position papers, ecoDa is supportive of the Core and More approach instead of the integrated reporting.
  - ecoDa supports adequate reporting instead of additional layer of requirements. What really matters is to connect the exercise with the company's strategy in order to avoid a box-ticking approach.

- **Scope of the directive**:

  - ecoDa would favor a voluntary reporting framework for SMEs instead of delaying the implementation of the proposal for three years. The reporting burden and additional costs will remain the same regardless if it is in two or three years. That is why ecoDa advocates for voluntary and simplified standards for SMEs.
  - SMEs, that most often do not have the in-house expertise to fulfil these types of reporting obligations, would have to pay for external consultants.
  - ecoDa sees the risk of making this new directive a punitive instrument rather than an incentive one. It risks making the financing of SMEs, which are slower in the adoption/implementation of EU non-financial reporting standards, more complicated.

- Proportionality for the procedures to be carried out to provide assurance on non-financial information disclosed by SMEs should also be considered.
- Requirements imposed on SMEs - if the European Commission goes in that direction - should not be solely based on the size of the company, but should also take into account its sector, as size may not be proportional to its impact on the environment.

- **Assurance:**

  - While accounting and audit frameworks are well established for financial information, reporting and assurance on non-financial information are rather new areas. ecoDa welcomed the limited approach. Specific guidelines on audit and verification processes would be much appreciated. Those guidelines could also help better understand how far proportionality will be applied to SMEs.
  - ecoDa questions the ability for statutory auditors to prove 15 years of experience in different fields, including sustainability reporting as this topic remains quite recent.

- **Missing points:** ecoDa is surprised that certain subjects are not addressed by the draft legislation:

  - The regulation/governance of rating agencies and of proxy advisors is not addressed. Despite the efforts made by proxy advisors to limit the risk of conflicts of interest, this is still a topical issue. A formal oversight body would be more than welcome.
  - The European Commission does not suggest any initiative to facilitate access to digital tools that could help expand and improve the reporting.
  - The reporting requirements should apply to non-EU companies present on the EU market in order to ensure a level playing field.

- **Delegated acts**:

  - ecoDa is concerned about the increasing use of delegated acts, while the expert committees of the member states only have an advisory right. Besides the fact that this approach questions the democratic process, it creates different levels of legislation which further complicates the implementation by companies. Furthermore, these delegated acts are never principle-based. The subject of non-financial reporting is complex enough for the EC initiatives to bring rigor and simplification and not to add extra complexity.

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