Why we need to get improved corporate sustainability data by 2024

Investors, asset managers and civil society organisations call for the prompt implementation of the reform on corporate sustainability reporting and EU standards

As the European Parliament and Council develop their positions on the EU Corporate Sustainability Reporting Directive (CSRD) proposal, it is of the utmost importance that policymakers support the timeline suggested by the European Commission and plans for EU sustainability reporting standards as well as guarantee public funding to support the standard-setting work.

The CSRD reform is tackling the gaps observed in the implementation of the previous legislation in order to address problems in the comparability, consistency and relevance of sustainability information disclosed by companies. The impact assessment accompanying the proposal and linked research from the Centre for European Policy Studies (CEPS) are both categorical in showing that mandatory sustainability reporting will bring clarity to businesses, help reduce the number of requests for sustainability information from external stakeholders and lead to a reduction in cost in the medium- and longer-term.

The EU Green Deal and Renewed Sustainable Finance strategy depend on successfully redirecting private and public capital to support the sustainability transition of the EU economy as well as adequately measuring companies’ role, performance and impact on sustainability matters. In this regard, implementing the EU standards is instrumental to help companies provide relevant information that is needed by all users of such data (including investors, financial market participants and civil society) and in line with EU public goals and commitments on climate, environment and human rights.

The EU Non-Financial Reporting Directive currently in force was approved by legislators in 2014. Due to the urgency and the central role of this reform within the broader policy context, the undersigned organisations call policy-makers to take the next step by:

• Reaching agreement promptly in order to support swift implementation. The CSRD proposal clarifies the implementation of sustainability disclosure obligations, thereby providing additional and necessary certainty to companies, as well as to investors and other stakeholders (i.e. ensuring compliance with respective disclosure and prudential requirements such as investors disclosing how they integrate sustainability and banks having to assess their exposure to climate risk). The reform would enter into effect in 2023, with companies actually reporting the information on sustainability risks, opportunities and impacts in 2024. In practical terms, companies would need to start collecting data from 1st January 2023 on several KPIs, including GHG emissions and energy use. Any delay will have a negative impact on the ability of companies and financial market participants to support the sustainability transition of our economy. Moreover, it will put at risk the achievement of the objectives set in the EU Green Deal and hinder the implementation of the Renewed Sustainable Finance Strategy.

• Maintaining the double materiality concept to achieve EU-specific policy objectives, and demonstrating EU leadership to promote the consideration of impact globally. The EU standards must be grounded in the double materiality concept in order to align with the broader policy context (including rules on investors’ disclosure, EU taxonomy, EU Green Bonds Standard and ESG benchmarks) and achieve the EU’s commitments on sustainability and respect for human rights. Furthermore, looking at sustainability challenges at the global level, achieving international standardisation and a level playing field is important and in the interest of the EU. However, the international work led by the IFRS Foundation will not cover the full spectrum of ESG (Environmental, Social and Governance) matters at once and will look specifically at disclosures relevant for enterprise value, rather than sustainability outcomes. It is highly appreciated that the European Commission has already committed to a review process to ensure European and international standards are compatible. We stand ready to support the European Commission’s contribution to the international standard setting so that the objective of global harmonisation in reporting both risks and impacts, which is needed and required by all users of sustainability data, is achieved.

• Ensuring the technical work to develop EU corporate sustainability reporting standards is appropriately supported by EU public funding. It is important that the EU Commission guarantees the viability and transparency of the standard-setting process, free of bias and undue interest, allowing all interested parties including users and preparers to engage on an equal basis.

We call on European policy-makers to maintain momentum while finalising the negotiations for the reform of the legislation. The business case for standardising sustainability reporting is undisputed as well as the importance of sustainability data as a critical cornerstone to achieve the objectives set in the EU Green Deal and the sustainable finance agenda.

1 Multiple studies have proven the need to increase the relevance and comparability of companies sustainability disclosure: see Alliance for Corporate Transparency, CDP or German Environment Agency