

# Ceemet's views on the Corporate Sustainability Reporting Directive

On 21 April 2021, the European Commission has adopted the Sustainable Finance and EU Taxonomy package which aims at improving the flow of money towards sustainable activities across the European Union. Part of that package is the revision of the Non-Financial Reporting Directive (NFRD) which is now part of the newly proposed Corporate Sustainability Reporting Directive (CSRD). As the Commission not only proposes to widen to scope of the reporting entities but also to impose an extremely detailed reporting obligation, Ceemet fears that the administrative burden on companies will be significant.

## Ceemet's key messages

- It is very untimely and inappropriate for the Commission to propose this Directive with such high estimated one-time and annual recurring costs on companies in a time when they are struggling to survive and are putting all their efforts to recover from the COVID-crisis.
- Ceemet believes that the Directive should continue to apply only to large public interest companies. Widening the scope also to unlisted companies seems highly questionable regarding the benefits of such new obligations for companies.
- The introduction of excessively detailed and prescriptive information, as well as new requirements such as the obligation to publish in a certain format and taking into account prescribed standards will inevitably lead to disproportionate administrative burdens for companies, notably for SMEs. Ceemet therefore advocates for a broad, principles-based framework which each company can tailor to its own situation, while taking into account the needs of its stakeholders.
- The reporting obligations resulting from EU level legislation are excessive and pose an unacceptably high administrative burden on European based companies. Coherence between the reporting obligations is much needed.
- The timetable to implement this Directive is unrealistic. If the proposal follows the Commission's proposed timing, EU companies will only have a few months to ensure that they comply with the requirements.

## Ceemet's views

- Costs on companies

Ceemet considers that the timing of this proposal is very inappropriate as the large majority of companies have been hit hard by the COVID-crisis and can now only start to recover. The Commission's impact assessment estimates the costs on companies at 1 200 million Euro as a one-time cost and the annual recurring costs at 3 600 million Euro. Companies that are currently doing their best efforts to survive will now be obliged to dedicate a large amount of their financial resources to comply with the proposed requirements. This is especially true for SMEs, which are the backbone of Europe's economy, as they have been the most affected by the crisis. This proposal is thus certainly untimely and goes contrary to other initiatives following the recovery plan for Europe. We therefore call on the EU legislators to put this proposal on hold until companies have been able to recover from the crisis.

- Widening the scope of reporting entities

Where the scope of the Non-Financial Reporting Directive was limited to "large public-interest entities" with more than 500 employees, the newly proposed Corporate Sustainability Reporting Directive significantly expands the scope of entities subject to the reporting obligation by lowering the threshold from publicly listed companies with over 500 employees to companies with over 250 and extends it to SMEs listed on the EU regulated markets. For SMEs, the proposed sustainability reporting requirements would apply 3 years after the entry into application of the CSRD.

Currently, "larger" mid-sized companies, i.e. companies which have between 251 and 500 employees do not fall under the NFRD. These companies, which are often family-run businesses, will now be confronted with a dramatic increase in administrative burden via the reporting obligations as they will now be put on an equal footing with the actual large companies while often not being able to rely on similar resources.

Also the extension of the scope of the reporting requirements to SMEs listed on EU regulated markets will inevitably create additional high costs and administrative burden on said companies. Even for big companies it will be a challenge to fulfil additional reporting obligations. Smaller companies, which often have fewer resources in financial terms and as regard human capital, should be excluded from the mandatory obligation requirement or will otherwise have to shift a lot of their time and resources from their core corporate activities to complying with the requirements as stipulated by the proposed Directive.

Ceemet appreciates the Commission's intent to develop voluntary proportionate standards in order for non-listed SMEs to decide to use the sustainability reporting standards on a voluntary basis. We consider that this option should remain open to all SME's, regardless of whether they are listed or not.

- More detailed reporting obligation

In addition to extending the scope of the directive to new companies, the proposal for revision of the NFRD provides that the companies concerned will have to specify in greater detail the information they must disclose. It introduces new requirements for companies to provide information about their strategy, targets, the role of the board and management, the principal adverse impacts connected to the company and its value chain as well as intangibles. Moreover, the information should be forward-looking as well as retrospective, qualitative and quantitative.

Finally, the proposal adds an obligation for companies to publish this information in a machine-readable digital format. This all is extremely prescriptive and far-going for EU level legislation.

The introduction of excessively detailed and prescriptive information will inevitably lead to disproportionate administrative burdens for companies, notably on SMEs.

As regards the use of standards and formats, Ceemet could see the use of this as beneficial for companies if it would function as a guidance for it to be used on a voluntary basis rather than an additional requirement. This would be a preferable way to ensure usefulness, understanding and applicability for companies and stakeholders.

Moreover, we want to note that several companies already voluntarily report non-financial aspects through company-led initiatives. This approach should not be hindered by lack of flexibility imposed by this proposed Directive. Therefore, an additional EU reporting standard that prescribes which information companies should report on and how to present it in a binding way would add to reporting burdens without real added value.

Taking this into account, Ceemet advocates for a broad, principles-based framework which each company can tailor to its own situation, while taking into account the needs of its stakeholders.

- High increase in reporting obligations from EU level legislation

This proposed Directive should also be seen in conjunction with the proposal for a Directive on pay transparency measures adopted on 4 March 2021 by the European Commission and the forthcoming legislative proposal on corporate due diligence. All these legislative initiatives threaten to add a long list of new obligations for companies as regards administrative requirements. These proposals that multiply the reporting requirements will inevitably lead to an excessive amount of obligations for the human resources departments of larger companies, or managers in SMEs, and create additional burden for them.

On 29 April, with the Commission's communication on Better Regulation, the importance of the 'One In, One Out' principle - stating that every legislative proposal creating new burdens should relieve people and businesses of an equivalent existing burden at EU level in the same policy area - was highlighted again and the principle was implemented in the REFIT programme. However, contrary to its promise, during this mandate the Commission has already published several proposals for legislation which impose additional high administrative burden without relieving companies from a similar level of burden. The important 'One In, One Out' principle remains a paper tiger and has so far thus been completely disregarded by the Commission in practise. This makes us question the real determination of the Commission in truly implementing this crucial principle.

European companies are already struggling heavily with the excessive amount of administrative burden and related costs and will be even more so due to the obligations imposed by several EU level legislative proposals, notably this Directive.

These measures will create a disadvantage for EU companies which risk incurring higher reporting costs than companies which are based outside of the European Union. It could therefore be detrimental for the level playing field of the EU Single Market. This excessive amount of administrative burden will significantly affect the global competitiveness of EU based companies vis-à-vis third country companies as they are not obliged to comply with such disproportionate reporting requirements and related costs. Only by remaining competitive, European companies will be able to continue to generate wealth and secure jobs in the long run.

In this respect, Ceemet urgently calls on the European Commission to assess the excessive administrative obligations they pose on companies and take measures to reduce this red tape and make EU level legislation more coherent and better applicable.

- Suggested timetable

The timetable suggested by the Commission is extremely ambitious. The Commission proposes that Member States shall implement their laws and regulations to comply with the reporting requirements by 1 December 2022 and that the provisions will apply as of the financial year 2023. The delegated acts to establish European standards for sustainability reporting shall be adopted by 31 October 2022. This would give companies, most of which never had to deal with sustainability reporting, only two months after the establishing the standard and only one month after the implementation into national laws until they have to comply with all the proposed requirements. As we consider this as an unrealistic demand, we call for a more flexible timetable in order to give companies enough time to familiarise themselves with the reporting requirements and procedures and take the necessary measures in this respect.

Furthermore, as this proposal entails several legislative tools and as the big impact on several stakeholders has to be thoroughly analysed and discussed first, we highly doubt that the co-legislators will be able to finalise the legislative process before the summer of 2022. That would also only leave some months for the Member States to implement the new directive. Normally there are at least two years foreseen for the national implementation. Therefore, we call for an application for the financial year starting in 2026 at the earliest.

The Commission believes that this proposal is proportionate and strikes a balance between meeting the needs of investors and other stakeholders for sustainability information for companies, and limiting the potential administrative burden for companies themselves. Ceemet does not share this opinion and considers that this would inevitably create a significant administrative and financial burden for these companies. We therefore call on the co-legislators to carefully take the needs of companies in this respect into account and cut the red tape and reduce the financial impact.

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