VIK-Stellungnahme
to the
proposed
European Corporate Sustainability Reporting Directive

4. Juni 2021


With this legislative proposal the European Commission is aiming to increase an impact of financial sector in achieving the objectives of the European Green Deal as well as to provide the coherence of reporting requirements between the Non-Financial Reporting Directive (Directive 2014/95/EU, NFRD) and other sustainable finance legislation, including the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation. It has been indicated that current obligations addressed in the NFRD are not providing the sufficiently relevant and reliable information for investors and civil society, which presumably creates investment risks and inhibits financial flows to activities that address the sustainability crisis.

The draft of the proposed CSR-Directive which is supposed to amend the Directives mentioned above, has several objectives, which will improve non-financial reporting for the European companies and therefore, contribute to the transition towards a sustainable financial system. The EU-Commission indicates the following objectives: reducing of systemic risks to the economy by increasing the number of green investments; improving the allocation of financial resources, so that the investments will be undertaken to companies that primarily address social and environmental problems; making companies more responsible for their impact on society and the environment, thereby strengthening the interdependence between companies, banks and society.

The EU-Commission is expecting the applicability of the CSR-Directive under the jurisdiction of the member-states until October 2022 and its further implementation after or from 2023.

The specific amendments of the proposal are following:
• to enlarge the scope of reporting obligations to all large companies, including the capital market-oriented and non-capital market-oriented companies. It is expected that the current list of 11,600 companies will be extended to 50,000 companies;
• to define the detailed reporting information for the companies according to the obligatory European sustainability reporting standards (currently the companies decide on their own authority, what kind of data will be officially published);
• to introduce a general EU-wide assurance of the sustainability information;
• to replace the previous finance reporting regulation by the application of double materiality principle;¹
• to ensure the availability of the non-financial information in a digital format.

In this position paper we discuss and analyse the above mentioned amendments from the view of the VIK member-companies.

**Introduction of the common European standards for non-financial reporting**

The VIK generally supports the initiative concerning the introduction of the mandatory and harmonised standards for the non-financial reporting. The proposed initiative offers a good opportunity for the EU to become a global leader in establishing and recognition of the sustainability reporting standards. However, the introduction of a European sustainability standard for a global market should be fundamentally discussed.

Currently, the stakeholders have considerable discretion in deciding what information to report and how to apply the double materiality principle. By the same time, the decision usefulness of the information for potential investors should be an important part of the proposed sustainability reporting. The planned future separate delegated act for the precise reporting standards should be sufficiently discussed and consulted with all relevant stakeholders to ensure the needed feasibility. The companies should not be put under risk, especially by a possible publication of sensible financial and non-financial information. The proposed submission of reports in a digital standardised manner increases bureaucratic formalities as well.

**Avoidance of additional costs for companies**

The Inception Impact Assessment of the Directive indicates the total estimated costs of the new non-financial reporting for preparers between €1,200 million in one-off costs and €3,600 million in annual recurring costs. The EU-Commission defines

---

¹ A double materiality perspective means that companies have to report information not only on how non-financial issues affect the company ("outside-in" perspective), but also regarding the impact of the company itself on society and the environment ("inside-out" perspective). Definition is taken from "Impact assessment on Proposal for a Revision of the Non-Financial Reporting Directive" [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021SC0150](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021SC0150)
these costs as short-term costs, which could be reduced sooner on the mid- and long-term perspective.

However, due to the current economic crisis and consequences of the Corona-Pandemic, a lot of businesses, especially SMEs, are already operating at a subsistence level. The Commission's assumption that the most companies will anyway face increased costs (the possible reason is that investors will persistently demand the corporate sustainability information in the future) seems to be overestimated, because an economic development and pandemic-consequences in the EU member-states differs distinctively. Therefore, the EU-Commission should consider another cost-efficient and favourable framework for the companies which will help to implement the proposed sustainability reporting.

**Establishment of a reliable regulatory framework for a fair competition on the global market**

The scope of the proposed CSR-Directive should be extended to all companies and manufacturers operating in the European Union. It will ensure a coherent framework and fair conditions for sustainability risks reporting. The scope of the obligatory reporting can be enlarged for non-domestic companies operating in the EU, if they, for instance, will prove their high thresholds for annual global turnover.

The proposed approach should not at the same time create competitive disadvantages for European companies on the global market. In this sense, it is essential to consider and take into account appropriate market protection mechanisms.

**Possible emergence of unnecessary bureaucratic burdens**

It is expected that many businesses in the real economy will face unnecessary bureaucratic burdens during the preparing of the new sustainability reports and its further audit. An increasing number of new state regulations does not ensure a stable planning reliability and security for businesses. A broad range of companies, which will be potentially obliged to report, need enough time and transparency to change their intern workload, create the necessary departments within the companies to meet new and complex reporting requirements. This requirement is especially important for those companies which were not previously obliged to the sustainability reporting. For example, in Germany the list of the reporting businesses will be enlarged from 500 to 15,000 companies. Especially the SMEs will face the new reporting requirements, which means that companies with 250 employees, having € 40 million turnover and/or € 20 million total assets should be obliged to report on their ESG-activities.

Along with the Taxonomy-Compliance, the new reporting standards can possibly change access to the favourable financial terms in the provision of credit by banks. The ECB, for example, currently instructs banks to consider their sensitivity to climate risk when weighing how much capital they need beyond minimum requirements. The
President of the ECB, Christine Lagarde considers the Commission’s proposal on corporate sustainability disclosures as a key element on the way to Green Capital Markets Union for Europe, because an integration of sustainability disclosures with financial data will create a “one-stop shop” for all critical information about a company, including its green credentials, which would be profitable for investors.\(^2\)

However, those companies, which will not meet the new sustainability standards and criteria, could have difficulties, if they are planning to attract new investments or bank loans. It is worth noting that European and national governmental funding programs (for example, in Germany) have already been adapted to the European Taxonomy and its accompanying delegated acts.

**Initiative on general EU-wide audit (assurance) of sustainability information**

The EU proposal introduces a general audit requirement for reported sustainability information. From the two options – “reasonable assurance requirement” and “limited assurance requirement”, the EU-Commission prefers the second option, which is less costly for the companies. However, the preliminary approach will automatically become “a requirement for a reasonable assurance” after the future adoption of special sustainability assurance standards. In this case remains unclear, how these standards will be compiled, what influence on the administrative burdens and future expenditures of the companies it will have.

Concerning the qualification of auditors, it is also important to define legally the certification and accreditation procedure of the independent assurance services providers well as the transparent standards for their activities. For example, the reporting of the non-financial information (e.g. contribution to climate mitigation and social impacts) involves a certain qualitative data, which is obviously difficult to estimate and verify by auditors if they specialize only in finance.

**Is sustainability reporting a financial or non-financial issue?**

From our viewpoint, the definition of sustainability as non-financial issue (as well as the name of this directive) is not sufficiently correct. According to the current legislative initiatives related to the EU Sustainable Finance Package, all relevant stakeholders – companies, governments and banks are already supposed to be oriented on the uptake of the sustainable investments. A number of companies even change their business development strategies on the way to support and promote sustainable investments. Therefore, they are already considering their development considering so-called ESG criteria (environment, social sphere, governance), and it is definitely an issue related to financial strategies of the companies. Additionally, the proposed concept of double materiality needs a better clarification, especially if we consider the impact of manufacturers on environment and society, which is difficult to measure in

\(^2\) Towards a green capital markets union for Europe.  
terms of finance costs and quantitative data. In this case, a transparent metrics is essential to define.

Der VIK ist seit über 70 Jahren die Interessenvertretung industrieller und gewerblicher Energienutzer in Deutschland. Er ist ein branchenübergreifender Wirtschaftsverband mit Mitgliedsunternehmen aus den unterschiedlichsten Branchen, wie etwa Aluminium, Chemie, Glas, Papier, Stahl oder Zement. Der VIK berät seine Mitglieder in allen Energie- und energierelevanten Umweltfragen. Im Verband haben sich etwa 80 Prozent des industriellen Stromverbrauchs und rund 90 Prozent der versorgerunabhängigen industriellen Energieeinsatzes und rund 90 Prozent der versorgerunabhängigen Stromerzeugung in Deutschland zusammengeschlossen.