

Requirements for sustainability reporting and the implementation of the EU Corporate Sustainability Reporting Directive

Positioning of B.A.U.M. e.V. of 27.07.2022

On the occasion of the publication of the drafts for European Sustainability Reporting Standards by the European Financial Reporting Advisory Group (EFRAG) as well as for an International Sustainability Reporting Standard by the International Sustainability Standards Board (ISSB) at the International Financial Reporting Standards (IFRS), B.A.U.M. takes the following positions from the perspective of a business association with a strong sustainability orientation. The interest is to strengthen the discussion on the form and the content of sustainability reporting with regard to its suitability, to the governance of sustainability and its integration into the core business of companies. As a pioneer association for sustainable business, we believe that all knowledge is available to initiate the necessary change processes, that will enable the great transformation – in corporate sustainability management, in communication with customers, business partners and capital providers, as well as in policy and standard setting. We encourage all stakeholders involved to do what is necessary to achieve sustainable development.

Welcome to the initiatives –

The Scientific Advisory Board, the Advisory Council of Companies and the member companies of B.A.U.M. as a network for sustainable management welcome the extending of the EU reporting obligation to the Corporate Sustainability Reporting Directive (CSRD). B.A.U.M. supports the fact that with this change, reporting on sustainability in Germany will become more concrete in terms of content and obligatory for a significantly larger group of companies.¹ The primary goal is to transform the economy with a view to socio-ecological necessities in a macroeconomic and sectoral manner. A uniform framework for the reporting and thus orientation of this transformation gives companies access to orientation and support; and all the more so if, as envisaged by the EU directive, financing through the capital markets is also more strongly oriented towards the transformation requirements. At the same time, fair competition of business ideas suitable for the future is made possible. The goal formulated in the EU Commission's Green Deal includes achieving net zero emissions by 2050 and decoupling economic growth from resource consumption. The B.A.U.M. members and signatories of the B.A.U.M. Code represent a leading role of the European economy in a special way. They thus also stand for

¹ Cf. B.A.U. M. position of April 2021: <https://www.baumev.de/News/9933/NachhaltigkeitsberichterstattungwichtigeSchritteaufEUEbene.html> (accessed 25.05.2022).

German companies that strive to minimise environmental damage, restore ecological regeneration capacities, expand the circular economy, the fulfilment of due diligence obligations and the protection of human rights in global supply networks.

Specific occasion –

The reason for this positioning is the specific opportunity presented by the modification and extension of the obligation for sustainability reporting in the course of the recent amendment of the EU Directive on Non-Financial Reporting (NFRD), which has led, among other things, to a mandate from the European Commission to the European Financial Reporting Advisory Group (EFRAG) for the development of European sustainability reporting standards. They will become mandatory for companies in the course of implementing the Corporate Sustainability Reporting Directive (CSRD). In Germany, the Accounting Standards Committee Germany (ASCG) set up an advisory board for sustainability reporting as part of the preparations for national implementation. In view of global climate change and the resulting pressure to act, B.A.U.M. expressly supports the ambitious timetable. There is a need for urgency in several respects. If the postponement by one year sought by the EU Parliament is actually to become an advantage for the processes to be set up in companies, the structure, concerns and report content must be quickly defined so that the desired effectiveness is guaranteed by January 2025, when the extended reporting obligation is expected to come into force.

On the basis of this positioning, B.A.U.M. is contributing to the public consultation on the EU Sustainability Reporting Standards (ESRS) of EFRAG, which will run until 8 August, as well as to the drafts of the International Sustainability Standards Board until the end of July 2022.

Concern –

Another reason for the positioning is the concern about achieving the intended goals. The EU's explanatory memorandum for the amendment of the Directive (2014/95/EU) to the European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) mentions these objectives: the elimination of the current deficiencies with regard to transparency, data availability and comparability, the effective support of the implementation of the European Green Deal by means of the disclosure of consolidated non-financial reporting and this certainly at acceptable costs for the companies. The CSRD provides for the expansion of reporting content and the use of European standards yet to be developed, the clarification of "double materiality", reporting in a separate part of the management report, as well as a mandatory audit of sustainability information with at least limited assurance combined with clear responsibilities for monitoring and auditing sustainability reporting – all of this applied to all large companies (with the number of employees reduced to 250) and all companies listed on a regulated market in the EU (excluding micro entities) and extended to other financial institutions. According to various experts, this will probably mean that in the future, instead of approx. 550 companies in accordance with the 2014 regulation, the number of companies in Germany alone will be 10 to 15 times higher. It will therefore be all the more important to ensure that the standards are compatible with established systems and (industry) standards for sustainability.

The current discussion is characterised by lobbying that evokes supposed bureaucracy and excessive effort, which does not necessarily represent the interests of the respective members for reliable opportunity and risk assessment for sustainable business models. Likewise, a very superficial capital market orientation and the citing of old and problematic constructs of previous reporting also shape the discussion. Previous concepts, such as integrated reporting in particular, were primarily capital market-oriented and only secondarily oriented towards stakeholders. A business model analysis is propagated that is difficult to implement, especially for smaller companies, and distracts larger companies from important sustainability goals by providing structure and generating boundaries. In addition, the "double materiality", which is also contained in the EU CSR Directive and which could undermine a catalogue of important variables, is brought to the fore. The emphasis on an orientation towards the taxonomy of sustainable economic activities, which inevitably becomes a political issue, can lead to the comprehensive analyses of overall corporate sustainability being suppressed in individual cases and significant individual issues not being recognised.

Positioning of B.A.U.M. e.V. –

B.A.U.M. calls for a clear orientation towards the principle considered fundamental: Sustainability reporting primarily serves to compare the contributions of individual companies with the overall economic global, national and sectoral goals of sustainable transformation.

Publicly available data enable social dialogue on (sustainable) business on an informed basis. With the help of approaches such as the Stewardship Code², social requirements can be moderated in corporate decisions, public financing and investment processes. In this sense, the German Sustainability Code should be expanded in its criteria to include the dimension of the global Sustainable Development Goals (SDGs). It is only in relation to the global sustainability goals, societal and planetary impact limits that corporate contributions to achieving the 2030 Agenda and any conflicting goals become visible. If they are sufficiently valid and meaningful, they can be rewarded by the market and society. Accordingly, society's indicators must be reflected in the performance indicators for the companies. Only in this way can companies gain a management tool to achieve the goals they must pursue anyway for their future entrepreneurial success. To this end, companies must be made comparable through cross-sectoral reporting that is clearly oriented towards the EU goals.

Perhaps a prejudice should also be prevented here: A reporting obligation initially only requires reporting. Accompaniment by comprehensive measures at the individual company level is not mandatory and depends on the level of ambition in implementation. Serious disadvantages from disclosure are rather unlikely. Policymakers respond, where appropriate, not to individual companies, but only to entire sectors. The improved information basis of politics through reporting does not mean that companies have to be active on all possible topics, but only the disclosure of "whether" and "why not". Reporting can even protect companies appropriately and, above all, give them a framework that creates a steering effect towards sustainability. It is evident that addressing sustainability issues and reporting on them positively influences

² See <https://www.frc.org.uk/investors/uk-stewardship-code?msclid=ddd0153dcfbc11ec8bec9787172c9998>

management practice. If, in addition, an appropriate marginal compensation is added, new incentive structures arise that we still miss in the market. The benefit should be higher than the effort for the companies. The clearer the regulatory framework and the incentives, the sooner the economic relevance and the competitive benefit will be realised. On the cost side, the greater effort can be reduced by pragmatically using estimation procedures / standard values below certain thresholds instead of foregoing information.

Proposals for sustainability reporting –

B.A.U.M. is committed to:

- reporting requirements for companies of all sectors and different sizes that improve overall corporate sustainability governance, increase transparency and strengthen competition for the best sustainability solutions.
- guidelines that, in the light of the recent crises caused by war, destructive climate change impacts, species extinction and inequality, focus on the realisation of the SDGs and make non-sustainable business models and economic practices visible as such.
- requirements for companies that enable them to transparently present their change processes towards the effective integration of sustainability into their business models and to place them in their respective sector-specific, regional and global context. The requirements should be formulated in such a way that all companies have the chance to implement them well and authentically. B.A.U.M. supports companies in interpreting and implementing upcoming requirements for their own business practice.
- description of minimum requirements for companies to disclose their significant environmental, economic and social impacts along their entire value chain. The requirements must ensure a focus on the most serious and far-reaching impacts. This can be done, among other things, through a sector-specific KPI catalogue, which can be used to qualify and quantify corporate sustainability performance. The required compatibility can be achieved by derivation from the EU taxonomy, comparison with the requirements of the Sustainable Finance Disclosure Regulation and Corporate Sustainability Disclosure Regulation on the part of the EU Commission. The ability to aggregate across all industries enables a macroeconomic view of the contributions to achieving the climate, environmental and sustainability goals. To make it easier, especially for smaller companies and newcomers to reporting, the first step could be to set flat-rate minimum values that are specified by binding catalogues of standard values. For this purpose, it can and should also be possible to use the increasingly available AI solutions for determining values. These in turn should be subjected to a quality and sustainability check to ensure that the reference to science-based approaches and coherence with established standards are given.
- mandatory classification of the compensations made (e.g. emitted quantity of GHG per scope and compensated quantity of GHG per scope) to qualify the level of ambition and impact. This would make statements by companies regarding climate neutrality ("climate-neutral production", "climate-neutral product", etc.) verifiable with regard to the scopes under consideration. This is also consistent with the [B.A.U.M. definition of climate neutrality](#). For the qualification of offsetting projects, it makes sense to specify what type they are and which certifications, standards and process qualities they meet.

- linking with a practical Sustainable Finance approach that facilitates access to finance for companies with credible transformation strategies. This requires a review and further development of the current taxonomy structure, preferably along the sector-specific KPI catalogues and requirements described above.
- a communication tool for committed companies that is close to the end customer and based on the European Single Access Point – this should at least be examined. The aim is to simultaneously create a European public sphere in the course of broader reporting that strengthens conscious consumption and awareness of sustainable consumption and production patterns. It should also be considered to what extent there can be a quality seal for companies based on a taxonomy-based methodology that qualifies ambitious sustainability management (dark green) as well as business models in transformation (enabling, transition), which can be used at the corporate level as well as in the product environment (web shops, stationary POS).

In accordance with a value chain responsibility principle, it is appropriate to initially focus on Scope 1 and 2 for greenhouse gas emissions in the introduction to reporting and to consider downstream values, for example, as lump-sum statistically determined additional information. This does not call into question the need for Scope 3 accounting wherever possible. Overall, it would be helpful for the companies if the specification of best practice data collection, processing and publication were to become part of the implementation guideline. At the same time, these proposals increase the implementability of stricter audit requirements by reducing to corresponding statements.

Conclusion and appeal –

The urgent achievement of societal sustainability goals, especially with regard to the climate, can only succeed if the economy operates in a market economy within a target-oriented framework. Mandatory sustainability reporting aimed at achieving the transformation goals is a minimum requirement. By setting a framework through politics, it acquires economic and competitive relevance. This challenge is an opportunity for the already transforming companies, a necessity for all companies in view of rising energy and raw material costs and should be accepted constructively.

Signed by

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About B.A.U.M.

As a network, B.A.U.M. e.V. is committed to advancing the central issue: a future worth living through sustainable business. Founded in 1984, the association now has around 750 members and is a strong voice of sustainably operating companies and a driving force for sustainable development in Europe. B.A.U.M. supports its members in setting up and further developing sustainability strategies and networks actors from business, politics, science, media and associations. Committed companies receive a platform for practice-oriented exchange of information and experience as well as know-how and impulses. Current lighthouse projects include the "Business for Climate" initiative, sustainable.digital and the annual B.A.U.M. | Environment and Sustainability Award. www.baumev.de @BAUMeV