IRSG
INTERNATIONAL REGULATORY STRATEGY GROUP

IRSG NARRATIVE – CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

Proposals

1. The European Commission's proposal for a Corporate Sustainability Reporting Directive (**CSRD**) aims to revise and strengthen rules introduced by the Non-Financial Reporting Directive (**NFRD**).
2. This proposal is intended to ensure that companies report reliable and comparable sustainability information that investors and other stakeholders need. It should also assist these organisations in meeting the increasing demands for sustainability information.
3. The CSRD proposal extends the existing NFRD sustainability reporting requirements to all large companies, whether listed or not, and SMEs with securities listed on regulated markets. This <u>includes non-EU companies if their securities are listed on an EU regulated market and the EU subsidiaries of non-EU companies</u>.
4. As currently drafted, the CSRD proposal suggests that, for EU-headquartered financial services providers operating worldwide as well as those headquartered outside the EU which issue securities directly through their parent undertakings that are listed on EU exchanges, <u>the CSRD requirements would apply to the group consolidated reporting for their entire portfolio across the group operations, including in third countries, where there are no ESG disclosure requirements similar to the EU ones.</u>
5. The requirements will impact any large company that meets two of three thresholds: 250 employees; a balance sheet of €20m; or €40m in turnover.
6. The requirements will impact any SME that meets two of three thresholds: between 50-250 employees; a balance sheet of between €4m-20m; or between €8m-40m in turnover.
7. Reporting will be in line with mandatory EU sustainability reporting standards to be developed by the EU. The European Financial Reporting Advisory Group (**EFRAG**) will be responsible for developing these draft standards. EFRAG aim to have the first set of draft sustainability reporting standards ready by mid-2022.
8. At the EU Commission's request, EFRAG has already published technical recommendations and a roadmap for the development of EU sustainability reporting standards.

IRSG position

1. The IRSG believes that it is essential to implement a balanced application of CSRD requirements to EU and non-EU headquartered internationally active companies and their international activities, in particular to ensure proportionality between EU and non-EU activities.
2. The IRSG welcomes the EU's efforts on providing more clarity around sustainability information and reporting, but stresses the need to respect international sustainability reporting standards, in order to avoid duplication and ensure a level playing field for companies. It is important to remember that financial services providers and multinational corporates will likely be subject to multiple conflicting and overlapping reporting requirements from different jurisdictions.
3. The IRSG strongly supports the establishment of the International Sustainability Standards Board (ISSB) as a major step to globally aligned ESG reporting. It is positive that the ISSB was

endorsed at COP26 by 41 Finance Ministers, including from the UK and EU, and the IRSG hopes that it will provide the foundation for consistent and global ESG reporting standards that will enable companies to report on ESG factors affecting their business.

4. Under the current proposal, EU and non-EU financial services providers will have to report largely based on estimated data for exposures located outside the EU, which might well represent a sizeable or majority portion of their business. The IRSG strongly believes that this approach risks compromising the accuracy and comparability of reported information, given the current lack of global consensus on the necessary methodology for sustainability data.
5. The IRSG supports EU subsidiaries of non-EU companies reporting their activities according to the EU standards at the highest EU consolidated level. However, the parent company based in a third country should be allowed to make a single consolidated sustainability report according to the international standards developed by the ISSB or according to its home jurisdiction's standards that ensure compliance with the ISSB standards.
    a. This principle already applies in the context of Pillar III disclosures under the Capital Requirements Regulation (CRR), which are made at the consolidated level by non-EU financial institutions in their home jurisdiction according to the local framework.