european contact group

European Commission
Attn Mr John Berrigan
DG FISMA
1049 Brussels

13 July 2021

Subject: European Contact Group (ECG) feedback on the proposal for a Corporate Sustainability Reporting Directive

Dear Mr Berrigan

The European Contact Group (ECG)[1], which brings together the six large professional services networks in Europe (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC), welcomes and generally supports the proposed Corporate Sustainability Reporting Directive (CSRD). The proposal is a fundamental and ambitious step towards achieving a sustainable economy, and is expected to lead to a major transformation for the whole corporate reporting ecosystem, including companies, boards, auditors, standard-setters and supervisors. High quality corporate information for sustainable decision-making requires suitable reporting standards, efficient internal controls, independent audit committees, high quality external assurance, engaged investors and stakeholders, as well as strong oversight bodies. The purpose of sustainability reporting should not be the reporting itself, but rather enabling companies' transition and capital allocation with the aid of robust data and access to the necessary investments.

We have limited our comments to some key points focused on assurance of sustainability information and its important preconditions.

1. Corporate governance

Corporate governance is the first line of defense against misstatements and bias in sustainability reporting. We welcome the proposed clarification of the individual and collective responsibility of the management and supervisory board for sustainability reporting. The clarification of the duties of the audit committee in public-interest entities will also contribute to robust internal oversight and accountability, and therefore more reliable reporting. Furthermore, the proposal for undertakings to provide information on internal controls and risk management systems in the Governance section of the sustainability report is important towards strengthening the three

[1] Link to ECG in EU transparency register

lines of defense (governance, auditors, supervisors), which will improve transparency with regard to the overall resilience of businesses.

2.Quality and consistent requirements for assurance providers

To achieve an integrated Capital Markets Union, investors should be able to trust the information in the same way, whichever Member States it is filed in. To preserve this credibility, if a Member State opts to allow independent assurance services providers to issue the conclusions on the sustainability reporting, these providers should be subject to a minimum professional framework that would include (personal) independence, competence, quality control, oversight and adherence to the relevant professional assurance standards, consistent with the one applicable to statutory auditors.

We agree with requiring limited assurance as a start. We share the Commission's goal of moving towards reasonable assurance as companies' systems and processes become more mature, and at the latest when a relevant assurance standard is adopted in the EU. If sustainability information is to be considered as rigorous and as important as financial information, it should ultimately have the same level of assurance.

3. International convergence

In developing the EU sustainability reporting standards, we welcome the commitment to build on, and contribute to, international sustainability reporting initiatives in constructive cooperation, while catering for the needs embedded in EU sustainable finance policies. We note in particular the work of the IFRS Foundation recently endorsed by the G7 Finance Ministers. Globally aligned standards are needed to avoid regulatory fragmentation for companies operating globally. Investors and companies operate globally, source through global supply chains and attract capital from global resources. International convergence of reporting standards will not only reduce cost and complexity, but also ensure that the reporting gives a meaningful and holistic view of the sustainability profile of an undertaking's global operations. Therefore, we call on all the parties involved at international level to seize this unique opportunity to establish a common global baseline for sustainability reporting standards.

International convergence would also be important in the field of assurance standards. To meet the envisaged timeframe, we suggest the Commission and Member States adopt a pragmatic approach and build on international assurance standards. A relevant assurance standard for sustainability reporting is ISAE 3000, together with the recently issued guidance on Extended External Reporting.

european contact group

In the appendix we propose more detailed suggestions which in our view reinforce the objectives of the proposal and promote relevant, comparable and reliable sustainability reporting in the public interest.

We look forward to a continued and constructive engagement in this important discussion.

Firmato digitalmente da: MAURIZIO ANGELO FRANCESCO DONVITO
Luogo: Milano
Data: 13/07/2021 13:29:53

Maurizio Donvito
ECG Chairman

CC: Alain Deckers

Appendix: detailed suggestions

1. Quality and consistent requirements for assurance providers

We suggest that the CSRD clarifies the minimum requirements that should be in place if Member States use the option to allow accredited assurance services providers other than statutory auditors to provide assurance over the sustainability reporting, with respect to, at least:

- (personal) independence
- competence
- quality control
- oversight
- adherence to the assurance standards adopted under art.26a of the Audit Directive.

To ensure that undertakings and stakeholders receive consistent quality of assurance over sustainability reporting, it seems important that the requirements are consistent regardless of the location of undertakings in the EU, or whether it is provided by the statutory auditor or another independent assurance services provider.

---

2. International assurance standards

We propose to clarify that assurance standards adopted by Member States or the Commission pursuant to Art.26a of the Audit Directive should take into account international standards. This would be in line with audit standards for financial reporting under the current Art.26 of that Directive.

---

3. Management report

Art.19a(6) and Art.29a(6) of the Accounting Directive seem to imply that by publishing (consolidated) sustainability reports, undertakings also fulfill their obligations under Art.19 for the analysis of financial information. We suggest clarifying that by fulfilling the sustainability reporting requirements, companies cannot be exempted from providing an analysis of the financial KPIs and performance in the management report.

---

4. *Sustainability reporting by listed subsidiaries*

We suggest removing the exemption granted for undertakings covered by consolidated reports (Art.19a(7)/29a(7) of the Accounting Directive) in the case of entities with securities traded in EU capital markets that are within the scope of the CSRD. The public-interest entities' characteristic of those undertakings should prevail. Market participants need to be provided with sustainability information at the level of those undertakings, rather than in an aggregated format at a larger group level.

---

5. Assurance of third country parent undertakings' reports

We suggest clarifying that the exemption for undertakings covered by consolidated sustainability reporting of a third country parent undertaking (Art.19a(7)/29a(7) of the Accounting Directive) can apply only if the consolidated reporting is subject to assurance. This is necessary to ensure a level-playing field between EU and non-EU companies. This would be also in line with the exemption from financial reporting under Art.23 of the Accounting Directive.

---

6. Quality of the information to be presented

We suggest removing the word "representative" in Art.19b of the Accounting Directive, with regard to the qualifications expected to be fulfilled by the information published under the sustainability reporting standard. This term is not generally used and it seems redundant as it is already required that the information shall be "represented in a faithful manner".

---

7. Simplified standard for SME parent undertakings

We propose clarifying that a large group should not report using the simplified standards for sustainability reporting if the parent undertaking is an SME (Art.29a(5) of the Accounting Directive), and the large group would exceed the size of an SME on a consolidated basis. This would not be appropriate since it may become a loophole for large groups to circumvent reporting under the normal set of sustainability reporting standards. Furthermore, Art.29a(6) of the Accounting Directive already exempts a parent undertaking from having to issue an entity-level report, thereby mitigating the burden for a "double reporting" requirement. We suggest deleting Art.29a(5) of the Accounting Directive unless the intent of this article was to address another issue.

---

8. Editorial suggestions

a. Art. 1(10)(b)-3 of the Accounting Directive.

When referring to the definition of "assurance of sustainability reporting" in the Audit Directive, we suggest referring to the new Art.2(22) of the Audit Directive instead of Art.2(1)(r), which does not exist in the Audit Directive.