Make EU laws on corporate sustainability reporting smarter not weaker

Dear Commissioners McGuinness,

We are highly concerned by some elements we hear about the forthcoming ‘SME relief package’, to be published by the Commission early September, about cutting corporate reporting.

Sustainability reporting has been a central pillar since day one of EU sustainable finance policy. This has been apparent in the Commission’s Sustainable Finance Action Plan in 2018 and the follow-up Strategy for Financing the Transition to a Sustainable Economy in 2021, and related pieces of EU legislation (such as the Taxonomy, SFDR, CSRD, etc). As active supporters of the EU agenda to improve corporate sustainability reporting – including as members of the HLEG, of the TEG, of the EU Platform, of the EFRAG - we urge the Commission consider the following critical elements:

- **There is a strong market demand for more sustainability data:** Financial institutions are explicitly asking for more corporate sustainability information not less. This is a must for them in order to take better-informed decisions, at a time when they are asked by EU policy makers to make more efforts towards the green transition and the objectives of the European Green Deal.

- **Standardisation is simplification:** without a robust and standardised set of reporting requirements, companies not publishing sustainability information will increasingly be chased by financial institutions in multiple, non-standardised ways to report it, which risks creating more burden not less. Some companies are already highlighting the difficulties linked to this.

- **Sustainability reporting brings more diversified funding to companies:** No green data from companies means no green finance for them, at a time when sustainable finance grows much faster than average. This means lost opportunities for companies to transition or develop green businesses. Companies can even be excluded from portfolios if they remain opaque on sustainability, as some investors are gradually integrating ESG issues in their entire portfolio.

- **More sustainability data bring to a better systemic risk management:** financial regulators are increasingly asking for sustainability information to companies, to better assess sustainability-related financial risks. When banks and investors are required to disclose, they in turn ask for more sustainability information to borrowing or investee companies. The Commission must not weaken the efforts to better manage sustainability-related financial risks.

In parallel, we were very concerned to read in a Euractiv article on 30 August the French-German call to “ask the EU Commission to expand the EU SME definition to include an additional company category of ‘small mid-caps’ (250–500 employees)”. Artificially changing the SME definition will not solve any of the issues we raise above and will have limited value considering the following points:
● **Mandatory sustainability reporting only targets 0.2% of EU companies.** According to Eurostat, companies above 250 staff only represent 0.2% of EU companies in number. This is the scope of CSRD and the EU Taxonomy, and this is already a very small portion of the whole.

● **In the European Sustainability Reporting Standards (ESRS), the European Commission has already provided an exception for** companies with less than 750 employees by allowing them to have a longer implementation timeframe. This gradual phase-in approach helps first time report to avoid burden and costs that would stem from concentration of all obligations in a single reporting period.

● **Sustainability reporting is affordable:** according to a study from CEPS, the implementation cost of the EFRG ESRS draft was between 0.017% and 0.034% of the turnover, for one-off and recurring costs respectively, including all internal and external administrative costs as well as limited assurance. The final ESRS being less stringent, the cost will be lower as well.

Changing the SME definition would moreover undermine the political agreement reached on the personal scope of the Corporate Sustainability Reporting Directive, and erode credibility of the policy making process in the EU and chances of building a consensus in the future.

**We believe that lack of transparency on sustainability is not the way forward. What we recommend instead that is to better support companies to report meaningfully on sustainability issues with no unnecessary burden:**

● **First, ensure consistency across the various EU reporting requirements,** to avoid duplication and inconsistencies. There is still some legislative work required to ensure full consistency between the CSRD, SFDR, EU Taxonomy, Capital Requirement Directive and more, including a revision of the SFDR for refocusing on most meaningful metrics, consistently with the ESRS. In this context, also the added value of the CSDDD should be considered.

● **Second, support and fund adequately the EFRAG,** which is currently preparing technical recommendations for a (mandatory) Listed SME standard for a future Delegated Act under the CSRD, and a (voluntary) non-listed SME standard. Compared to the ISSB, the EFRAG is grossly lacking in budget and capacity.

● **Third, provide more training and guidance** to companies to help them understand what and how to report sustainability information. The EFRAG, mandated by the Commission, is preparing guidance for the first set of ESRS.

● **Fourth, provide targeted subsidies to SMEs** to incentivise them to develop meaningful sustainability reporting.

We would be pleased to present to you our recommendations in a meeting or call at your earliest convenience, notably on the consistency issue across the various EU corporate sustainability reporting requirements.

Please do not hesitate to ask us if you have any questions. With our best regards,

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