Joint letter calling to broaden the scope of the EU Corporate Sustainability Reporting Directive

On behalf of:
CDP, Economy for the Common Good, EFAMA, Eurosif, Frank Bold, Finance Watch, Global Witness, Investor Alliance for Human Rights, Publish What You Pay, ShareAction, Transport and Environment, WWF

Dear Members of the European Parliament,

In the next couple of weeks, various committees in the European Parliament will vote on their proposals to reform the EU Corporate Sustainability Reporting Directive (CSRD). In view of that, the co-signing organisations are calling for broadening the scope of the companies to be covered by the new rules by including all listed SMEs, as well as non-listed SMEs operating in high-risk sectors, subject to proportional rules.

The reform of corporate sustainability reporting is at the centre of the EU Green Deal, the Renewed Sustainable Finance Strategy and the EU Recovery Plan. In order to successfully redirect private and public capital to support the sustainability transition of the EU economy, it is paramount to adequately measure and report on companies' role, performance and impact on sustainability matters. The CSRD and adoption of its EU standards will help companies provide relevant and comparable sustainability-related information, responding to the needs of all users including investors, financial intermediaries, public authorities and civil society.

The German Sustainable Finance Research Platform called for the inclusion of small and medium-sized enterprises in the scope of CSRD in order to avoid major data gaps in key sectors. According to their study, "hundreds of thousands of companies, which together contribute the majority of negative environmental impact in their respective sectors, are currently disregarded in the CSRD". Excluding SMEs from high-risk sectors will hinder access to sustainability information on companies facing high sustainability risks and on actual or potential negative impacts of their operations, such as from energy, manufacturing, extractives, garment or transport sectors. This is important to enable investors to evaluate a company's sustainability and fight green-washing.

Furthermore, the sustainability-related information reported in line with the provisions set out in the CSRD and the accompanying standards may influence access to loans and other forms of finance to fund the transition. Putting SMEs at a disadvantage in the reallocation of capital to support transition to a sustainable economy risks undermining the competitiveness of EU national economies with a high share of SMEs.

Financial institutions, including banks, need sustainability-related information on companies they finance to analyse their own risk exposure and to fulfil their own disclosure obligations. The European Central Bank recommended to include SMEs in the scope of mandatory reporting of climate-related information based on a simplified disclosure regime. The Principles for Responsible Investment called for the inclusion of non-listed SMEs from 'high-risk' sectors and the European Banking Federation recommended the EU Commission to "*assess a sector-based approach to mandatory reporting requirements for companies (based on high-risk sectors)*".

Investors and asset managers are required to incorporate sustainability factors in order to assess the risks and opportunities of their investments as well as to better understand the social and environmental impacts of those investments. In addition to end-investors' driven demand for that, financial market participants are compelled to do so by the existing regulation[1].

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Earlier this year, leading investors, asset managers and civil society organisations called jointly for the prompt implementation of the reform and EU standards. The joint statement sent a clear message in support of the CSRD proposal as it "*clarifies the implementation of sustainability disclosure obligations, thereby providing additional and necessary certainty to companies, as well as to investors and other stakeholders (i.e ensuring compliance with respective disclosure and prudential requirements such as investors disclosing how they integrate sustainability)"*. Furthermore, the statement warned that any delay will have a negative impact on the ability of companies and financial market participants to support the sustainability transition of our economy.

The evidence gathered and provided by the EU Commission in the Impact Assessment (IA) accompanying the CSRD proposal makes it clear that the explosion of demand for sustainability information from different actors will be the true future cost to business, unless a more widely accepted set of standards is established. Furthermore, the IA warns that the "*costs for listed SMEs of not disclosing non-financial information will be high in terms of probable exclusion from investment portfolios*". SMEs need to take climate action to build business resilience, gain competitive advantage, keep up with supply chain demands and policy regulation, and meet consumer expectations. Therefore, SMEs should be equipped with tools and resources to support their reporting exercise.

The CSRD and EU corporate sustainability reporting standards are a crucial piece of the puzzle for sustainable finance to deliver on its objectives. The General Approach recently adopted by the Council, includes listed SMEs in line with the Commission proposal. In view of the forthcoming vote in the European Parliament and the trilogue negotiations that will follow, **the co-signing organisations call on Members of the European Parliament to ensure that all listed SMEs, as well as non-listed SMEs operating in high-risk sectors, are adequately incorporated in the legal framework.**

Last but not least, the clarification of the reporting obligation and swift adoption of EU standards must not be tied to the political negotiations on the scope of companies covered by the new rules. While a balanced and proportionate approach must be found for SMEs, it is noteworthy that the CSRD proposal is broadly accepted and supported by most stakeholders.

Thank you for your consideration and we remain at your disposal to answer any questions you may have.

Yours sincerely,

CDP · Economy for the Common Good International · EFAMA · Eurosif · Frank Bold · Finance Watch

Global Witness · Investor Alliance for Human Rights · Publish What You Pay · ShareAction · Transport & Environment · WWF