Banking & Payments Federation Ireland
Floor 3, One Molesworth Street
Dublin 2, D02 RF29, Ireland

+353 1 671 5311
info@bpfi.ie

www.bpfi.ie

Department of Enterprise, Trade and Employment Public Consultation

EU proposal for a Corporate Sustainability Reporting Directive

Banking & Payments Federation Ireland (BPFI) is the voice of banking and payments in Ireland. Representing over 100 domestic and international member institutions, we mobilise the sector's collective resources and insights to deliver value and benefit to members, enabling them to build competitive sustainable businesses which support customers, the economy and society.

Introduction

BPFI welcomes the proposal for a Corporate Sustainability Reporting Directive (CSRD), particularly its objective to reduce diverging and multiplying information requests. We expect successful implementation of the CSRD will facilitate access to information, provide a shared language of sustainability reporting, and harmonise requests by all stakeholders, including rating providers.

We appreciate the invitation by Department of Enterprise, Trade and Employment to provide our views on this proposal as well as the informative seminar held in May with European Commissioner for Financial Stability, Financial Services and the Capital Markets Union, Mairead McGuinness.

The centrepiece of the proposed CSRD is mandatory EU sustainability reporting. BPFI recognises the importance of standardised sustainability reporting to the ambition of the EU and Member States to fulfil the objectives of the Paris Climate Agreement, 2015, specifically Article 2(1)c, '*making finance flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development'.*

BPFI welcomes the role of the European Financial Reporting Advisory Group (EFRAG) to develop the sustainability reporting standards required, to align with EU policies but building on and contributing to international standardisation initiatives. We note the recent agreement by G7 nations to mandate climate reporting in line with the recommendations of the global Taskforce on Climate-related Financial Disclosures (TCFD).

Timelines

BPFI has concerns with regard to the ambitious proposed timeline: the Directive is to be adopted by end 2022, used by 2023, with entities publishing reports for the first time in 2024. This assumes negotiations between European Institutions and with Member States will be agreed quickly and also that non-financial corporates will have access to required data and can adapt their reporting processes to the new complex requirements.

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BPFI members are working successfully with their clients to adapt business models to adequately capture sustainability risks and opportunities. Their ongoing integration of TCFD and similar frameworks and related work on identification of climate-related risk, and experience of reporting on sustainability (frequently to high global standards), means they are well placed to adapt to mandatory reporting. However, we request that the Irish Government be satisfied regarding the feasibility of preparation and use of non-financial information by entities in scope by 2023, given the expanded scope of the proposed requirements, as well as the rapid inclusion of further sustainability factors.

Companies need sufficient time and clarity to adapt their reporting processes to the new complex requirements, particularly if they have not yet been subject to sustainability reporting and lack the appropriate organisational structures required.

The EU should ensure reporting companies can meet the new requirements

Two considerations in terms of ensuring feasibility will be that, firstly, the basic parameters of the mandate for the development of the EU-NFRS, found in the CSRD text, as well as the content of the EU-NFRS itself, bring together the elements of already existing reporting frameworks (e.g., GRI, CDP, CDSB, TCFD, SASB) that produce the most material information. It will be important that the new standards are based on existing practices, without complicating the reporting landscape through the creation of requirements disconnected from the mainstream frameworks. Secondly, the feasibility of the standards would be served by them being aligned with international efforts in the field of sustainability reporting. The co-legislators and EFRAG should thus continuously assess the developments by the IFRS and the newly created Value Reporting Foundation, ensuring that the final outcome at European level leads to convergence and harmonization.

Co-legislators and EFRAG should also take into consideration relevant aspects of the work already undertaken by the World Economic Forum's **Measuring Stakeholder Capitalism** initiative to accelerate common and comparable metrics for reporting under CSRD.

Attention must be paid to the situation of reporting companies, which are already confronted with many voluntary frameworks and individual requests for information from the international sphere. Ideally, uniform sustainability reporting standards should allow European companies to reduce existing complexities and administrative costs. In the absence of an internationally cohesive set of standards, an equivalence regime should be instituted. It should be avoided that European companies have to report under two or more regimes.

BPFI Response to Specific Questions

Q1 What are your views of the expanded scope of the Directive?

BPFI supports the proposal to expand the scope to include all companies listed on an EU regulated market (except for micro enterprises), including listed SMEs, and to specify that companies with 250 employees – reduced from the current NFRD number of 500 employees are in scope.

Including more companies will help ensure banks and capital market can properly assess data from their clients that fall under the scope of the proposed new Directive.

We expect that the expansion proposed will gradually increase over time. We request the mandatory inclusion of all companies in high-transition risk sectors, regardless of size, and that their reporting is based on simplified requirements for material risks only (e.g. climate related).

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Q2 What are your views of the application of the new requirements for listed SMEs three years after the application to all other companies?

BPFI believes this is a reasonable timeframe, given the challenges facing SMEs to provide sustainability information. However, the proposed proportionate minimum reporting framework for SMEs in scope of the CSRD should be developed alongside ERAG's full standard for other companies under the CSRD, available in October 2022. This would avoid SMEs needing to report based on diverging requirements or on the full standard because their own minimum one is not yet in place.

The development of this standard should involve key users of SME sustainability reporting to ensure requirements are reasonable and meet their information needs.

Q3 What are your views of the proposals for EU sustainability standards?

BPFI welcomes the proposals for EU sustainability standards; We note that EFRAG will be the EU standard setter for sustainability reporting, plus that mandatory assurance of sustainability reports will be required.

BPFI recommends that the EFRAG standards are finalised and published with sufficient time given to organisations to comply with them and that they are aligned with other EU sustainability reporting legal frameworks.

We trust EU's co-legislators and EFRAG will seek to coordinate reporting requirements with global reporting initiatives, including consideration of how to leverage elements of the GRI, SASB and TCFD frameworks in the process of the negotiation of the Level 1 framework, and in the development of EFRAG's European Non-Financial Reporting Standard. Also, that the EU reporting standards should replace the need to report under GRI, SASB, TCFD. If there is no internationally cohesive set of standards, an equivalence regime should be instituted.

Q4 What are your views on the new role for statutory auditors in assurance of sustainability reporting?

BPFI notes the proposal to introduce a new role for statutory auditors to provide assurance for the reported information, using the same categories of information as the existing Non-Financial Reporting Directive, that is, climate/environmental, social and employee matters, human rights and bribery and corruption/governance.

The final Directive should clarify the specific information they are required to audit, and this clarification should be provided well in advance of the audit being carried out.

Q5 Do you agree that it should be optional for Member States to provide for independent assurance providers?

We note the proposal allows for Member State to choose to allow 'independent assurance services providers', (not the usual auditors) to assure sustainability information.

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We agree Member States should have this option. . In certain circumstances, the statutory auditors may not be best placed to provide assurance on sustainability-specialised data. In this case, clarity is required as to the relationship between the statutory auditor and the independent assurance provider so that organisations can be satisfied they can rely on the assurances they receive. .

<u>Q6</u> What are your views on digitalisation of sustainability reporting using the European Single Electronic Format?

We are fully supportive of the digitalisation of sustainability reporting using the European Single Electronic Format and ask that the Irish Government ensures alignment of CSRD with the timeline for the creation of the ESAP;

To best progress this we recommend a lead-in time is granted to organisations to comply with this aspect. A timeframe of approximately 12 months would give organisations sufficient time to operationally implement the digitisation of this reporting. Initially, all efforts need to be applied to fully comply with sustainability reporting and to ensure this is fully embedded within organisations. Following that, all efforts can then be applied to complying with the digitalisation of this reporting. We also recommend that this reporting aligns with other EU sustainability reporting legal frameworks.

<u>Q8</u> What are your views on the timeframe for implementation of the new sustainability reporting requirements?

We understand that the first reports complying with CSRD are required in 2024 (reporting on 2023) for large companies and 2026 for SMEs and the first set of standards are to be adopted by October 2022. Also, that SME-specific standards and sector specific standards due in a second set due in October 2023, with additional standards every year until all aspects are properly covered.

These timelines seem ambitious giving the learning curve for many and the lack of convergence on sustainability reporting in the EU.

Time is needed to establish and understand the new EFRAG standards and reach understanding on sustainability language for use in reporting.

We recommend that sufficient time is granted to organisations to comply with their full sustainability reporting requirements We welcome the finalisation and publication of the standards in this regard. As part of that, we recommend a staggered approach to implementation - with limited reporting being required initially, followed by full reporting requirements 12/18 months later. This would ensure that reporting is fully embedded in organisations. Practically then, if the standards were finalised early 2022 then organisations would need until mid-2023 to comply with initial limited reporting requirements.

In the context of audits, we recommend that a lead-in time be given to auditors before carrying out their audits. This allows for best practice to emerge which various organisations comply with their reporting requirements.

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Q9 Please give any other views you might have on the proposal and its impacts

1. Consistency

Key concern is consistency with other new legislation and regulation, including Taxonomy Regulation, SFDR, and forthcoming Pillar 3 requirements on ESG Disclosures.

Negotiations on this proposal should be informed by assessment of the coherent sequence and timing necessary for the CSRD disclosures that would allow for compliance and synchronisation with the requirements of the Taxonomy Regulation, SFDR, and forthcoming Pillar III requirements. A full alignment of scope, content, application dates, reporting frequency and transition periods is required – to enable banks and other financial institutions to first access information from non-financial corporate clients, assess within a sufficient timeframe, and then use it to build on their own reporting requirements.

Ideal sequence would ensure that non-financial corporate entities reporting under the scope of the CSRD be given priority, as this information will also be used by banks to prepare both their own CSRD disclosures (which include the Art.8 disclosures under the Taxonomy Regulation), as well as forthcoming Pillar III disclosures.

This is the case for a first time reporting but also on an ongoing basis , where disclosures for financial entities will have to be published with a time lag with respect to their counterparties disclosures.

We welcome the stated objective of the CSRD to ensure consistency with the Taxonomy Regulation and CSRD in terms of reported information. It is crucial that the ESG disclosures are on economic activities and not only at legal entity level.

2. ***Avoid Gold Plating***

Diverging reporting requirements across the EU27 could impede financial flows towards sustainable projects and lead to market fragmentation. This will necessitate a careful balance between ensuring a strong and consistent views on what the European Parliament and European Council consider politically viable to achieve at EU-level, while also leaving room for Member State specificities within the development of the Directive.