

CSRD implementation

The Chair initiated the panel discussion, framing it within a critical moment for the European Union characterised by initial compliance with new sustainability reporting regulations, with companies' first reports being submitted, and the simultaneous consideration of the omnibus proposal. The first part of the session focuses on the outcomes and challenges, and the second looks at routes to progress.

1. Outcomes and challenges of CSRD implementation

An industry representative affirmed that there is awareness of the usefulness of shared standards and methods for environmental issues. There are several lessons from the implementation of the Corporate Sustainability Reporting Directive (CSRD) that should be highlighted. Firstly, it has placed sustainability at very high levels in banks' governance, as well as in dialogues our customers. Secondly, the double materiality matrix offers a novel perspective on impact measurement. However, there were significant challenges encountered during implementation, primarily stemming from the compressed timeframe. Methodological difficulties were also identified, particularly in applying standards to banking operations. For example, the positioning on 'nature' presented practical hurdles, as, although it can be straightforward for a manufacturer, it is more challenging to apply for a bank. The granularity of the exercise, exceeding 1,200 data points that are often derived from extrapolations, posed a further obstacle, compounded by a lack of sector-specific guidance.

An industry representative highlighted that their firm produced a substantial 175-page document under CSRD following an 18-month preparation period. The company identified materiality across nine of the 10 European Sustainability Reporting Standards (ESRS), resulting in 800 qualitative and quantitative indicators. The report's length allows for potential redundancy, but it has value as a comprehensive overview of the firm's sustainability policies and actions. In the future, only artificial intelligence tools like Copilot and ChatGPT will likely read and assess such enormous documents.

The CSRD report bridges a critical gap between traditional financial performance metrics and broader extra-financial considerations, including the demonstration of how extra-financial performance was built. It has also encouraged internal momentum through collaborative efforts across subsidiaries and headquarters. The CSRD report can be characterised not as a communication tool for journalists or executives but as a foundational document demonstrating companies' approaches to extra-financial performance.

A regulator emphasised that CSRD reporting forms an integral part of a broader regulatory framework encompassing sustainability initiatives within the EU that

have elevated the prominence of sustainability discussions at all organisational levels. From that perspective, a great deal has been achieved. CSRD is one of the important building blocks for the input to the Sustainable Finance Disclosure Regulation (SFDR) reporting. The taxonomy is another part of the package.

One indication is the importance of carrying out impact assessments as regulations are developed to ensure cost-benefit effectiveness and optimise the framework's design. Initial reviews of the first batches of CSRD reports confirm difficulties experienced by companies, including the large volume of information involved and inconsistencies in reporting across organisations, hindering comparability, which is a crucial objective for effective sustainability assessments. Building this level of detailed regulation within a short timeframe inevitably leads to iterative adjustments and refinements, and the level of granularity is something that will be considered.

The Chair observed that the ambition is to achieve parity between sustainability and financial reporting, noting a current limitation with the absence of aggregated performance measurements for sustainability reporting comparable to traditional financial statements. To have parity there is a need for a reliable level of data. Simplification is a crucial next step, leveraging lessons learned from the initial wave of reports while maintaining data reliability.

A regulator emphasised that currently there is only the anecdotal evidence of a few reports, with the majority due by the end of April. Initial reviews of CSRD reports indicate lengths exceeding 300 pages for banking institutions, demonstrating the scale of implementation and the need for continued refinement. A major achievement of CSRD lies in establishing standardised reporting that enables meaningful comparative analysis for sustainability information. Integrating sustainability information into mandatory management reports that are therefore subject to audit is important, as that thereby elevates the status of the information and aligns it with financial disclosures.

Significant challenges arise from implementing a large and detailed regulatory framework, and one result is a steep learning curve for all stakeholders and ongoing adjustments as rules evolve. While the regulations are complex, there is a significant learning opportunity for all involved. The importance of fostering a commitment to transition plans should be emphasised, as that provides valuable information for investors.

An official noted that the International Sustainability Standards Board (ISSB) pays careful attention to the reports being produced under ESRS and in compliance with the CSRD, given the significant interoperability between the ISSB standards and ESRS, particularly in the crucial area of climate-related disclosures. Initial reports compliant with ISSB standards are anticipated later in the year. The challenges encountered within the European context are relevant to broader international implementation efforts. A dedicated transition

implementation group actively assesses preparer needs and identifies potential adaptations to standards that could support stakeholders globally.

The move from the voluntary to mandatory reporting is highly significant. There is recognition from both the standard setting side and the regulatory side that the path to full implementation involves an iterative journey rather than immediate perfection. It is also important to allow preparers to have peer-to-peer learning opportunities to facilitate continuous improvement over time.

2. Simplification and the ways to progress

The Chair highlighted that EFRAG received a mandate to substantially simplify ESRS 1. That will most likely involve the volume of data points required, which has been somewhat overwhelming.

A regulator asserted that simplification efforts should fundamentally prioritise information essential for investors when assessing sustainability profiles, because the Green Deal is about channelling investment into sustainable assets and for that the investor's perspective should be prioritised. It is good to cut the information down to what investors really need, so it would be sensible to directly engage with investor groups. A general matter of importance is that reduced reporting information necessitates heightened assurance. Retaining limited assurance is not a promising approach, because less information should mean increased reliance on the quality of the relevant information, therefore hold on to reasonable assurance.

Significantly narrowing the scope of CSRD would have implications for other regulations like the Capital Requirements Directive (CRD) in banking, or in insurance for Solvency II. Reducing the data points available would impact risk management capabilities, transition planning efforts, and the detection of greenwashing practices. In such areas there would be a need to rely on other sources of information. Voluntary reporting standards could be supplementary data source, but they were created for a very different purpose, so it remains to be seen whether they will be applied.

The Chair referred to a statement made by Commissioner Albuquerque during the press conference at which the omnibus was presented. The 80-20 rule applies to the GDP amount descope, and the expectation is that the most important companies falling outside the mandatory scope would nonetheless voluntarily report. The inclusion of the mid-cap category is welcome, because it is difficult to establish standards applicable to both multinational corporations and smaller entities with 251 employees. A regulator expressed cautious optimism regarding widespread voluntary adoption, but acknowledged that outcomes remain uncertain.

A regulator emphasised that there is extensive uncertainty about what the coming requirements will be, given the question of how to change the regulation has been opened up, and companies need to address that. There will still be demand for some of the information in question, and it is

essential that the family of regulations work together. Data is also needed to be compliant with the SFDR principal adverse indicators. Given changes to the CSRD and the level at which reporting occurs for particular matters, there may also have to be changes elsewhere in the system. Some voluntary standards will be in scope, but they will need to meet the requirements from those using the information, such as credit institutions or asset managers. There will be a reduction in visibility. The number of companies in Denmark reporting under the CSRD, for example, is expected to reduce from 94 to 15, which will result in less transparency around these issues. That returns to the question about the assurance needed.

The Chair then delved into specific concerns regarding report length. The original drafting of the standards had aimed to create data flows for SFDR and Pillar 3 requirements. The integration of taxonomy-related reporting within existing reports was intended as a placeholder to avoid creating an additional taxonomy-related report, but it contributes to overall report length.

A regulator stated that there should be consideration of the entire ecosystem of reporting requirements, but it should also be remembered that the investors are the users and some of the information is there for risk management. The SFDR review should at least factor in what is being reviewed, to ensure that there is coherence, as it is essential.

The Chair highlighted discrepancies inherent in aggregating greenhouse gas emissions data, with scopes 1 and 2 on one side and scope 3 being a very different prospect. There is a far better interpretation of the greenhouse gas emissions when deep diving on own operations and scope 2, while scope 3 involves estimations to a much greater extent.

An industry representative commented that the successful implementation of the CSRD is crucial for maintaining European sovereignty in the areas of climate action, diversity and inclusion. There are six specific key areas demanding simplification within the current framework. Firstly, the content of existing standards has to be simplified to eliminate numerous redundancies, and there is a need to identify and resolve ambiguities in interpretation. Secondly, regarding sector-specific guidance, there should be a shift towards broader, more general guidance. Overly specific requirements often lead to an influx of requests for attention to be paid to highly particular points. Instead, there should be guidance that facilitates comparability without imposing additional prescriptions, ensuring consistent evaluation of key matters.

Scope 3 is a particularly challenging area for achieving consistent and comparable measurement across financial institutions and insured emissions. There are significant variations in methodologies employed by different preparers, alongside concerns regarding transparency on asset funds. Inconsistencies arise from differing approaches to calculating upstream versus downstream impacts within the value chain. An example to illustrate this point is related to the automotive industry. It can be asked how emissions should be attributed across companies involved in vehicle manufacturing, component supply and infrastructure provision. There is potential for double-counting or incomplete accounting of emissions,

For instance, only the impact of building a car could be considered and not its subsequent use, or there could just be focus on upstream activities while neglecting downstream effects. This area has not matured, and there is a need for simplification and additional guidance.

Furthermore, the current requirement to report approximately 800 indicators is excessively burdensome, so options could be explored to reduce that number by as much as 75%, as such a reduction would not necessarily compromise essential information but rather would sharpen the focus on truly material features. Transitioning towards limited assurance engagements for auditors is something to support, as that will be sufficient currently, though that may change in the future. The practical utility of the taxonomy is questionable, but nonetheless resources are consumed for its production and publication. Maintaining the taxonomy serves primarily to create additional work, though many will want to keep it to avoid adopting another framework that is not useful.

An industry representative emphasised the fundamental role of banks and insurers within the broader economic landscape, highlighting their function as collectors of savings, financiers of economic activity, and providers of insurance coverage to households, small and medium-sized enterprises (SMEs), and larger companies. There is a common stake to support the economy's transition towards a lower carbon and more sustainable model. The principle of double materiality should be maintained, and dialogue with stakeholders, including customers, should continue to be integrated. Raising awareness, providing clear explanations, and engaging in strategic dialogues with SMEs, companies, and households regarding adaptation and mitigation strategies is vitally important.

Regarding CSRD specifically, reporting should be reduced, particularly concerning certain data points. EFRAG recently launched a questionnaire to gather feedback on this issue, and the results from that will be monitored. Standards should be harmonised, but a pragmatic approach should also be taken by questioning the efficiency of regulations such as 'do no significant harm' (DNSH) and certain Joint Assessment Requirements (JARs), as they may not always align with economic realities. The question should be whether they are still efficient, and, if not, what has to change going forward to have a sustainable economy. There is agreement about the necessity of reducing carbon emissions and about simplifying regulations, but throughout that the main purpose is to prioritise serving the economy and its stakeholders.

An official noted that considerable attention is being paid to the omnibus process. There are opportunities for enhanced interoperability between European standards and international frameworks. However, there are associated risks due to oversimplification and increasing complexity as a result. Excessive simplification could hinder European companies' ability to meet their international reporting, and there is ongoing engagement between the ISSB, EFRAG and the European Commission to address these concerns.

The ISSB's standards are always intentionally designed as a global baseline, allowing jurisdictions to exceed those requirements based on specific public policy goals while

maintaining international consistency, thereby enabling alignment with European principles while maintaining flexibility. Sector standards and guidance will be key for the simplification process, and both preparers and investors find them to be useful to understand disclosure requirements in a particular industry or sector, and to help guide the reporting.

Industry-specific considerations are fundamentally embedded within the ISSB standards, drawing upon the work of the Sustainability Accounting Standards Board (SASB), which is also incorporated as a transitional provision within ESRS and has been utilised by many European companies in past reporting cycles. The industry piece is embedded within the standards. The ISSB will continue to engage with EFRAG and the European Commission, and opportunities to enhance interoperability between the international and European standards will be taken.

3. Closing statements

A regulator expressed a desire for a revised framework applicable in the long term, emphasising coherence with the broader "family of financial regulations".

An official reiterated the opportunity presented by increased interoperability and practicality in meeting reporting requirements both within Europe and internationally, while acknowledging the potential risks associated with simplification efforts.

A regulator emphasised the importance of data quality and materiality in achieving meaningful outcomes, suggesting that focusing on these aspects would be crucial for ensuring effective sustainability reporting.

An industry representative reaffirmed the commitment to supporting simplification efforts and contributing to the success of the CSRD, highlighting the broader impact there is on the financial sector, consumers, the planet and society as a whole.

An industry representative concluded by reiterating the commitment to the transition to a sustainable, low-carbon economy, advocating for reduced reporting burdens and a more pragmatic regulatory approach in financing and insurance.

The Chair summarised that materiality remains paramount, emphasising the need for reliable data as a foundation for informed management and investment decisions, while also acknowledging the importance of transparent stakeholder relationships for fostering long-term value creation. Achieving ambitious goals often necessitates iterative improvement rather than immediate perfection.