

Ausschließliche Zusendung per Mail:

Commissioner Mairead McGuinness: CAB-MCGUINNESS-CONTACT@ec.europa.eu

Corporate Sustainability Reporting Directive - Call for maintaining some of the COM's Proposal

Dear Commissioner McGuinness,

the Working Group „Integrated Reporting and Sustainable Management” of the Schmalenbach Gesellschaft e.V. is a platform for dialogue and exchange of experiences for companies and academics on integration of sustainability in corporate decision making and reporting. We are convinced of the major positive impact of the concepts of integrated thinking and reporting on corporate strategies and business models in order to realize a value creation for investors and other stakeholders. Therefore, all members of this group have been following with great interest all developments concerning the Corporate Sustainability Reporting Directive (CSRD).

We are very supportive regarding the COM's requirement to include sustainability disclosures in the management report. However, we have huge concerns related to the positioning of the European Parliament and the Council in recent weeks and the resulting changes to the CSRD proposal from April 21, 2021 ((COM 2021) 189 final) with regard to the following particular aspects, explained in our attached calls:

- 1. Call for allowing the integration of sustainability information in the management report, thus no requirement of a separate sustainability report (called “dedicated section of the management report”) (Art. 19a, 29a)**
- 2. Call for allowing the same auditor for the financial as well as for the sustainability disclosures (Art. 28)**
- 3. Call for exempting subsidiaries from sustainability disclosures if the parent company's consolidated management report contains such disclosures (Art. 19a, Art. 29a)**

We ask you to carefully consider our calls and arguments expressed in the attached document. They are targeted at making the transition to a sustainable economy in the EU happen in a way that is effective and efficient for preparers and users of corporate sustainability disclosures. We have sent our calls also to members of the EU Council and the EU Parliament.

In case you would like to further discuss these issues, please, contact Dr. Monica Streck, Flughafen München (monica.streck@munich-airport.de) or Prof. Dr. Axel Haller, chair of financial accounting and auditing at the University of Regensburg (axel.haller@wiwi.uni-regensburg.de).

We thank you very much in advance for your consideration and send you our best regards,

Prof. Dr. Axel Haller

(in the name of the members of the Working Group „Integrated Reporting und Sustainable Management“: Reinhard Becker (HEAG Holding AG; Head of Integrated Reporting), Nicolette Behncke (PWC; Partner Sustainability Services), Uwe Bergmann (Henkel AG; Director Sustainability Management), Tanja Castor (BASF SE; Head of Sustainability Reporting & Controlling Committee), Dr. Tobias Groß (SAP SE; Director – Accounting Expert), Natalie Dietrich (Universität Regensburg; Manager of the Working Group), Prof. Dr. Edeltraud Günther (Technische Universität Dresden; Chair of Business Management, esp. Environmental Management), Prof. Dr. Axel Haller (Universität Regensburg; Head of the Working Group), Prof. Dr. Jörn Hoppmann (Universität Oldenburg; Chair of Management), Dr. Klaus Hufschlag (Deutsche Post DHL Group; Senior Vice President CREST Finance Business Intelligence & Analytics), Mariella Röhmkottmann (ZF Friedrichshafen AG; SVP Head of Corporate Accounting), Georg Lanfermann (DRSC; President), Prof. Dr. Kerstin Lopatta (Universität Hamburg; Chair of Financial Accounting, Auditing and Sustainability), Prof. Dr. Peter Lorson (University of Rostock; Center for Accounting and Auditing, Executive Director), Viola Möller (BDO AG Wirtschaftsprüfungsgesellschaft; Partnerin Sustainability Services), Dr. Hendrik Nardmann (Deloitte GmbH Wirtschaftsprüfungsgesellschaft; Partner Audit & Advisory), Susana Penarrubia Fraguas (DWS Investment GmbH; Head of ESG Integration-Active/ ESG European Equities), Nicole Richter (EY; Partner Head of Climate Change and Sustainability Services), Dr. Werner Rockel (Munich RE; Head of Accounting Policy), Dr. Daniel-Sascha Roth (Volkswagen AG; Head of ESG - Sustainability Management), Dr. Martin Schloemer (Bayer AG; Head of Accounting), Dr. Rüdiger Schmidt (KPMG; Senior Manager, Accounting & Process Advisory), Dr. Monica Streck (Flughafen München; Head of Strategic Sustainability Management at Munich and Head of the Working Group), Isabella Widmer (EnBW Energie Baden-Württemberg AG; Senior Managerin Internationale Rechnungslegung)

April 7, 2022

Corporate Sustainability Reporting Directive

Urgent Call for maintaining the Commission's Proposal in the following aspects

(Working Group "Integrated Reporting and Sustainable Management" of the Schmalenbach Gesellschaft für Betriebswirtschaft e.V., Germany)

With regard to the amendments of the COM's CSRD proposal that were proposed by the Council of the European Union (published on 18 February 2022) and by the EU Parliament (published on 22 March 2022) and that are currently discussed in the trilogue, we ask to consider very carefully the following calls and related arguments.

Call for allowing the integration of sustainability information in the management report, thus no requirement of a separate sustainability report (called "dedicated section of the management report") (Art. 19a, 29a)

- The integration of sustainability factors and aspects in corporate business models, strategies and value creation is core to reach a sustainable economy and a societal development. Therefore, it is essential to provide all stakeholders with information that reveals the connectivity and interdependencies of financial and non-financial factors in corporate value creation. This integration of sustainability in corporate decision making and reporting is the core of the concept of Integrated Reporting and it is also referred to in the Guidelines on Non-financial Reporting of the COM (Communications from the COM 2017/C 215/01 and 2019/C 209/01)) that followed the NFR-Directive (2014/95/EU) and in recital 45 of the CSRD proposal (here with regard to the European Sustainability Reporting Standards (ESRS) developed by EFRAG). **Integrated Reporting provides a better understanding of an entity's value creation** for the investors as well as for other stakeholders, its impacts and resilience.
- Results from several research studies indicate that the application of the concept of Integrated Reporting helps companies on one hand to **better incorporate sustainability issues and aspects in management decision-making**, and that on the other hand the quality of sustainability disclosures is higher when they are provided in an integrated manner.
- The concept of Integrated Reporting also helps to **better link executive board remuneration** to sustainability objectives and related key performance indicators, as the connectivity between the outside-in and inside-out aspects and impacts of corporate behaviour become more obvious and transparent and therefore appear as more relevant for decision-making.
- A considerable amount of companies in Germany, in the EU and worldwide have already applied the concept of Integrated Reporting for several years or have recently started to do so. Most of these companies are frontrunners with regard to increasingly incorporating sustainability into their corporate governance and their control systems. They all have integrated sustainability information in their management reports. For these companies a requirement to present a separate sustainability report within the management report would be a **discouraging step back and it would produce double**

reporting, confusing redundancies and information overload for the users of the management report, who have so far been pretty much in favour of the integrated disclosure practice.

- Looking at the fast moving developments on an international level with regard to the International Sustainability Disclosure Standards of the recently founded International Sustainability Standards Board (ISSB), and the IASB's proposed new framework for preparing a management commentary that clearly encourages companies to integrate non-financial information in the financial disclosures, the requirement to present a separate sustainability report on the EU level would be **contrary to the absolutely necessary aim to create a fit between the international and the EU sustainability reporting requirements**. If this fit won't be reached globally acting companies would be confronted with an additional workload to report their sustainability performance causing considerable inefficiencies.
- Thus, a requirement to disclose one "dedicated section for sustainability reporting" within the management report would **reduce the effectivity and efficiency of sustainability related disclosure for companies** that either practice already Integrated Reporting or that will need to apply it because of expectations from the international financial market, as well as for the users of such disclosures.

Call for allowing the same auditor for the financial as well as for the sustainability disclosures (Art. 28)

- Related to our above arguments to rationalize the integrated disclosure of sustainability information and financial information in the management report it is a logical consequence that companies should have the option to have just one auditor for both sets of (integrated) information. **Separate audits most likely would cause inefficiencies but also possible assurance lacks**, because one auditor relies on the work of the other and vice versa, as the company is not a bi-dimensional subject, having two incorporated spheres, the financial sphere and the sustainability sphere. This is a non-realistic thinking and does not meet the supportable goal of the whole European society to make corporate practice more sustainable. Sustainability has a cross sectional impact and therefore corresponds intuitively with all financial issues. This connectivity of sustainability and financial issues would cause huge challenges for two assurance providers.
- This connectivity is clearly obvious with regard to the three key indicators of the investments, expenses and net turnover that need to be disclosed according to the EU Taxonomy Regulation (2020/852). In this respect **two different auditors would need to audit the same figures or information, as they are financial, however have a strong non-financial connotation**. The same is true for the descriptions of the business model, the strategy, and the risks and opportunities of the entity, that need to be explained in the sustainability disclosures (see recitals 26-30) as well as in the financial disclosures of the management report.
- As sustainability disclosures are only reliable if they are collected and internally approved by **effective internal control and reporting systems** that must, for efficiency but also reliability reasons, be aligned with the systems in place for financial data, both auditors would also need to carry out the audit of those systems in parallel.
- Finding questionable issues in the financial reporting is also a valuable insight for the auditor to develop expectations regarding the potential quality of the sustainability information gathered in the company. This knowledge could be shared between two auditors, however the **sustainability report auditor**

- would need to carry out his own audit procedures to keep his audit risk down and safeguard an adequate quality of his work.
- A requirement to have two different auditors could also very often lead to huge **practical challenges for the companies and the auditors because of the concurrent exclusion of non-audit services, in particular connected with the strict auditor rotation requirements**. This could likely lead to the situation that it is impossible for large entities to find any suitable auditors at all. As a consequence, this situation could even further restrict competition among auditors.

Call for exempting subsidiaries from sustainability disclosures if the parent company's consolidated management report contains such disclosures (Art. 19a, Art. 29a)

- As strategies, business models, reporting and control systems are usually set up on the group level and all major resources for further development of these are provided by the parent company sustainability related disclosures should not be required on the level of each subsidiary but on the group level. This is also sensible because of the many connections and interdependencies between legal entities within a group, which results in the fact that impact measurement (e.g. CO2 emissions) is more conducive on a consolidated basis. In addition, **sustainability transition strategies are usually developed and controlled at group level and not at a legal unit level**. Finally, most of the stakeholders look at the group financial statements for decision making and the sustainability related information should be related to the financial information.

We do very much hope that we could convince you that our calls are very important cornerstone to support EU companies in their ESG transition because they should be able to reveal in the management report on a consolidated level how they have incorporated sustainability issues and objectives in their strategy and business models in a concise, effective and efficient way. Corporate reporting only fulfils its purpose, if it is able to communicate the value creation of a company in a way that is useful for all stakeholders. All people involved in the finalization process of the CSRD should be aware that the above criticized amendments of the COM's CSRD proposal would reduce the effectiveness and efficiency for the preparers as well as for the users of sustainability disclosures. Thus, they would be contra-intuitive for reaching the final objective of a fast and effective sustainability transition really happen in corporate EU.

Thank you in advance for considering our arguments and we are at your disposal for further discussions and explanations of our remarks.

Best regards,

Prof. Dr. Axel Haller

(in the name of all members of the Working Group „Integrated Reporting und Sustainable Management“: Reinhard Becker (HEAG Holding AG; Head of Integrated Reporting), Nicolette Behncke (PWC; Partner Sustainability Services), Uwe Bergmann (Henkel AG; Global Director ESG Business Integration), Tanja Castor (BASF SE; Head of Sustainability Reporting & Controlling Committee), Dr. Tobias Groß (SAP SE; Director – Accounting Expert), Natalie Dietrich (Universität Regensburg; Manager of the Working Group), Prof. Dr. Edeltraud Günther (Technische Universität Dresden; Chair of Business Management, esp. Environmental

Management), Prof. Dr. Axel Haller (Universität Regensburg; Head of the Working Group), Prof. Dr. Jörn Hoppmann (Universität Oldenburg; Chair of Management), Dr. Klaus Hufschlag (Deutsche Post DHL Group; Senior Vice President CREST Finance Business Intelligence & Analytics), Mariella Röhm-Kottmann (ZF Friedrichshafen AG; SVP Head of Corporate Accounting), Georg Lanfermann (DRSC; President), Prof. Dr. Kerstin Lopatta (Universität Hamburg; Chair of Financial Accounting, Auditing and Sustainability), Prof. Dr. Peter Lorson (University of Rostock; Center for Accounting and Auditing, Executive Director), Viola Möller (BDO AG Wirtschaftsprüfungsgesellschaft; Partnerin Sustainability Services), Dr. Hendrik Nardmann (Deloitte GmbH Wirtschaftsprüfungsgesellschaft; Partner Audit & Advisory), Susana Penarrubia Fraguas (DWS Investment GmbH; Head of ESG Integration-Active/ ESG European Equities), Nicole Richter (EY; Partner Head of Climate Change and Sustainability Services), Dr. Werner Rockel (Munich RE; Head of Accounting Policy), Dr. Daniel-Sascha Roth (Volkswagen AG; Head of ESG - Sustainability Management), Dr. Martin Schloemer (Bayer AG; Head of Accounting), Dr. Rüdiger Schmidt (KPMG; Senior Manager, Accounting & Process Advisory), Dr. Monica Streck (Flughafen München; Head of Strategic Sustainability Management at Munich and Head of the Working Group), Isabella Widmer (EnBW Energie Baden-Württemberg AG; Senior Managerin Internationale Rechnungslegung)