FACTSHEET

How to improve corporate sustainability reporting

What is the Corporate Sustainability Reporting Directive?

Ever since consumers began to worry about climate change or rising inequality, some corporations have started to talk about their 'social responsibility' or how they compensate their carbon emissions through sponsoring tree-planting projects. This has been a largely unregulated free-for-all where greenwashing and exaggerated sustainability claims are rife.

The EU's Corporate Sustainability Reporting Directive (CSRD) promises to change all that by requiring large and/or listed companies to publish comprehensive, standardised sustainability reports as of 2025. These must cover all relevant sustainability matters, from climate change to workers' rights to corporate governance and must be audited, i.e., verified by independent professionals that specialise in verifying corporate financial and/or sustainability reports.

Setting new sustainability reporting standards

The CSRD also plans to create rules called 'European Sustainability Reporting Standards' (ESRS) to tell companies in detail how and what they must report. This is a big step forward which will make it easier for consumers to understand the social environmental and governance-related sustainability impacts of companies and their products. It will also help consumers who want to invest their savings sustainably.

ESRS will be released in batches until 2025. The first batch is due in 2023 and deals with sustainability matters affecting all sectors of the economy. Subsequent standards will address sector-specific sustainability matters, e.g., the risks to people and environment caused by mining. There will also be a separate, less detailed standard for listed small and medium enterprises (SMEs).

How will the new rules help consumers?

- **Better advice:** Consumers may have no time to read a company's sustainability report before they buy a product or a service or make an investment, but they will benefit from better advice. That's because entities that assist consumers in these decisions (e.g. advisers or consumer organisations) will have more detailed, reliable, and comparable information about companies that provide goods/services or that are included in investment products.

- **Easy access to information:** Companies' sustainability reports will be accessible through the European Single Access Point (ESAP), a public online database for financial and sustainability-related information about EU companies and investment products.[1] **This will allow individuals to search for the sustainability information they need, without having to plough through lengthy reports e.g.**, to check which retailer is making serious efforts to avoid purchasing clothes produced in sweatshops.

BEUC The European Consumer Organisation

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- **Incentives for companies to become more sustainable:** Importantly, the CSRD does not oblige companies to be more sustainable. They onlwnot obliged to change that. Sustainability-related *behavioural* requirements are the subject of a separate draft EU law, the Corporate Sustainability Due Diligence Directive. **However, the transparency and comparability created by standardised sustainability reports should create incentives for companies to become more sustainable.**

What are the flaws of ESRS?

Not truly mandatory: The current drafts allow companies to ignore certain reporting standards if they conclude that a particular sustainability concern is not relevant to them. Sometimes this makes sense, but it gives companies too much discretion over what they report and creates a loophole for companies that prefer to hide their sustainability impact.

This could reduce the usefulness of sustainability reports because relevant information is omitted and because it reduces comparability. This can still be fixed, however, according to more detailed sectorial standards currently being drafted by EFRAG (the European Financial Reporting Advisory Group).

Scope too narrow: There are still too many companies in the EU that are not covered by sustainability reporting requirements, in particular SMEs, which are an essential part of the European economy. Many companies will not be covered at all, while others will only have to apply ESRS in reduced form and with substantial delay. Subsidiaries of larger corporate groups are also exempted from sustainability reporting if the group's parent company prepares a group sustainability report. For example, a brewery that belongs to a large international group of breweries or drinks makers does not have to prepare a separate sustainability report. The group level report, which basically summarises sustainability information from all the individual breweries, will be considered enough.

In short, ESRS improve the coverage of sustainability reporting, but much economic activity in the EU remains outside the scope. This cannot be changed in the short or medium term, but the CSRD mandates the Commission to assess, by 2029, the application of the CSRD and to assess whether the scope should be expanded.

A good, if flawed, first step towards more transparency

Requiring companies to be more transparent about their sustainability potentially offers consumers a much bigger window into their activities and will help orientate their purchase and investment decisions. ESRS, for all their flaws, are a good first step in this direction, although much work remains to be done. This includes fending off corporate attempts to water them down even further.

[1] ESAP is supposed to be in operation by 31 December 2024