

## **JBCE Position Paper on the Corporate Sustainability Reporting Directive (CSRD)**

The Japan Business Council in Europe (JBCE) supports the European Commission's proposal to enhance companies' disclosure of corporate sustainability information, encompassing not only the environmental aspect, but also social and governance aspects. JBCE recognises the contribution that this legislation will make in the sustainable growth of companies. However, within JBCE, points of concern remain on the topics listed below:

- 1) Alignment of EU corporate sustainability reporting standard: internationally and with existing standards
- 2) Assurance and Audit requirements
- 3) Requirements on information to be disclosed
- 4) Reporting format
- 5) Timeline
- 6) New provision proposal on effectiveness

Each of these points are elaborated upon in this position paper, with suggestions for adaptations proposed. Also, in general, in order for companies (especially those falling under the scope for the first time) to comply with the new requirements, sufficient preparation and time will be needed to be suitably equipped and resourced to perform the meaningful disclosures sought by the Commission. Therefore, JBCE believes that it would be pragmatic for the application of such new requirements to be rolled out in a step-by-step approach with the reviewing of the effectiveness of new requirements. A more realistic break-down of the application of new requirements would also have the double advantage of facilitating better alignment of the CSRD with other EU policy developments that have yet to be finalised but will nonetheless need to be in coherence with the CSRD, including the upcoming Sustainable Corporate Governance initiative, Fit For 55 package, and other international movements in this sphere.

### **1) EU Corporate Sustainability Reporting Standards' alignment with the international/existing framework**

- The EU sustainability reporting standards currently under development by the European Financial Reporting Advisory Group (EFRAG) will feature as the cornerstone of the CSRD. To truly result in the simplified reporting processes for companies envisaged by the Commission, JBCE urges for such standards to align with the international framework of existing standards. Regarding the timeline for the creation of EU standards, JBCE argues that these should be created after a political agreement on the CSRD has been reached.
  - As our member companies' operations span across all corners of the globe, with their value chains dictated accordingly, the EU sustainability reporting standards should demonstrate their intended goal of simplification by building upon the existing/future developed international standards that many globally operating companies already adhere to. JBCE particularly highlights the International Financial Reporting Standards (IFRS) initiative here, which will initially cover climate-related disclosures. For Social and Governance factors, companies should be given the flexibility to decide on and disclose the most relevant aspects, especially in the first stage of implementation of CSRD, as both factors are more context-based. The discussion on common standards for Social and Governance aspects lacks the maturity of climate and environment standards, therefore necessitating more time for their development.
  - Equivalence to the EU sustainability reporting standards should be granted not only to country-level standards, but also to international frameworks already adhered to, such as the IFRS, the

Sustainability Accounting Standards Board (SASB) and the Global Reporting initiative (GRI). JBCE additionally proposes that the Commission grant equivalence to specific thematic frameworks such as the climate-related disclosures dictated by the Task Force on Climate-related Disclosures (TCFD) or CDP (Carbon Disclosures Project) etc. The timing of granting equivalency to existing reporting standards is also important. Such equivalency, if any, should be granted well before the date of application of the CSRD, but after the finalisation of the EU standards, so as to avoid undermining the point of granting this equivalency in the first place.

- JBCE reiterates the need for EU standards to build up from the existing international framework and calls for the EU to take a more proactive role in the development of international standards, in recognition that sustainability is a global issue that should be handled in the most inclusive way possible from the beginning. More concretely, the EU standards should take a step-by-step approach introducing requirements that are based on international discussions, while facilitating the above-mentioned flexibility for Social and Governance elements. Such standards should be accompanied by clear guidance from the Commission on the expectations of each step, to avoid any confusion.
- JBCE welcomes the Commission’s proposal for an exemption clause for subsidiary undertakings (as per Article 19a (7) and Article 29a (7) of Article 1), as corporate sustainability information becomes more meaningful as a means of value creation when it is disclosed at the group-wide level, rather than the entity level as in the case of globally operating companies. At the same time, JBCE asks the Commission to take reasonable consideration of the burden imposed on companies who will be falling under the scope for the first time. Acknowledging the need for a fair degree of flexibility is of pragmatic importance to equip companies to provide proper and relevant sustainability information.
  - We recognise that quantitative information is effective for comparability but remind that this cannot explain all of a company’s sustainability activities.
  - Flexibility should be afforded to companies to guarantee their effective and efficient disclosures including, but not limited to:
    - The flexibility to provide qualitative information, beyond quantitative information, given that the company itself is best placed to provide the qualitative narrative to support the information disclosed on its sustainability trajectory.
    - The flexibility for companies to choose to report at the entity-level or group-wide level, depending on the type of information being disclosed; for example, the flexibility to report on an entity level for Taxonomy disclosures, while maintaining CSRD disclosures at the group level, to avoid the excessive burden of compliance. We also would like to point out that the technical screening criteria of the EU Taxonomy cannot guarantee a fair validation of a company’s economic activities outside of the EU.

## **2) Assurance/Audit**

- JBCE supports the current proposal that the assurance requirement will initially be of limited assurance, which JBCE believes should apply for at least the first five years to allow companies and auditors sufficient preparation time for such processes to be meaningful.
- JBCE requests that the reasonable assurance requirement be carefully considered following an evaluation of the effectiveness of the CSRD (see point 6).

## **3) Requirements on the information to be disclosed**

- As noted above, coherence with international policies, such as the Paris Agreement, and existing and upcoming EU legislation and standard, such as Sustainable Corporate Governance (SCG) and EU green standard, is of paramount importance.
  - Article 1(3): The proposal requires the disclosure of information constituting “the plans of [an] undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the

Paris Agreement.” JBCE would like to urge the Commission to ensure coherence therein with the legal basis of the EU green bond standard published on 6<sup>th</sup> July 2021.

- Article 1(3): Given that the proposal requires the disclosure of due diligence information, JBCE emphasises the need for coherence with the upcoming SCG initiative, and accordingly calls for companies to be exempted from due diligence requirements under the CSRD if already reporting under the SCG, to avoid the unnecessary imposition of a double burden.
  - Similarly, the concept of ‘value chain’ should be clearly defined and accordingly be in coherence with other initiatives, such as the SCG.
- The CSRD proposal requires the disclosure of forward-looking information on a company’s sustainability trajectory. JBCE urges the Commission to add a safeguard clause alleviating companies of liability for such future information, which constitutes predictions that are subject to change and thus should be shielded from litigation in the present. Otherwise, the disclosure of such forward-looking information risks becoming a mere tick-box exercise for companies.

#### **4) Reporting format**

- Regarding reporting format, the CSRD dictates that a company’s financial statement and non-financial information should be reported in a single electronic reporting format. JBCE supports this and emphasises the need to avoid any fragmentation of reporting formats among Member States.
  - JBCE stresses the need for reporting in the English language to always be accepted by each national jurisdiction, a provision which JBCE asks to be explicitly defined in the legislation, so as to avoid burdensome accredited translation costs for companies.

#### **5) Timeline**

- In accordance with the above request for pragmatic flexibility that is mutually beneficial, JBCE highlights the need for an affordable and realistic timeline for the application of the CSRD, the introduction of the EU sustainability reporting standards, and the transition to reasonable assurance after at least five years. Also echoing earlier points made regarding equivalency and convergence, JBCE reminds that companies would be faced with excessive burdens should the EU standards apply before the IFRS’ international framework.

#### **6) New provision proposal on effectiveness**

- Finally, JBCE requests the inclusion of an additional clause on the review of the CSRD for effectiveness, going beyond Article 19(b)’s provision to review the EU standards every three years, to rather evaluate whether the CSRD is meeting the objectives set by the Commission, and to launch an impact assessment to ascertain the costs and benefits of the CSRD in addition to assessing the impact of companies’ burdens.

In relation to: the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EU, Directive 2006/43/EU and Regulation (EU) No 537/2014, as regards to corporate sustainability reporting 2104/2021 COM(2021)189 final.

Article	JBCE proposal	Justification
Article 1(3)/Article 1(7)	<p>19a – Page 43 and 44:</p> <p>JBCE proposes to add a safeguard clause on forward-looking disclosures, so as to avoid the imposition of liability for anticipated future sustainability information.</p>	<p>JBCE recognises the interlinkage of the CSRD with the Taxonomy and its accounting for a company’s sustainability trajectory direction for the future. However, JBCE observes a risk for companies to treat this as a tick-box exercise rather than reporting on forward-looking disclosures in a meaningful way, should they perceive themselves to be at risk of litigation for information that merely constitutes a prediction. In order to maximise the benefit of this provision, JBCE seeks for companies to be explicitly shielded from liability therein.</p>
Article 1(3)/Article 1(7)	<p>Article 19(a)7 on Page 44 and 29(a)7 on Page 50:</p> <p>JBCE proposes to include a clause that allows companies the flexibility to choose to report at the consolidated level or entity level depending on the information being provided.</p>	<p>JBCE previously raised this consideration in its response to the consultation on the Taxonomy’s Article 8 disclosures, highlighting the need to adhere to the vision of simplification for companies’ disclosure obligations by avoiding a double burden; and facilitating the provision of more qualitative information to support submitted qualitative information, in case a narrated explanation is required from a company to support its sustainability trajectory.</p>
Article 1(3)/1(7)	<p>Article 19a(e) on Page 43:</p> <p>The information requirement on due diligence should be in coherence with the upcoming Sustainable Corporate Governance initiative</p>	<p>Any fragmentation of requirements between due diligence as per the CSRD and the Sustainable Corporate Governance initiative will result in a significant burden on companies.</p>
Article 1(3)/1(7)	<p>Article 19(a) 7 on Page 44 and Article 29(a)7 on Page 50:</p> <p>The flexibility to allow companies to choose to report at the entity-level or group-wide level, depending on the type of information being disclosed with additional explanations of their reasons for doing so.</p>	<p>Some sustainability information only becomes meaningful as a means of value creation (such as business models and strategy), while other information to be disclosed according to EU criteria (such as the Taxonomy and gender issues) cannot always express the reality of sustainability in regions outside of the EU.</p>

Article 1(4)	<p>Article 19b 3 (a) on Page 46:</p> <p>The proposal says that “the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting and existing standards and frameworks”.</p> <p>We propose to change this sentence to “the Commission shall construct Delegated Acts pursuant to paragraph 1 based on the work of global standard-setting initiatives for sustainability reporting and existing standards and frameworks”</p>	<p>Multinational companies are already required to disclose information according to these existing international standards, irrespective of the introduction of EU sustainability reporting standards. Therefore, any divergence between the EU standards and the pre-existing international framework would be of excessive burden to companies, and risk reducing such information disclosures to a mere compliance exercise to fulfil the requirements imposed on companies at both the EU and international levels. It is worth noting that investors’ activities also operate globally, and so the pressure for companies to disclose information based on international frameworks will not relent, even when disclosing information as per the EU sustainability reporting standards.</p>
Article 1(4)	<p>Article 19b 1 (a) on Page 45:</p> <p>JBCE would like to point out that EU Standard should be created after political agreement on the CSRD has been reached, and not by the set date of 31 October 2022.</p>	<p>The requirements of EU sustainability reporting standards fluctuate depending on the requirements of the CSRD. Therefore, any discrepancy between the CSRD requirements and sustainability reporting standards would result in significant confusion for companies.</p>
Article 1(7)	<p>Article 49 (b) on Page 53:</p> <p>JBCE proposes that the Commission should consult with the International Platform on Sustainable Finance (IPSF), in addition to the organizations/initiatives already specified in the proposal, on the technical advice provided by EFRAG on the Delegated Acts referred to in Articles 19b and 19c.</p>	<p>As the IPSF holds a crucial role in promoting sustainable finance internationally, the EU sustainability reporting standards should be developed in consultation with the IPSF to ensure better alignment with international developments, which would in turn secure the competitiveness of companies operating in the EU.</p>
Article 2 amendments to Directive 2004/109/EC – see Page 54	<p>JBCE proposes to include a definition of the ‘value chain’ among the definitions of concepts already included.</p>	<p>JBCE notes that there are varying interpretations of the ‘value chain’, depending on the subject at hand and the motivations behind defining such a concept one way or another. For clarity purposes, companies would benefit from an EU definition of the ‘value chain’, which should also be coherent with other legislation, such as the SCG.</p>

<p>Article 3(12) amendments to Directive 2006/43/EC – see Page 59</p>	<p>Although the proposal mentions the future possibility of integrating reasonable assurance, such “reasonable assurance” should be considered only after the effectiveness of the CSRD has been reviewed, not when the Commission adopts standards for reasonable assurance.</p>	<p>JBCE supports the provisions of the current proposal that the assurance requirement would initially be of limited assurance, which JBCE believes should apply for at least the first five years after the application of the CSRD, to allow companies and auditors sufficient preparation time for such processes to be meaningful.</p>
<p>Article 5.1 amendments to Regulation no 537/2014 – see Page 64</p>	<p>The implementation of the Directive should be phased-in two years after the establishment of the EU sustainability reporting standards.</p>	<p>JBCE seeks a step-by-step approach to the application of the CSRD in order to facilitate more time for companies to perform meaningful disclosures. Measures such as phased-in implementation would allow companies to resource and equip themselves for the incoming burdens of assessing financial and environmental considerations, many of whom will be falling under the scope of the legislation for the first time. The Commission should also support these companies by specifying clear guidance of what is expected from them at each step of the implementation process.</p>
<p>Article 19(a) 7 – see Page 44</p>	<p>JBCE proposes to reword the language considerations for a company’s consolidated management report to explicitly guarantee that reports made in the English language will be accepted by Member States’ jurisdictions.</p>	<p>JBCE is concerned that the use of the word ‘or’ as regards whether such reports may be made in ‘an official language of the Member States or in a language customary in the sphere of international finance’ does not explicitly guarantee the acceptance of reports made in English by non-EU companies, and seeks to avoid the potential burden and cost of accredited translations if a Member State is not obliged to accept reports in English, as is a predominantly used language in global sustainability reporting.</p>
<p>Related to Article 19(b) 1 – see Page 45</p>	<p>JBCE proposes a new article to define the review of the directive.</p>	<p>JBCE requests the inclusion of an additional clause on the review of the CSRD for effectiveness, going beyond Article 19(b)’s provision to review the EU standards every three years, to rather evaluate whether the CSRD is meeting the objectives set by the Commission, and to launch an impact assessment to ascertain the costs and benefits of the CSRD in addition to assessing the impact of companies’ burdens.</p>



### **About JBCE**

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organization representing the interests of about 90 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceutical, textiles and glass products. For more information: <https://www.jbce.org/> / E-mail: [info@jbce.org](mailto:info@jbce.org) , EU Transparency Register: 68368571120-55