

# FEEDBACK

## Feedback on "Corporate Sustainability Reporting Directive" (CSRD) published on 21. April 2021

The Foreign Trade Association of German Retailers (AVE) welcomes the work of the European Commission on Sustainable Finance and Sustainability Disclosure as part of its holistic approach to drive social and environmental sustainability under the framework of the European Green Deal.

However, in order to ensure the effectiveness of reporting obligations to achieve human rights and climate targets, we believe that adjustments to the Commission's draft are required.

July 2021

### Background

In October 2014 the EU passed a directive that requires large publicly listed companies (more than 500 employees) to disclose non-financial information on their social and environmental impact.

Compared to the NFRD sustainability reporting requirements, the principal novelties of this CSRD proposal are:

1. to extend the scope of the reporting requirements to additional companies, including all large companies and listed companies (except listed micro-companies);
2. to require assurance of sustainability information;
3. to specify in more detail the information that companies should report, and require them to report in line with mandatory EU sustainability reporting standards;
4. to ensure that all information is published as part of companies' management reports, and disclosed in a digital, machine-readable format.

### Assessment

In the following, we assess the key areas of the proposal that are critical for AVE members.

#### 1. Scope

We advocate the creation of a "level playing field" in Europe and a level playing field on international markets. For a comprehensive and systemic impact on sustainability matters, the participation of all actors is required.

However, the extension of the scope of the directive to large European companies still creates a competitive disadvantage for European companies, which is why we believe the implementation of human rights and environmental due diligence and reporting should become a condition for the “license to operate” on the EU market.

Additionally, we would also like to emphasize that a harmonised implementation of the directive in the various EU countries is essential, especially for internationally operating enterprises. The different definitions of SMEs in the individual EU countries alone make uniform implementation of the directive highly unlikely. A regulation could counteract the patchwork of unharmonized implementations.

## **2. Scope of the reporting obligations**

Standardisation of reporting obligations and criteria ensures the comparability of reports and rewards the sustainability efforts of companies. Hence, AVE members explicitly welcome this. However, when designing the reporting criteria based on the taxonomy criteria, the additional burden on companies should be taken into account and minimized as much as possible.

Furthermore, the proportionality and scope of companies should be taken into account when considering the scope of the reporting.

Also, as part of the German Due Diligence Law, companies will already have to comply with a reporting obligation. Instead of duplicating bureaucratic efforts and ensuring practicability, companies should rather focus on the impact they can achieve in their value chains.

## **3. Realistic timing**

With the expansion of the scope of the directive, many companies will be dealing with non-financial reporting requirements for the first time. These companies must be given enough time to adjust, while companies that are already reporting according to the NFRD will also need a considerable period of time to switch to the far more extensive reporting requirements.

By the end of October 2020, the EU Commission would like to adopt delegated legal acts which specify the information companies have to report. To this end, the European Financial Reporting Advisory Group (EFRAG) is tasked to develop an EU sustainability reporting standard.

By the end of October 2023, further delegated acts are to be adopted that define additional information with regard to sustainability and sector-specific aspects that companies have to consider in their reporting.

Taking these aspects into consideration, the proposed application date, planned for January 2023, seems highly unrealistic and associated with considerable risks for companies.

Hence, we propose a gradual implementation of the CSRD. A one year pilot should be the first step on the way to implementation in order to test the requirements as well as the practicability and

functionality (e.g., of the ESAP) with voluntary companies. The results of the pilot phase should serve as basis for improving the system before it is implemented in a phased approach.

Suggested phased approach:

**1st phase:** mandatory for companies that previously had to report in accordance with the NFRD; voluntarily for all other companies

**2nd phase:** mandatory for all companies that offer products or services on the European market.

#### **4. Assurance of statutory auditors**

Overall, AVE welcomes the planned review of the content of the non-financial key figures by qualified statutory auditors. In doing so, however, evaluation criteria and test procedures must be defined and auditors trained accordingly. Considering particularly companies that have not yet had any experience with management or sustainability reports, sufficient time should be allowed to test these reporting methods.

#### **5. Harmonised reporting on group level**

We welcome a harmonised EU sustainability reporting standard, as well as the aggregated reporting at group level.

The aspect that the non-financial reporting should be integral part of the management report however present companies with great challenges at first, since the reporting has often been divided and the processes have to be adjusted accordingly. Therefore, transition periods should be taken into consideration

#### **6. Digital reporting**

To ensure that all information is published in the company's management reports and disclosed in digital, machine-readable form, the EU is planning to set up an EU-wide digital access platform to public financial and sustainability information from companies (European Single Access Point (ESAP)).

For this endeavour it has to be ensured that the platform is available with sufficient lead time and that companies have enough time to adapt their processes and systems accordingly.

## **Conclusion**

AVE and its members support the basic goals and intentions of a human rights and environmental due diligence in supply chains and the corresponding reporting requirements, if harmonised and applicable to all market players.

The present draft CSRD directive, harbours ambiguities and considerable bureaucratic effort for companies, because in practice the examination of all economic activities for their ESG conformity is associated with considerable data collection and processing effort. This means a considerable increase in financial and personnel costs, especially for companies that are new to sustainability reporting, but also for companies that have already reported, but have to adjust their reporting.

Hence, it is important that the requirements of the CSRD - as well as the application of the still to be developed reporting criteria - are not too complex and that the companies are given sufficient time to convert to the new reporting criteria.

## **About AVE**

AVE (Foreign Trade Association of German Retailers) is the voice of retail importers in Germany. Since its foundation in 1952, it has represented the external economic interests of the German retail trade which needs friction-free import of all nature of consumer goods in the framework of its global purchasing policy. In addition, AVE is committed to strict observance of social and environmental standards in supplier countries. Taken together, AVE members have a total annual turnover of around 200 billion Euros.

As early as 2000, with the support of numerous companies and the co-financing of the Federal Ministry for Economic Cooperation and Development (BMZ), AVE developed the AVE-sector-model of social responsibility (today amfori BSCI) and has been involved in the German Partnership for Sustainable for years to improve social and environmental standards.

Since 2015, AVE has been involved in projects to strengthen local structures and improve working conditions in supplier countries such as Myanmar and Tunisia.

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