



## **The Confederation of Swedish Enterprise's views on the European Commission's proposal for a new Directive on Sustainability Reporting**

The European Commission's proposal on sustainability reporting, the Corporate Sustainability Reporting Directive (CSRD), aims to improve the flow of sustainability information in the business world. The directive is intended to make corporate sustainability reporting more consistent to enable financial companies, investors, and the public to use comparable and reliable sustainability information.

The Commission also believes that the proposal will simplify the reporting process for companies. Many are currently obliged to use a variety of standards and frameworks in their sustainability reporting. The Commission hopes that the proposed EU sustainability reporting standards will provide companies with a single solution that will meet the information needs of investors and stakeholders more broadly.

The Confederation of Swedish Enterprise welcomes initiatives that support investment that contribute effectively to sustainable development. The business sector, in Sweden and abroad, is playing a key role in enabling us to meet our climate policy commitments and the implementation of Agenda 2030. It is in the business sector that a large part of this transition needs to take place. If we are to succeed, it is therefore essential that companies have the necessary conditions to undertake their sustainability work.

The Confederation notes that stricter reporting requirements will increase the administrative burden on business and thus demand that companies spend more time and resources on complying with the regulations. The CSRD proposal is more comprehensive than the current EU reporting requirements and implies an expansion of both the range of companies that have to submit sustainability reports and the scope of the content that has to be reported. Therefore, reporting companies face an even heavier burden than the already onerous reporting requirements. This will in particular pose a challenge for smaller companies that have more limited operations and fewer stakeholders. The Confederation believes that the new requirements in the CSRD would be more proportionate and well balanced if they were better adapted to the size and circumstances of reporting entities.

### **Scope of application**

Under the proposed CSRD, the scope of mandatory sustainability reporting will be extended to all large companies. This is a significant expansion on the parameters of the current directive and will see many more entities subject to a sustainability reporting requirement.

The enlarged scope of application will impose significant costs on reporting companies, further enhanced by the extended sustainability disclosures required by the draft directive. For unlisted companies in particular, which routinely have a more limited stakeholder base, it is highly debatable as to whether the proposed information

requirements are genuinely proportionate to the reporting costs. Within the area of financial reporting, a well-established demarcation exists between the information needs of listed and non-listed entities as there is generally more legitimate information demands concerning companies whose securities are traded publicly. The Confederation of Swedish Enterprise believes that this division between listed and non-listed companies is also relevant for the CSRD and that the requirement to prepare a sustainability report should not be extended beyond non-listed companies.

### **European standards**

The European Commission is proposing the introduction of standards for sustainability reporting to be adopted as delegated acts. The Confederation of Swedish Enterprise believes that there is a need for greater coherence and convergence between the various standards, frameworks, indices and measurement methods for sustainability information that are currently being applied. However, the Confederation prefers an international standard-setter over a purely European solution. A private, independent, international actor - such as the IFRS Foundation - is a better guarantor of uniform, proportionate standards of high quality and international legitimacy than a European standard setter under the Commission. For corporations seeking funding on global capital markets, European standards will be less relevant to fulfil the aim of convergence.

In addition, as suggested above, there are no reasons for standardising sustainability reporting for non-listed companies. A voluntary standard for SMEs, as suggested by the draft directive, is a more proportionate alternative for these reporting entities.

In terms of the regulatory approach, the Confederation is not convinced that delegated acts based on technical advice from EFRAG will be a sufficient guarantee of proportionate standards. The Confederation also fears that it will be difficult to attain the necessary support from preparer and user groups.

### **Corporate governance**

In the draft directive, governance is proposed as one of the three sustainability factors covered by the reporting requirements. The disclosures should, inter alia, include a description of how the business model and strategy of the reporting entity takes account of stakeholders' interests. The Confederation of Swedish Enterprise believes that this requirement, if applied literally, presupposes a corporate governance model based on a stakeholder perspective and which corresponds badly with the well-functioning Swedish (Nordic) view of corporate governance and Swedish company law.

The proposal shows points of contact with the European Commission's 'Sustainable Corporate Governance' initiative which aims, inter alia, to provide a broader group of stakeholders affected by a company's activities with legal rights linked to the management of the company. If implemented, the Sustainable Corporate Governance initiative will diminish the rights and incentives of owners, which in turn will undermine their ability to attract the risk capital needed to support sustainable economic growth. The result will be a more anxious and short-sighted approach to business.

The Confederation of Swedish Enterprise has urged the Commission not to proceed with this initiative, specifically in the section that deals with corporate governance. The Confederation believes it is based on unfounded assumptions, places fundamental principles of our economy at risk, threatens property rights, and is likely to have effects

that run counter to important objectives of both long-term sustainability and the EU Capital Markets Union. The Confederation believes that corporate governance is, and should remain, an issue for national law. The proposal that governance should be included as a sustainability factor and covered by the sustainability report should therefore not be implemented.

### **Intangible assets**

The European Commission is proposing that sustainability reports should include information on intangible assets. This information is part of the financial reporting and - to the extent that this information is considered insufficient - it should primarily be dealt with as part of the standard setting applied to financial statements. The Confederation of Swedish Enterprise fears that a requirement for sustainability reports to also contain information on intangible assets alongside a separate definition of intangible assets for sustainability reporting purposes, risks impairing the information quality of corporate reports. The proposal that sustainability reports should include information on intangible assets should therefore not be implemented.

### **Retain the option to draw up a separate sustainability report**

The European Commission is proposing to remove the current option for a reporting entity to publish a separate sustainability report outside the management report. The Confederation of Swedish Enterprise notes that the current option to provide a separate report has been used by many Swedish companies and has been shown to work well. With the upcoming disclosure requirements under the Taxonomy Regulation, as well as the Commission's proposal for CSRD, the size of sustainability reports is likely to increase significantly. To ensure that annual reports do not become excessively voluminous, companies may therefore have justifiable reasons for not including the information in the management report and instead choose to publish a separate report, especially as many reporting entities wish to combine both voluntary and mandatory sustainability information in a single report. The current option to provide a separate sustainability report from the annual report should therefore be retained.

### **Do not change the current exemption for subsidiaries**

Under the proposed CSRD, the current exemption for subsidiaries included in a group sustainability report would be complemented by a requirement for individual subsidiaries to publish sustainability reports for parent companies together with subsidiaries' annual reports. The Confederation does not believe that this requirement is reasonable. It will only imply an additional administrative burden on reporting entities. The Confederation believes that a requirement for a subsidiary to provide information on where the sustainability report for its parent company is available is entirely sufficient.

### **The requirement for a uniform electronic reporting format**

The proposed directive requires all companies subject to the sustainability reporting requirement to prepare their financial statements and the management report - including the sustainability report - in a uniform electronic reporting format. Preparing financial statements and sustainability reports in a uniform electronic format is a burdensome and resource-intensive requirement for reporting companies. At the same time, the benefits of providing the information in such a format primarily accrue to parties other than those preparing the documentation. The Confederation of Swedish Enterprise believes that the current ESEF reporting regime under the Transparency Directive that covers the financial statements of listed entities, should be properly

evaluated before it is extended to include non-listed entities as well as sustainability reports. Before such a review, it is not possible to take a position on whether there are sufficient economic justifications for a more comprehensive requirement of electronic reporting. Under the present circumstances, requirement for a uniform electronic reporting format should not be implemented.

### **Audit of sustainability information**

Under the European Commission's proposal for a Sustainability Reporting Directive, sustainability reports - including the information to be provided under the Taxonomy Regulation - will be subject to limited assurance by the auditor or an independent assurance provider. The Confederation of Swedish Enterprise believes that audits of sustainability reports should continue to be a service that companies themselves elect to undergo. Furthermore, the Confederation believes that any audit requirement, if introduced, should take proportionality into account and clearly distinguish between listed and non-listed companies.