Key messages on EC Corporate Sustainability Reporting Directive in view of trialogue discussions

Insurance Europe is highly supportive of the European Commission's Corporate Sustainability Reporting Directive (CSRD) initiative. The insurance industry is Europe's largest institutional investor, with €10trn of assets under management. In order for insurers to be able to make appropriate investment decisions and comply with sustainability regulation it is vital that consistent, comparable and machine-readable sustainability data is available, and can be accessed and used efficiently. The CSRD, together with the European Single Access Point (ESAP), can achieve this.

The comments below contain Insurance Europe's key messages on the CSRD proposal in view of the ongoing trialogue. Insurance Europe's comments on the EC's proposal can be found here.

Key messages

The industry is particularly supportive of the following important aspects of the EC's proposal:

- Mandatory reporting in machine-readable format.
- Data needed for EU Taxonomy and Sustainable Finance Disclosures Regulation reporting is prioritised and included in the first set of sustainability reporting standards.
- The significant increase in the scope of companies covered by mandatory reporting (vs Non-Financial Reporting Directive) and those outside of the scope are encouraged to report voluntarily based on simplified SME standards.
- EU sustainability reporting standards build upon and contribute to standardisation initiatives at a global level through constructive two-way cooperation between the European Financial Reporting Advisory Group (EFRAG) and international initiatives (such as those undertaken by the International Sustainability Standards Board (ISSB)).
- Limited assurance, with a later review to consider whether this should change to reasonable assurance.
- The role of EFRAG to develop standards in consultation with stakeholders.

In view of the ongoing trialogue, and for the CSRD to work as intended, the insurance sector would like to stress three key elements:

1 Provide the option to report at consolidated (group) level

Sustainability strategies and policies are determined at group level. To adequately assess companies' sustainability performance, it is therefore essential to allow reporting at group level. Reporting at group level is also in line with practices in financial reporting (eg International Financial Reporting Standards (IFRS)). The exemption of subsidiary reporting under Article 1(7) of the CSRD should be maintained and also apply to public-interest entities (PIEs) as it does for others.

Furthermore, reporting all sustainability information for each subsidiary within a group will lead to double reporting, data overload and therefore reduce the meaningfulness of the data. Ultimately, this would create additional operation costs for companies, in particular for smaller ones. The sustainability data that is material will anyway be reflected in the consolidated reporting, which allows for a more holistic view of companies' sustainability strategies.

The EC's impact assessment estimates that the removal of the subsidiary exemption would result in a 60% increase in the number of reporting companies. The EC argues that maintaining the exemption would also benefit users because, with clear references to parent company consolidated reports in subsidiaries' management reports, they would be able to easily find relevant subsidiary information.

Recommendation

Insurance Europe strongly supports maintaining the subsidiary exemption. The option to report at consolidated (group) level should also apply to public-interest entities, as it does for others, allowing insurers to report only at consolidated level. In this respect the EC proposal is a good starting point, and the insurance industry strongly supports the clarification by the Council of the EU in its position that the exemption should also apply to PIEs.

2 Allow undertakings to use the same audit firm for their sustainability reporting and for their financial reporting

While European insurers welcome the European Parliament's intention to open up the auditing market, the principles of the Audit Directive on independence and conflict of interest should apply for sustainability reporting. There is no valid reason to forbid statutory auditors from auditing sustainability information if they have not helped the company produce their sustainability information. Preventing companies to use the same audit firm for sustainability reporting and financial reporting would unnecessarily increase cost and complexity for reporting companies, especially in some smaller markets where there is a limited choice of auditing firms. In addition, the requirement to have separate firms for assurance of financial and sustainability information would be counter-productive for auditors given the interconnectedness of financial and sustainability information.

Recommendation

Insurance Europe strongly supports the EC and Council proposals to allow undertakings to use the same audit firm and does not support the European Parliament's proposal to prohibit companies from engaging their statutory auditor for the assurance of the sustainability report.

3 SMEs should be maintained in the scope, but the definition of SME undertaking should be improved to allow insurance SMEs to report under simplified standards

From an investor perspective, proportionate inclusion of SMEs in the scope of the CSRD is important. Investors need sustainability information from SMEs to fulfil their regulatory disclosures requirements for the SFDR and the EU Taxonomy. Therefore, Insurance Europe supports the proposal by the EC and Council to include listed SMEs in the scope of the CSRD while allowing them to use simplified SMEs standards to reduce administrative burdens and costs given their limited resources.

Nevertheless, small insurers should also be allowed to report under simplified sustainability reporting standards. To that end, the definition of SME undertaking in the EC proposal does not work: even tiny insurers would be required to report under the full standards designed for large companies because insurers have much larger balance sheets/sales turnover than non-financial companies.

Recommendation

Insurance Europe supports the approach taken by the EC and Council to include listed SMEs in the scope of mandatory reporting but with the possibility to use simplified SMEs standards. Insurers also welcome the explicit recognition by the Council that the definition of net turnover must be adapted for credit institutions and insurance undertakings to take into account their specificities. However, the current Council proposal would need to be further improved to address the issue for insurers by including a recital making an explicit reference to the future sectoral definition in Solvency II of "low risk undertaking".

Further messages

Timeline

Delays should not apply to data needed to meet mandatory reporting requirements, notably in relation to the SFDR and the Taxonomy Regulation. The financial sector already faces a data gap of one year because it needs data from the CSRD, which is available from 2024 at the earliest, to comply with data reporting requirements under the SFDR, which start from 2023.

Recommendation

If the application of the CSRD is delayed, a multiphase approach is necessary with the data required for mandatory reporting starting in line with the timetable as proposed by the EC (2024). More time can be provided, for example, for developing and implementing other parts of the sustainability reporting standards or for first-time adopters.

Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.