

## CSRD Consultation ISME

ISME is grateful for this opportunity to the Department on the Corporate Sustainability Reporting Directive (EU) 2022/2464,<sup>1</sup> ahead of its transposition into Irish law.

ISME does not propose to do an article-by-article response to the CSRD consultation as published on the Department website, but instead will confine itself to consolidated observations.

As we understand the current schedule, the CSRD must be implemented as follows:

- from 1<sup>st</sup> January 2024 (reporting year 2025) for large public-interest companies (with over 500 employees) already subject to the non-financial reporting directive (NFRD)
- from 1<sup>st</sup> January 2025 (reporting year 2026) for large companies not currently subject to the NFRD
- from 1<sup>st</sup> January 2026 (reporting year 2027) for listed SMEs (excluding micro businesses) and other undertakings (SMEs may opt-out until 2028)
- from 1<sup>st</sup> January 2028 (reporting year 2029) for non-EU businesses.

The directive as it stands has serious shortcomings which will negatively impact SMEs. The CSRD replaces the NFRD and is part of a suite of measures proposed by the Commission as part of non-financial reporting<sup>2</sup> which has as its objective:

*“...to reduce unnecessary costs of sustainability reporting for companies, and to enable them to meet the growing demand for sustainability information in an efficient manner. It will bring clarity and certainty on what sustainability information to report, and make it easier for preparers to get the information they need for reporting purposes from their own business partners (suppliers, clients and investee companies). It should also reduce the number of demands companies receive for sustainability information in addition to the information they publish in their annual reports.”*

However, the detail by which the CSRD will achieve this goal is absent in the directive. We are anecdotally aware that both the large consulting houses and the large auditing firms are devoting significant resource towards compliance with this directive. Such an effort is entirely inconsistent with a directive which has as its goal the simplification of reporting.

Even large businesses will struggle to meet the reporting requirements imposed upon them. Despite the nominal initial exclusion from the directive of SMEs, the burden will progressively fall on them in the following three years.<sup>3</sup> The Commission has failed to produce any data on impact assessment, actual costs for SMEs, and any statement as to how the Commission considers the CSRD will conform with the Small Business Act.<sup>4</sup>

ISME also notes that there is no reference to consistency of the CSRD with the Better Regulation strategy.<sup>5</sup> We need to see concrete proposals to apply the “one in-one out” rule as this is the main

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464&from=EN>

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN>

<sup>3</sup> <https://kpmg.com/ie/en/home/insights/2021/04/corporate-sustainability-reporting-directive-csrd.html>

<sup>4</sup> <https://ec.europa.eu/growth/tools-databases/sme-best-practices/SBA/index.cfm>

<sup>5</sup> [https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation\\_en](https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation_en)

promise of the Von der Leyen Commission: to reduce administrative burdens in the transposition of the CSRD into Irish law.

An additional issue is that there is no guarantee that the “SME standard” of the NFRD will be accepted by the market. Listed SMEs (of which there are very few in Ireland) will be obliged, when they are in the supply chain of a large enterprise, to report according to the large enterprise standard. For non-listed SMEs which make up the vast majority of Ireland’s business demography, there is no clarity as to what reporting standard would be required or expected. The Commission appears to be aware of this issue, but does not identify a solution.

ISME therefore requests that large enterprises should be prohibited from imposing their reporting standards on their supply chains.

SMEs need support, including budgetary support, and adapted proportional tools in order to be able to comply with non-financial reporting if they want or need to.

In this regard, we welcome the Commission commitment<sup>6</sup> to establish “*separate, proportionate standards for SMEs, which non-listed SMEs can use voluntarily.*” This commitment needs to be firmly and transparently delivered before transposition of the CSRD into Irish law.

However, it is not clear whether the legal text of article 19c refers to a standard for SMEs, for listed SMEs, or both.

#### **Article 19c**

##### ***Sustainability reporting standards for SMEs***

*The Commission shall adopt delegated acts in accordance with Article 49 to provide for sustainability reporting standards proportionate to the capacities and characteristics of small and medium-sized undertakings. Those sustainability reporting standards shall specify which information referred to in Articles 19a and 29a small and medium-sized undertakings referred to in Article 2, point (1)(a) shall report. They shall take into account the criteria set out in Article 19b, paragraphs 2 and 3. They shall also, where relevant, specify the structure in which that information shall be reported.*

*The Commission shall adopt those delegated acts at the latest by 31 October 2023.*

The voluntary SME standard should be a standard adapted to the particularities and capacities of the majority of SMEs, namely micro and small enterprises, and not one that is adapted or appropriate to listed SMEs. This would be too complex for non-listed micro and small enterprises. We summarise the issues of concern as follows:

- There is uncertainty on “SME standard” as to whether it is for listed or non-listed SMEs.
- In absence of suitable “SME-standard” the market will impose the big-business standard.
- It is not apparent that there is a transposition period for non-listed SMEs (as opposed to listed SMEs which have three).
- There is no guarantee that an “SME standard” will be voluntarily accepted by non-SME clients.
- There remains a significant risk of CSRD gold-plating by Ireland and other member states.
- There is no explicit provision for “one-in-one-out” transposition.

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<sup>6</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_1804](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1804)

- There is no commitment for budgetary support to SMEs.

The ambitious time schedule is also challenging and should be reconsidered.

We fully agree with the Commission<sup>7</sup> when it states that “*Significant differences in requirements for sustainability reporting and assurance between Member States create additional costs and complexity for companies operating across borders. This is detrimental to the single market.*” However, the CSRD does not propose a solution to this problem as there is still a risk of distortions of competition within the EU, due to differences in the future implementation by the Member States.

The preamble to the CSRD states:

*The Green Deal... aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases (GHG) by 2050. It also aims to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of Union citizens from environment-related risks and impacts.*

While conscious that the CSRD, like all EU Directives, is well-intentioned, we query whether it will meet its core objectives (above) in achieving environmentally sustainable business, or whether it will merely concentrate business activity among those enterprises which can afford to bear a higher regulatory and reporting burden. In summary, ISME asks the Irish Government to address the following in its transposition of the CSRD:

1. Conduct a full regulatory impact assessment (RIA) on the CSRD, to include both cost and regulatory burden, which must also be done with the other non-financial reporting directives such as the NFRD and the CSDDD.
2. The RIA must also identify which regulations, statutes or returns should be removed from corporate requirements consistent with the “one-in-one-out” principle referenced above.
3. Provide temporary supports (applying the SME test) for the increased cost of compliance that the CSRD will impose.
4. Remove any ambiguities in the reporting standards for SMEs under the directive.

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<sup>7</sup> [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729424/EPRS\\_BRI\(2022\)729424\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729424/EPRS_BRI(2022)729424_EN.pdf)