Sustainable Finance and CSRD: Making Progressive Business the Benchmark

Promote motivation for transformation instead of making it more difficult!

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B.A.U.M., the network for sustainable business, and the Bundesverband nachhaltige Wirtschaft (BNW) are progressive business associations representing a total of 7.2 million employees or 1.4 trillion euros in annual turnover. The actors here organised do business in a more future-proof way than the mainstream: They are oriented towards planetary and social boundaries, and act and innovate accordingly in their business development. In order for the business community as a whole and across the board to make its contribution to the Sustainable Development Goals of the United Nations and the Paris Climate Agreement, political clarity, comprehensive reporting obligations and a new quality in reporting are needed. We support the concept of the Corporate Sustainability Reporting Directive (CSRD) and its ambitious implementation into national law.

By expanding and specifying the transparency requirements, we are finally on the threshold of fairer market conditions for sustainability. First movers have been waiting for this for years and decades. Major disruptions such as the financial and economic crisis of 2008/2009, in which a bubble burst painfully for market participants and entire companies, also brought about a broadly effective new understanding of the comprehensive accounting of corporate sustainability performance and values. Standardised reporting requirements make it possible to compare the impacts of companies' business activities on human rights and natural resources. More available data is a prerequisite for the development of markets where the best available products and services in terms of sustainability can prevail. Good, meaningful data maps real effective business processes and their changes, describes deliberate risks and sometimes missed opportunities from not addressing sustainability risks. All this is necessary to assess responsible management actions. Audited data is incorporated into entrepreneurial decision-making processes in an incentive-relevant and resilient manner. The financial market is already subject to far-reaching disclosure obligations that provide information on the extent to which sustainability is anchored in the core business of investments and lending.

The approaches may differ. And yet the dominant voices are those that want to continue business as usual and prevent too much change, instead of seizing the opportunities to adapt our market-based model to the challenges of our time. We support the development of the European Sustainability Reporting Standards (ESRS) because we see the risk to entire economies as too great if we continue to ignore planetary and societal impact limits. They must become the guiding principle for corporate action and our rules-based economic model. We are committed to the development of the social-ecological market economy and thus support the recent G7 commitment to the Paris Climate Agreement to limit average global warming to 1.5 °C and the intention to establish a Climate Club this year. With broad support from the business community, this can succeed.
We consider a broader understanding of sustainability, as envisaged by the EU Commission and EFRAG with the ESRS, to be appropriate. A focus on the consideration of primarily financial impacts of sustainability on companies, as favoured by the International Sustainability Standards Board (ISSB) in comparison to the European understanding of dual materiality, falls short in our view. Rather, an alignment by the ISSB to the more demanding standards of the EU Commission and ESRS makes sense, because they come closer to the absolutely set global baseline, the planetary impact limits. In our view, the benchmark must be the most ambitious, not the lower level, with regard to the increasing sustainability risks that manifest themselves in tangible physical and financial risks – as BaFin has already outlined in the 2019 fact sheet. Transitory risks and costs for investments increase if transformation is further postponed. This increases the cost of potential damage in terms of physical and financial risks for entire economies.

BNW and B.A.U.M. therefore encourage the federal government to ambitiously implement the CSRD into national law and to support the application of the ESRS, as soon as they are there, through a campaign comparable to the introduction of the state organic label. For progressively positioned companies, they do not represent an excessive demand, but rather established reporting practice. The gradual introduction of the CSRD gives the entire economy sufficient time to prepare adequately for the expansion and concretisation of the reporting obligation. Our experience shows that with serious equipment, a profound sustainability reporting practice can be built up within two years with manageable effort. The more comparable and easily accessible sustainability information is in the future, the more efficiently both companies and their stakeholders can work with it. After initial reporting, effort, costs and time are rapidly reduced in the company. The sooner there is clarity about the framework conditions and standards, the sooner marketable solutions and instruments can be developed that pragmatically support companies in their implementation.

A materiality analysis in the sense of double materiality as the basis of sustainability reporting, as in the European proposal, is also required from a corporate risk management perspective. Companies without such an analysis will be confronted with higher transformation costs in the future because they are not able to provide information on elementary risks. The CSRD in combination with the ESRS offer the opportunity to develop European companies with a sustainable orientation based on a stringent materiality analysis and transparent reporting. Through the transmission belts of global financial flows and supply networks, it will trigger modern mechanisms and sound economic processes worldwide because they are adapted to the risks of the time.

We do our utmost to support competence building and adjustments in those parts of the economy for which sustainability concepts are new. BNW provides information on its website about the upcoming reporting requirements, B.A.U.M. commented on the
draft standards in the summer and is building a digital academy for easily accessible operational e-learning. As a united voice of the progressive business community, we encourage the German government to adopt broad participation models to consolidate the German position on such important issues as the CSRD and ESRS in order to reflect the plurality of business and societal opinions.

Hamburg/Berlin, 7 November 2022

signed Klara Marquardt, Spokesperson of the Advisory Board, B.A.U.M. e.V.
signed Prof. Dr. Jochen Pampel, Spokesman of the Board of Trustees, B.A.U.M. e.V.
signed Dr. Katharina Reuter, Managing Director, BNW e.V.
signed Yvonne Zwick, Chairperson, B.A.U.M. e.V.