Ms. Ursula von der Leyen, President of the European Commission

Ms. Mairead McGuinness, Commissioner for Financial services, financial stability and Capital Markets Union

European Commission
Rue de la Loi 200
1049 Brussels Belgium

cc:
Mr. Valdis Dombrovskis, Executive Vice-President for an Economy that works for People
Mr. Frans Timmermans, Executive Vice-President for the European Green Deal
Mr. Didier Reynders, Commissioner for Justice
Mr. Pascal Durand, MEP, Rapporteur on the Corporate Sustainability Reporting Directive
Mr. John Berrigan, Director-General, DG FISMA
Ms. Florika Fink-Hooijer, Director-General, DG ENV
Mr. Kurt Vandenberghe, Director-General, DG CLIMA
Ms. Kerstin Jorna, Director-General, DG GROW
Mr. Koen Doens, Director-General, DG INTPA
Mr. Sven Gentner, Head of Unit “Corporate reporting, audit and credit rating agencies”, DG FISMA
Ms. Pilar Gutiérrez, Head of Unit “Reporting and Transparency”, EBA
Ms. Sandra Hack, Principal Expert on Policy, EIOPA
Mr. Alessandro d’Eri, Senior Policy Officer, ESMA

Subject : Preserving the integrity and the ambition of the European Sustainability Reporting Standards

Dear President von der Leyen
Dear Commissioner McGuiness,

We, organisations representing investors, civil society, sustainable companies, trade unions and multi-stakeholder alliances, including members of the EFRAG Sustainability Reporting Pillar, would like to **provide reflections and voice our concerns regarding the implications of the decision of the European Commission to postpone the development of the sector-specific sustainability reporting standards**.

Firstly, **we strongly support the objective of maintaining the full integrity of the set 1 sector agnostic standards and finalising these standards without further delay.** We would also like to draw your attention to the business letter sent to Commissioner McGuiness on 6 February by financial institutions, business actors and networks in support of adopting ambitious European Sustainability Reporting Standards (ESRS).[1] Similarly, the PRI statement on ESRS on 25 November welcomed the ESRS and stressed that the final standards should retain alignment with international standards, including the UN Guiding

1 https://cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/583/original/2023_03_02_Esrs_Open_Letter_Signatories.pdf

Principles on Business and Human Rights, and mandatory reporting on climate as well as on SFDR indicators.[2]

It has been well established that increased transparency through sustainability reporting is critical to achieve and implement the EU Sustainable Finance Agenda and the European Green Deal, including the commitments to decouple growth from resource use and "leave no person and no place behind". Therefore, **any delay would go against the fundamental building blocks to build a sustainable future**.

This is particularly urgent in the light of the latest IPCC report which demonstrates that without urgent action we are set to reach 1.5°C global warming very soon and the Global Biodiversity Framework adopted at COP15. Parties to this agreement committed to require all large business and financial institutions to assess and disclose their risks, impacts and dependencies on nature, through their operations, supply and value chains, and portfolios. The Global Biodiversity Framework is critical to meeting the climate objectives set out in the Paris Agreement, and can only be achieved while leaving no one behind, considering social impacts whose scope and scale will be exacerbated by the climate transition, as well as the need to address fundamental inequalities to make efforts on combating climate change and other environmental objectives effective and achievable.

In this context, European Sustainability Reporting Standards (ESRS) cannot and should not be viewed as a mere compliance exercise. These standards provide a vital competitive advantage for companies allowing them to access large pools of capital and lowering business costs.[3] Furthermore, they are an indispensable instrument for improving availability, comparability and reliability of corporate sustainability-related disclosures that are essential for investors and other financial market participants to make informed decisions and prepare their own sustainability-related disclosures required by EU law. Finally, given ever increasing systemic sustainability risks, improved corporate ESG disclosures are needed to ensure investor protection and financial and economic stability.

Secondly, we appreciate that the sector-specific standards need to be developed through a due process that allows for a proper discussion, sound and balanced technical advice from the EFRAG TEG, and weighing of various options and taking well informed decisions by the SRB. We also understand the importance of providing sufficient time and guidance to large companies to adapt to the new reporting requirements resulting from the EU sustainable finance framework, including the EU Taxonomy.

We welcome the Commission's request for the development of guidance and interpretation documents for the sector-agnostic standards. This is critical to ensure meaningful and cost-effective implementation by business. In addition, we would also deem it relevant to address any misunderstandings regarding the obligations and the expected detail and granularity of disclosures.

However, we call for a clear timeline and commitment from the Commission with regards to the eventual adoption of the sectoral and listed SME standards. We would

[2] https://www.unpri.org/download?ac=17536
[3] How the benefits of mandatory sustainability reporting by businesses, do outweigh costs

like to stress that the development of the sector-specific ESRS should not be significantly delayed, so that the market can plan for eventual implementation.

Given the suddenness and the far-reaching implications of the Commission's decision, we would like to raise the following critical points:

1. **It is of utmost importance to us that the Commission adopts the sector-agnostic standards as agreed upon by the EFRAG SRB with as minimal changes as possible**. Significantly changing the content of the standards would undermine the multi-stakeholder consensus, as well as the functionality and the integrity of the standards. When the news of the delay of the sector-specific standards was shared by the Commission with the SRB, there appeared widespread consensus from all parties, including business and financial institution representatives, that the integrity of sector-agnostic standards should be fully maintained. In this regard, we would like to highlight that:

    - **The CSRD already includes a phase-in application** for listed companies with less than 500 employees, for non-listed companies, and for listed SMEs. **These provisions need to be respected.**

    - Excluding or postponing individual environmental or social standards would undermine the overall integrity and logic of the sector-agnostic standards and fail to recognise the interconnectedness of the full range of sustainability topics in the CSRD. These standards are also important for financial market participants' ability to meet their existing reporting obligations.

    - It is important to note that the sector-agnostic standards provide mandatory indicators primarily for climate and own workforce, and that the standards do not include any indicators on the value chain, except for greenhouse gas emissions.

    - The EFRAG SRB carefully considered which disclosures might require extra time. **Appendix D of the ESRS 1 already includes a list of disclosure requirements which were suggested to be phased in.** We recommend that the European Commission follows the near unanimous SRB recommendation to that end.

    - The list of phased-in disclosures includes financial effects and their quantification. These are essential - even though they are delayed - in order to preserve the double materiality approach required by the CSRD.

2. We understand the European Commission's considerations and the willingness to ensure there is sufficient time to develop effective sector-specific standards. In fact, **these sector-specific standards remain critically important and should in practice reduce the complexity of the reporting process for companies** in distinct industries by specifying what information is material in relation to concrete topics. We would welcome the opportunity for EFRAG SRB and TEG to be included in

discussions of revised timelines for their development as well as in setting the principles that should guide that process. In this regard, we would like to stress that:

- It is **necessary to maintain continuity in the development of the sector-specific standards** and achieve a consensus on the priority standards in order to have a less pressured and more thoughtful process, taking advantage of, and without prejudice to, the planned delay to their ultimate adoption.

- The **timeline needs to be clarified for the first two sector-specific standards on mining and oil and gas**, which are already at an advanced stage of development. In particular, the oil and gas sector plays a critical role in climate transition.

- EFRAG should be provided with sufficient means to effectively carry out this task.

We would very much appreciate the opportunity to discuss further the future of sustainability reporting in Europe and we kindly request a meeting with you and your team.

Yours sincerely,

World Benchmarking Alliance

Finance Watch
Making finance serve society

Eurosif

B.A.U.M.
NETWORK FOR SUSTAINABLE BUSINESS

BNW
Bundesverband Nachhaltige Wirtschaft e.V.

B Lab Europe

CDP
DISCLOSURE INSIGHT ACTION

Shift

WWF

Sent on behalf of the signatories by:

Filip Gregor

Head of Responsible Companies, Frank Bold
Member of the EFRAG Sustainability Reporting Board

+420 775 154 083
filip.gregor@frankbold.org