Enhancing European Sustainability Reporting Standards (ESRS) for effective impact

Key takeaways from the public consultation

Transparent and reliable sustainability reporting is pivotal in moving towards a more sustainable future. From 9 June to 7 July 2023, the European Commission organised a public consultation to discuss the initial set of European Sustainability Reporting Standards (ESRS). This consultation gathered feedback on the proposed standards presented by the European Financial Reporting Advisory Group (EFRAG) in November 2022. Unfortunately, the proposed changes only water down the standards put forward by EFRAG and could leave the door open for companies to cherry-pick how they disclose sustainability information.

Sustainability reporting is about conveying meaningful and comparable information that enables stakeholders to make informed decisions. Europe needs strong, standardised, and transparent ESRS that align with international agreements. But, to deliver these, the Commission must implement the following recommendations.

Reporting on sustainability indicators that truly matter: The current ESRS allows companies to self-determine which issues or impacts to disclose information on. In practice, this means companies can unilaterally decide what is important to report on an annual basis while simultaneously retaining crucial – and perhaps less favourable - information. To make sure companies do not use sustainability reporting as a greenwashing exercise, the European Commission should oblige companies to report on impacts that are relevant to the organisation's activities (for example, water scarcity is often considered a significant issue for beverage companies). In doing so, the ESRS would allow comparison and tracking of environmental information on a yearly basis.

Make all significant sustainability information mandatory *again*: The essence of effective reporting is its consistency and comprehensiveness. Unfortunately, certain disclosures could remain optional for significant sustainability matters (aka *material matters*). Such a move undermines comparability and impedes access to high-quality data, thereby inhibiting stakeholders' capacity to accurately gauge a company's sustainability performance.

To counter this, the European Commission should revert to the standards originally proposed by EFRAG, which include mandatory disclosures for all significant sustainability aspects. Reintroducing mandatory disclosures would also align the ESRS with existing regulations, such as the Sustainable Finance Disclosure Regulation (SFDR) and ensure coherence.

Remove unnecessary reporting delays: The European Commission, under pressure from industry, recently introduced supplementary delays in revealing certain sustainability data, such as disclosures on indirect GHG emissions, biodiversity, and social indicators for smaller entities, now foreseen for as late as 2030. These delays are not justified and could hinder public access to vital information.

Clarify Scope 3 GHG emission reporting: We are facing a climate crisis - it is paramount that companies report all greenhouse gas (GHG) emissions, including the indirect ones, referred to as ‘Scope 3’ emissions. This ensures that stakeholders understand a company's overall impact on the environment. However, current rules are not clear on the specific types of emissions to be reported on, and the latest draft of the ESRS has not fixed the problem. The European Commission should mandate companies to report all Scope 3 emissions, except those less than 1% of total emissions.

Prohibit misleading "GHG-neutrality" claims: "GHG-neutrality" claims often rely heavily on offsetting credits and can mislead stakeholders about a company's climate-friendliness. To get on track towards absolute GHG emission targets that align with the Paris Agreement, the Commission must prohibit false “GHG-neutrality” claims.