

Frans Timmermans	Valdis Dombrovskis	Mairead McGuinness	Johannes Hahn
Executive Vice-President	Executive Vice-President	Commissioner for Financial Services, Financial Stability and Capital Markets Union	Commissioner for Budget and Administration
European Commission	European Commission	European Commission	European Commission

Brussels, 26 April 2023

Subject: Urgent call to adequately fund EFRAG for the development of credible and successful European Sustainability Reporting Standards

Dear Vice-President Timmermans,

Dear Vice-President Dombrovskis,

Dear Commissioner McGuinness,

Dear Commissioner Hahn,

We, the undersigned organisations representing the private and public sectors and NGOs in EFRAG, fully support the Corporate Sustainability Reporting Directive (CSRD) as a critical catalyst of a transition to a sustainable economy and business models.

The CSRD entrusted EFRAG with the important role to develop the necessary European Sustainability Reporting Standards (ESRS) that support companies, financial markets, policymakers, and other stakeholders to drive the change needed.

Despite the resource challenges and extreme time pressures, EFRAG successfully delivered the first set of 12 draft ESRS to the European Commission (EC) in November 2022. This confirms that EFRAG, with its commitment to public good and diverse membership, is the right organisation for the task.

Unfortunately, EFRAG remains dramatically underfunded and continues being forced to operate in unacceptable working condition and to heavily rely on donated staff while operating under unrealistic deadlines. The public funding made available to EFRAG is disconnected from the EU's ambitions, the tasks and role mandated in the CSRD. The EC has also repeatedly added requests to EFRAG to undertake projects beyond those strictly mandated by the CSRD (e.g. developing the ESRS XBRL Taxonomy, working on the digitalisation of Article 8 of the Taxonomy Regulation and the guidance on the first set of ESRS). While these are vital additional tasks and EFRAG is the right organisation to do them, no additional public funding has been provided, making the underfunding problem even worse. EFRAG's role is paramount – robust and implementable ESRS underpin the success of the CSRD, which waterfalls to achieving broader ESG ambitions.

We, as member bodies of EFRAG, want and need to see EFRAG succeed, particularly in this critically important role for the European Economic Area and the world. For years, in addition to funding, we have provided EFRAG, free of charge, the necessary, highly requested and in short supply sustainability-related expertise needed to take part in EFRAG's Boards, Committees and Working Groups.

We have fully played our part and the resources of our own organisations do not allow us to provide further resources.

Stakeholders' repeated calls for proper funding in EFRAG's sustainability pillar have been disregarded so far but the situation has now reached a point that seriously risks undermining the CSRD, resulting in a potential political failure.

This lack of proper funding has dramatic consequences on EFRAG's ability to recruit the expertise it needs, as talent is very scarce and in high demand in a very competitive market. It has negatively impacted the work of the financial reporting pillar, which had to reduce its activities related to the IFRS endorsement advice mandate. It also creates significant risks for governance, management, independence, quality, and due process across the organisation.

We also observe increasing concerns from within the European Parliament¹ regarding EFRAG's insufficient funding and its capacity to deliver quality ESRS. This includes an explicit call from MEPs for the EC to increase EFRAG's funding.

It is our duty to speak up, join other stakeholders and the European Parliament in expressing serious concern, and issue this **last call for adequate funding of EFRAG**.

Ultimately, this is about the European public good, and the EC must play its part to meet its own objectives. We estimate, based on current EFRAG budget shortfalls and the budgets of other international standard setters, that an **additional annual funding of minimum 4 to 6 million Euros** is needed to ensure the EFRAG sustainability reporting pillar is able to recruit the necessary expertise and run a robust and qualitative due process to deliver the tasks in the CSRD. This amount does not include all the additional tasks that EFRAG can and should do like the creation of implementation guidance, interpretations, training, and education. These could require a much higher budget and it is vital that going forward the EC takes steps to ensure that EFRAG receives, not only the amount needed to do its existing tasks, but also that it can receive higher amounts to cover additional tasks key to the overall success and effectiveness of CSRD related reporting.

Respectfully,



Climate Finance Fund of the ECF
Economy for the Common Good



Environmental Defense fund Europe



Frank Bold Society

Transport and Environment



World Wide Fund for Nature - WWF



Finance Watch

¹ 28.2.2023 Written question from MEPs across political Groups: Resources for EFRAG to develop ESRS, see here: https://www.europarl.europa.eu/doceo/document/E-9-2023-000650_EN.html



European Accounting Association - EAA



Accountancy Europe



Business Europe



European Issuers



European Association of Co-operative Banks - EACB



European Banking federation - EBF



European Savings Banks Group - ESBG



European Fund and Asset Management Association - EFAMA



Insurance Europe



Eurosif



European Federation for Accountants and Auditors for SMEs - EFAA

Austrian Group of Standard Setters

Austrian National Organisation



Dutch National Organisation



Danish National Organisation



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