

Mairead McGuinness
Commissioner for Financial Services, Financial
Stability and Capital Markets Union
European Commission

CC: Sven Gentner
Head of Unit DG FISMA, Corporate reporting,
audit and credit rating agencies
European Commission

CC: Hans Buysse
Administrative Board President, EFRAG

CC: Kerstin Lopatta
Acting EFRAG SRB Chair, EFRAG

CC: Chiara Del Prete,
Acting SR TEG Chair, EFRAG

Saskia Slomp
Chief Executive Officer, EFRAG

Sent by email

Brussels, 29 July 2022

Subject: Accountancy Europe's position on the consultation responses of the European Sustainability Reporting Standards

Dear Commissioner McGuinness,

Accountancy Europe fully supports the European Green Deal's ambitions to turn Europe into the first climate neutral continent by 2050. We welcome the Corporate Sustainability Reporting Directive (CSRD) requirement for businesses to report on their social and environmental impact. Corporate reporting has a role to play in helping companies, financial markets, policymakers, and other stakeholders support and drive change towards more sustainable business models.

We support the European Union's (EU) ambition to develop a corporate sustainability reporting regime based on the double materiality principle, with the potential of contributing to the global system. A globally aligned reporting system will facilitate comparability and analysis, improve transparency, as well as minimise the reporting burden. Globally applicable standards recognise the reality that businesses and trade are global. We strongly encourage the EU to seize the current window of opportunity created by the CSRD to work with the International Sustainability Standards Board (ISSB)¹ towards an accepted global baseline on sustainability reporting standards.

¹ Please note that Accountancy Europe has contributed to the ISSB's exposure drafts on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related disclosures*, which can be found [here](#) and [here](#).

We congratulate the European Financial Reporting Advisory Group (EFRAG) Project task Force (PTF-ESRS) on issuing for public consultation the first set of European Sustainability Reporting Standards (ESRS) Exposure Drafts (EDs). Sustainability reporting standards need to be clear, purposeful and pragmatic, and avoid becoming a compliance exercise to be fit-for-purpose. We have responded in detail to the ESRS EDs in the [survey](#). Hereafter we highlight some overarching comments to the 13 ESRS EDs, which we believe will be of help to the European Commission (EC) to ensure EFRAG delivers high quality ESRS.

OVERALL APPROACH ON ESRS

TRANSITION TO MORE SUSTAINABLE BUSINESS MODELS

Companies of all sizes need to rapidly transform their business models if Europe is to become a green and sustainable economy. The real objective of the ESRS should be to become a tool for measurement to capture the changes in the business model and demonstrate its year-on-year transition to contribute to the European Green Deal objectives.

The necessary and robust internal processes whereby the reported data is collected are the backbone of reporting and in turn, assurance and enforcement. Standards should be simple, able to be operationalised to enable companies to design, implement and maintain such processes. In this spirit, we provide the below high-level comments on the ESRS EDs.

STRUCTURE

We support the overall proposed architecture of cross-cutting, topical, and sector standards. However, we are concerned with the complex and inconsistent internal structure in the ESRS EDs. For example, some EDs include an objective, some principles, some both, some none of these. Some disclosure requirements are preceded by an objective, others are not. Also, many sentences in the standards run for nearly 10 lines, which may impair the effectiveness of reporting, understandability and consistency.

In addition, we note that many ESRS EDs duplicate content, particularly on cross-cutting requirements. We strongly recommend all generic requirements in topical ESRS (i.e., on Strategy and Business Model, Governance and Materiality Assessment) be consolidated in ESRS 2 *General, strategy, governance and materiality assessment*.

Furthermore, clarity could be improved, including providing definitions for key terms and using consistent terminology throughout the EDs.

Lastly, the Application Guidance in the ESRS EDs includes additional disclosure requirements, rather than clarify how the requirements should or could be applied (which is the very purpose of guidance). In a similar vein, the Basis for Conclusions either repeat the disclosure requirements or include reference to other material, contrary to the objective of a Basis for Conclusion.

DOUBLE MATERIALITY

We fully support the double materiality approach and welcome the recognition that the starting point should be the assessment of impact materiality. Sustainability issues are dynamic and overlap: impacts to people and the environment often impact enterprise value, and where they do not (yet), they may over time.

We strongly suggest EFRAG defines and clarifies the relevant terminology related to double materiality as well as provides more application guidance and illustrative examples to help the implementation.

Particularly, we call for alignment of terminology and approach on the ‘financial materiality’ aspect of double materiality to the ‘enterprise value materiality approach’ as per the ISSB.

Rebuttable presumption

Accountancy Europe strongly advises against the use of the rebuttable presumption as it:

- undermines materiality judgements
- is not stipulated in the CSRD
- results in unnecessary costs in documenting and justifying what has been rebutted
- raises debates with auditors and regulators on what was rebutted and why
- causes information overload.

Instead, ESRS should provide more application guidance and examples on how to execute materiality judgements. Performed well, a materiality process will result in selecting the proper topics that a company should report on and therefore logically exclude the other non-material disclosures.

Granularity of standards

The EU has consistently followed a principles-based approach on reporting, where materiality is a key element. Accountancy Europe supports developing principles-based ESRS, which also include relevant requirements to incorporate European laws and regulations.

We find the ESRS EDs requirements too granular, particularly as the Application Guidance section provides further requirements rather than practical guidance. For example, the ESRS EDs have transformed to requirements many of the recommended and optional disclosures in the Global Reporting Initiative (GRI) Standards, without providing a rationale in the Basis for Conclusions why such information is relevant and should be required in ESRS.

Such granularity may impair effective reporting, obscure relevant information, and lead to a compliance exercise, particularly considering the lack of guidance for materiality judgements. This also does not serve ‘verifiability’ as an intended information quality. This problem will worsen when adding sector-specific or entity-specific disclosure requirements.

PHASING-IN PROPOSALS

We strongly advise EFRAG to reconsider which companies in which *sectors* should report what information about their *own company* and/or their *value chain*, and *when* they should report this information, following the final CSRD text, particularly:

- Article 19a(3) and Article 29a(3): *[...] For the first three years [...], in the event that not all the necessary information regarding the value chain is available, the undertaking shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans [...] to obtain such information in the future. [...]*
- Article 29b(2b): *Standards shall also take account of the difficulties [...] in gathering information from actors throughout their value chain [...]. Standards shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains [...].*

When adopting these new phase-in provisions, Accountancy Europe strongly suggests each standard to:

- Initially, prioritise critical disclosure requirements for each ESRS that capture the transformations or progress towards more sustainable business models. For this, EFRAG should make sure that these are truly sector-agnostic, avoid duplication and complexity of reporting, including transforming the Application Guidance into real practical guidance.
- Over time, add to those requirements the necessary disclosures that stem from and are needed to comply with EU legislation.
- Afterwards, add sector-specific disclosure requirements, which as per the CSRD should come into force after the sector-agnostic standards. In this step, EFRAG needs to reconsider which companies in which *sectors* should report what information *when*.
- Require the disclosure of *own company* data points, and gradually expand to value chain disclosures as per the CSRD. During the transitional phase, EFRAG should provide guidance on how to report reliable information from the value chain so that companies manage to build the necessary systems to do so.

DUE PROCESS RELATED TO THE DEVELOPMENT OF ESRS

At the end of April 2022, EFRAG launched 13 ESRS EDs at once, with the respective Basis for Conclusions (which help stakeholders understand the rationale of the proposals) following only a month later. These consultations, composed of 195 survey questions, have a comment period of only 100 days.

Moreover, these consultations do not cover two important parts of the Technical Advice that EFRAG will ultimately submit to the EC: the impact analysis and the digitalisation guidance. Both are important elements to determine the cost-benefits of the proposals, and should be out for consultation soon as stipulated in paragraph 2.16 of EFRAG's [Due Process Procedures: EU Sustainability Reporting Standard Setting](#).

Furthermore, we note that the Basis for Conclusion do not include a detailed and factual reconciliation between the ESRS EDs, the CSRD and related EU laws and regulations. A draft detailed reconciliation (as the CSRD was not yet finalised when the ESRS EDs were issued), should have been prepared and made public by the EFRAG PTF-ESRS to provide the rationale for many disclosure requirements. Moving forward, we strongly suggest that such working documents be made available to the EFRAG Sustainability Reporting Technical Expert Group (SR TEG) and Sustainability Reporting Board (SRB) to finalise and ultimately be included in the Basis for Conclusions.

All the above seriously compromise stakeholder engagement and could impair the usefulness and pertinence of the responses, and, at times, the possibility to respond with due consideration. This is the case for questions such as on cost-benefits and alignment with EU legislation where, even if stakeholders provided feedback, cannot replace the necessary analysis that should be done at EFRAG level.

After the consultation period, the EFRAG SR TEG and SRB will only have until November 2022 to analyse and discuss the responses received, deliberate on the necessary changes and prepare the technical advice on ESRS to the EC.

This severe time pressure, together with the associated volume and complexity, heightens the risk of compromising the EFRAG SR TEG's and SRB's abilities to arrive at quality standards. It also does not allow time for field-testing these proposals, which is an important step in standard setting. By comparison, other reporting standard setters, including EFRAG's own experience in providing

Technical Advice to the EC on the endorsement of IFRS, take well over 1 year and often 2 years to finalise a standard.

In addition, it puts into question whether a genuine due process can be followed. For example, we understand that many past meetings were working “on-call” rather than on the basis of a workplan. While efforts to address this are under way and meetings are being scheduled, it is important to have a concise workplan to facilitate planning and have effective discussions on the ESRSs’ development. We fear that the impossible deadlines and the pressures on the organisation are taking precedence over substance, quality and realism.

ACHIEVING GLOBAL ALIGNMENT

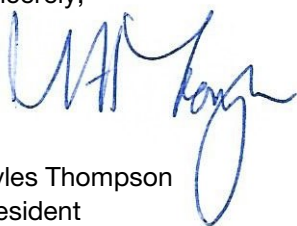
Accountancy Europe applauds and reiterates its support to the EC’s ambitions to global alignment as per the CSRD:

- recital 37 for ESRS to “*contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the ISSB*” and
- Article 29b(3)(a) “*[...]to the greatest extent possible take account of the work of global standard-setting initiatives [...], and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development*”.

We believe that the EC/EFRAG and the ISSB should enhance their collaboration and focus on outcome-oriented [bilateral coordination and cooperation](#). In addition, EFRAG should continue the already existing collaboration with GRI, which were instrumental when developing the ESRS EDs. International alignment, including of concepts, disclosure requirements objectives, structure and definitions with the ISSB and GRI from day one should be of paramount priority.

Accountancy Europe remains committed to advancing the sustainability agenda and has provided responses to the ESRS EDs based on the accountancy profession’s expertise. Please do not hesitate to contact Olivier Boutellis-Taft at olivier@accountancyeurope.eu or +32 477 96 15 64 to engage further on this crucial matter. We are ready to discuss any of the matters raised in further detail or provide help in developing them further.

Sincerely,



Myles Thompson
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

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