

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

Sent via email

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

Jean Paul Gauzès, President EFRAG
Saskia Slomp, Chief Executive Officer
EFRAG

Brussels, 20 April 2022

Subject: Development of purposeful and effective sustainability reporting standards

Dear Commissioner McGuinness,

The recently released United Nations Intergovernmental Panel on Climate Change (IPCC) [report](#) again shows that there is no time to lose. Accountancy Europe [fully supports](#) the European Green Deal ambitions to turn Europe into the first climate neutral continent by 2050.

Companies of all sizes need to rapidly transform their business models if Europe is to become a sustainable economy. Corporate reporting, as part of a larger legislative package that encompasses supply chain due diligence and circular economy issues, will help companies, financial markets, policymakers, and other stakeholders support and drive this necessary transformation. For that purpose, sustainability reporting standards need to be clear, purposeful and pragmatic in order to avoid becoming a mere compliance or academic exercise.

Accountancy Europe is committed to making sure that Europe meets its ambitious sustainability objectives and uses companies' reporting and assurance thereon as important means to this end. Furthermore, we encourage the European Union (EU) to seize the current window of opportunity to work towards an accepted global baseline for reporting sustainability information.

Below, we provide some important comments that we believe need to be addressed in order for the European sustainability reporting standards (ESRS) to be a successful tool for the EU.

Meeting the Green Deal's objectives

The European accountancy profession is becoming concerned that ESRS disclosure requirements, as currently appearing in the European Financial Reporting Advisory Group's (EFRAG) Project Task Force (PTF) Working Papers (WP), will not help meet the Green Deal's objectives.

To be effective, reporting needs to capture information measuring what really matters. It will then enable the transition to circular and sustainable business models, and direct investment towards sustainable businesses. For this to happen, standards need to be easy to understand and apply. Too complex or burdensome reporting systems risk generating unhelpful pushback and slowing down adoption.

As they stand, the ESRS WP appear very prescriptive and include hundreds of datapoints. They oblige to perform lengthy materiality assessments and may drive companies to adopt a checklist approach rather than a sustainability-driven one.

Adhering to a robust due process

The first public ESRS consultations will send out important signals to stakeholders and will create the basis of support for future adoption. Whilst we understand the time pressure for the EU to follow its commitment, we emphasise the strategic importance for EFRAG to adhere to its [due process procedures for sustainability reporting standard setting](#), especially in terms of allowing sufficient time to respond to the exposure drafts. A robust due process and strong governance ensure stakeholder inclusiveness and public acceptance, and therefore legitimise standards.

Enabling principles-based ESRS

The European Commission (EC) [invited](#) EFRAG to develop ESRS consistent with the Corporate Sustainability Reporting Directive (CSRD) and the European Lab's initial [recommendations](#). These recommendations emphasised two overarching principles to standard-setting:

- an inclusive range of sustainability reporting stakeholders; and
- a principle-based legal and regulatory environment

We acknowledge that ESRS should include relevant requirements of European laws and regulations. Nevertheless, it should still be compatible with a principles-based approach. Indeed, the EU has consistently followed a principles-based approach for financial reporting, including endorsed IFRS. We see no reason to differ for sustainability reporting, especially as it is expected that connectivity between the two forms of reporting will increase.

Phased-in approach

To build standards that would result in transforming companies' business models and meeting the Green Deal's objectives, a phased-in approach is needed. For instance, in the first year, companies could be required to report on a select number of key indicators, starting with the most important ones on climate, and add further relevant reporting obligations in the subsequent years.

Enabling assurance

The CSRD proposal includes an EU-wide requirement for independent third-party assurance. For this assurance to be suitable, we re-emphasise the need for clear and efficient reporting standards, in the first place to avoid risks of green washing.

Achieving global alignment

We [reiterate](#) our support for the EC's objective to "*build on what exists, and seek as much alignment as possible, while also meeting Europe's ambitious goals*". Global alignment would also help EU companies that need to comply with other foreign climate-related disclosures that would allow the use of international ones.

With this in mind, we have also recently looked at the general requirements, as well as the climate-related requirements in both EFRAG's ESRS WP and the International Sustainability Standards Board

(ISSB) prototypes. We bring to your attention certain potential significant matters, which may unnecessarily impair outputs' convergence:

- Different terminology, definitions and concepts - to work towards alignment, it is first important to use internationally recognised terms.
- Different disclosure requirements objectives and structure - as a matter of principles, where there are no differing objectives between Europe and the ISSB, convergence should be sought, from both sides.

Way forward in developing ESRS

Considering these strategic points, the proposed ESRS might need to follow an iterative process of improvement at an early stage to ensure they facilitate meeting the European Green Deal objectives, as well as align with the upcoming international sustainability reporting standards.

Accountancy Europe remains committed to advancing the sustainability agenda and will provide the accountancy profession's expertise during the upcoming public consultation period. 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 provide you with illustrative examples backing up the points raised above.

Sincerely,



Myles Thompson
President



Olivier Boutellis-Taft
Chief Executive

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