POSITION PAPER

Consultation Document

EFRAG public consultation on draft ESRS

ESBG (European Savings and Retail Banking Group)

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ESBG

1A. Overall ESRS Exposure Drafts' relevance – Architecture

Cross-cutting and topical standards

To facilitate a coherent coverage of the CSRD topics and reporting areas (as per Article 19a paragraph 2 and Article 19b paragraph 2 – see Appendix II) the Exposure Drafts ("EDs") submitted for public consultation are based upon two categories of standards:

- **Cross-cutting ESRS which**:
  - i) Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions;
  - ii) Mandate disclosure requirements ("DRs") aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics.
- **Topical ESRS which, from a sector-agnostic perspective**:
  - i) Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment;
  - ii) Mandate DRs about the undertaking's implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources);
  - iii) Mandate performance measurement metrics.

A full list of standards and whether they are cross-cutting standards or topical standards can be found in Appendix I.

CONSULTATION QUESTIONS

1 **Question 1: in your opinion, to what extent do the structure and articulation of cross-cutting and topical standards adequately support the coverage of CSRD topics and reporting areas? Please explain your reservations or your suggestions for improvement or any other comment you might have.**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	
4/ Fully	X
5/ No opinion	

Alignment and interoperability with international standards and frameworks

CSRD Article 19b paragraph 3a requires that "When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting, responsible business conduct, corporate social responsibility, and sustainable development."

ESRS EDs were drafted accordingly, with the objective of fostering as much alignment as possible considering the constraints imposed by other provisions included in articles 19a and 19b as per the CSRD proposal. Details of these provisions and how they are covered by the ESRS EDs can be found in Appendix I.

The structure and organisation of the reporting areas was one aspect of alignment to which particular attention was paid. Thus, the two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics (as considered by the TCFD and source of inspiration for the IFRS Sustainability standards). A detailed mapping of the ESRS EDs disclosure requirements with TCFD recommendations and with IFRS Sustainability Exposure Drafts can be found in Appendices 5 and 6.

2 **Question 2: in your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS? Please explain your reservations or your suggestions for improvement or any other comment you might have.**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	
4/ Fully	X

5/ No opinion	

3 **Question 3: in your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts? Please explain your reservations or your suggestions for improvement or any other comment you might have.**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	We appreciate EFRAG's efforts to foster as much compatibility with ISSB Standards as possible. Despite the fact that the ESRS seeks alignment with international reporting initiatives, it is especially crucial to achieve full alignment with Sustainability Standards issued by the ISSB, given its potential to become a global playing field in terms of sustainability reporting. EFRAG should ensure that all undertakings reporting under ESRS are also compliant with ISSB Standards. This convergence between both standards will: - Achieve international comparable sustainability information. - - Ease the burden for those companies that operate in different jurisdictions and seek to design consistent reporting to meet the needs of global investors and jurisdictional requirements. Even for those undertakings not operating in different jurisdictions, if international reporting standards are not consistent stakeholders and global investors will impose this convergence to preparers. EFRAG and ISSB should reach a common baseline field of Disclosure Requirements. Divergences between both initiatives (ESRS and ISSB Standards) should be clearly identified and mapped. At this stage it is not possible to assess whether future developments of ISSB Standards will be aligned with ESRS.
4/ Fully	

5/ No opinion	

Consideration given to EU policies and legislation

Article 19b paragraph 3 of the CSRD also requires that "When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of:

> *(a) the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation**; Sustainable Finance Disclosure Requirements;***
>
> *(b) the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852; **Taxonomy Regulation**;*
>
> *(c) the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818; **Benchmark Regulation**;*
>
> *(d) the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; **Prudential requirements for Credit Institutions and Investment Firms;***
>
> *(e) Commission Recommendation 2013/179/EU; **European Commission recommendation on the life cycle environmental performance of products and services**;*
>
> *(f) Directive 2003/87/EC of the European Parliament and of the Council; **GHG allowance Directive**;*
>
> *(g) Regulation (EC) No 1221/2009 of the European Parliament and of the Council; **EMAS regulation**.*

4 Question 4: in your opinion, have these European legislation and initiatives been considered properly? Please explain your reservations or your suggestions for improvement or any other comment you might have.

1/ Not at all	
2/ To a limited extent with strong reservations	Policymaking in key areas of sustainability reporting for financial institutions is decentralised in the EU. Taking aside application and interpretation challenges from EU Taxonomy and SFDR, we welcome EFRAG's approach to include them in sector-agnostic ESRS as it is considered that this information shall be reported by companies in the value chain and collected by financial institutions to meet the reporting obligations of the latter. However, this approach is not followed for other binding disclosure requirements applicable to financial institutions, such as Pillar 3 disclosures on ESG risks. ESRS already include quantitative disclosure requirements that cover Pillar 3 disclosures on ESG risks. More clarity and guidance is needed to avoid overlaps and duplicities. We also encourage EFRAG to allow incorporation by reference to Pillar 3 reports or embed them in ESRS in the same way as SFDR and EU Taxonomy via: - Reconciliation on how Pillar 3 disclosures on ESG risks are included in ESRS Disclosure Requirements. - Addition of those Pillar 3 disclosures on ESG risks that are not already covered by existing ESRS Disclosure Requirements.

	This approach will allow to: - Have a single set of standards with all binding disclosure requirements stemming from EU legislation. - Comply with the mandate stemming from CSRD to take into account Prudential requirements for Credit Institutions and Investment Firms when adopting delegated acts. - Allow that undertakings in the value chain of financial institutions prepare sustainability information to be collected by the latter to comply with their own reporting obligations. In addition, we are concerned that the rebuttable presumption principle (leading to not disclosing certain mandatory individual disclosure requirements or data points) and the determination of entity-specific disclosures could not be appropriate for principal adverse impacts (PAI) disclosures under the SFDR. Under the SFDR, institutions need to collect information from product manufacturers to comply with the relevant disclosure requirements. We are concerned that the application of the rebuttable presumption principle on SFDR disclosures under ESRS 1 could negatively impact the collection of such information from the investees. Finally, we would like to highlight that disclosure requirements contained in ESRS overlaps with national legislation applicable to member states with different first application dates, providing uncertainty and implementation challenges. The European Commission should avoid fragmentation in policy-making on sustainability aspects.
3/ To a large extent with some reservations	
4/ Fully	
5/ No opinion	

5 **<u>Question 5: are there any other European policies and legislation you would suggest should be considered more fully?</u>**

Coverage of sustainability topics

Article 19b paragraph 2 of the CSRD proposal defines the sustainability subject matters (referred to as sustainability topics or subtopics in the ESRS) that the sustainability reporting standards shall address when defining the sustainability information required by article 19a paragraphs 1 and 2.

The ESRS architecture was designed to cover all the detailed subject matters listed in article 19b paragraph 2 for environment-, social- and governance-related matters and to ensure that sustainability information is reported in a carefully articulated manner.

In terms of timing of adoption of European sustainability reporting standards, article 19b paragraph 1 of the CSRD requires the Commission to adopt:

- a first set of sustainability standards covering the information required by article 19a and at least specifying information needed by financial market participants subject to the SFDR reporting obligations
- a second set of standards covering information that is specific to the sector in which undertakings operate.

Also, article 19c of the CSRD proposal on sustainability reporting standards for SMEs requires the Commission to adopt SME-proportionate standards in a second set.

As a consequence, as per article 19b paragraph 1, are only included in this first set of ESRS Exposure Drafts:

(i) the two cross-cutting standards on General principles (ESRS 1) and on General, strategy, governance and materiality assessment (ESRS 2)

(ii) the eleven topical (sector-agnostic) standards covering environment- (ESRS E1 to E5), social- (ESRS S1 to S4) and governance-related (ESRS G1 and G2) sustainability topics.

A detailed list of ESRS EDs can be found in Appendix I. And the detailed provisions of the CSRD and how they are covered by the ESRS EDs can be found in Appendix II.

6 **<u>Question 6: in your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics? Please explain your reservations or your suggestions for improvement or any other comment you might have.</u>**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	
4/ Fully	X

5/ No opinion	

7 Question 7: in your opinion, to what extent does the proposed coverage of set 1 (see Appendix I) adequately address SFDR reporting obligations? If you think this coverage and its implementation could be improved in any way, please specify how and to what specific SFDR indicator your comment relates

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	We welcome EFRAG's approach on how SFDR reporting obligations are included in ESRS. However, we are concerned that the rebuttable presumption (leading to not disclosing certain mandatory individual disclosure requirements or data points) and the determination of entity-specific disclosures could not be appropriate for principal adverse impacts (PAI) disclosures under the SFDR. Under SFDR, institutions need to collect information from product manufacturers to comply with the relevant disclosure requirements. We are concerned that the application of the rebuttable presumption principle on SFDR disclosures under ESRS 1 could negatively impact the collection of such information from the investees.
4/ Fully	
5/ No opinion	

Sustainability statements and the links with other parts of corporate reporting

For clarity and ease of use, standardised sustainability reporting shall be easily identifiable within the management report (MR). To that effect, ESRS 1 – General principles (paragraphs 145 to 152) prescribes how to organise the information required by ESRS. It offers three options (paragraphs 148 and 149) for undertakings to consider when preparing their sustainability reporting:

- a single separately identifiable section of the MR;
- four separately identifiable parts of the MR:
  - (i) General information;
  - (ii) Environment;
  - (iii) Social;
  - (iv) Governance
- one separately identifiable part per ESRS in the MR.

The first option is the preferred option. When applying the other two options the entity shall report a location table to identify where disclosures are presented in the MR.

In order to foster linkage throughout the undertaking's corporate reporting, ESRS 1 also:

- prescribes that the undertaking adopts presentation practices that promote cohesiveness between its sustainability reporting and: (a) the information provided in the other parts of the management report, (b) its financial statements (FS), and (c) other sustainability-related regulated information (paragraphs 131 to 134)
- promotes the incorporation of information by reference to other parts of the corporate reporting in order to avoid redundancy (paragraphs 135 and 136)
- organises connectivity with the financial statements by prescribing how to include monetary amounts or other quantitative data points directly presented in the financial statements (paragraphs 137 to 143).

8 **<u>Question 8: Do you agree with the proposed three options?</u>**

Yes	X
No	
No opinion	

9 **<u>Question 9: would you recommend any other option(s)? If so, please describe the proposed alternative option(s)</u>**

10 **<u>Question 10: in your opinion, to what extent do you believe that connectivity between the sustainability reporting and other parts of the management report has been appropriately addressed?</u>**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	Further explanation is needed with regard to the cross-referencing of the disclosure requirements steaming from the cross-cutting and topical standards.
4/ Fully	
5/ No opinion	

11 **Question 11: in your opinion, to what extent does the incorporation of information in the Sustainability section by reference to other parts of the management report support cohesiveness throughout corporate reporting? Please explain your reservations or your suggestions for improvement or any other comment you might have**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	We believe that the draft ESRSs should allow to incorporate by reference in the sustainability reports, not only to another section of the management report, but to other information published through the website, prospectus, legal information or other means to avoid a great burden for undertakings and creating lengthy corporate information where duplicated information across documents obscure the substance of sustainability information. In practice there might eventually be overlaps on Governance topics from listed companies, where Disclosure Requirements contained in ESRS are already included in other documents that are not always integral part of the management report but published on the corporate website (e.g. annual corporate governance report, remuneration report, etc.). We also find that there might be overlaps with information included in Pillar 3 Report. As a consequence, incorporation by reference should be allowed to this report.
4/ Fully	
5/ No opinion	

12 **Question 12: in your opinion, to what extent do the requirements and provisions on how to include monetary amounts and other financial statement-related quantitative data into sustainability reporting support connectivity with the financial statements? Please explain your reservations or your suggestions for improvement or any other comment you might have**

1/ Not at all	
2/ To a limited extent with strong reservations	
3/ To a large extent with some reservations	Further application guidance would be welcome on how to apply in practice connectivity between sustainability reporting and financial statements, especially on how to manage the divergence criteria between financial and sustainability information and the reconciliations required by ESRS: - *Financial information*. Internal transactions with entities belonging to the same group are eliminated in the process of accounting consolidation. - *Sustainability information*. Significant internal transactions must be reported. Given this criteria divergence it will be unfeasible to make a direct reconciliation required by ESRS between sustainability information (that includes internal transactions) with the figures included in financial statements (that do not include internal transactions).
4/ Fully	
5/ No opinion	

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

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