

EFRAG consultation on its first set of Draft European Sustainability Reporting Standards

Position – Executive summary

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The European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) envisages the adoption of EU Sustainability Reporting Standards (ESRS). In this context, EFRAG was mandated to provide Technical Advice to the European Commission in the form of fully prepared draft standards and/or draft amendments to Sustainability Reporting Standards. Following from this, EFRAG launched a [consultation](#) on its first set of draft ESRSs covering general principles and disclosure requirements pertaining to strategy, governance and materiality assessment. Moreover, it covers ESG factors with disclosure requirements encompassing climate change, workers in the value chain as well as governance, risk management and internal control. EFRAG is expected to publish its final Exposure Drafts by November 2022, in line with the Commission deadline.

CONSISTENCY BETWEEN ISSB STANDARDS AND EFRAG ESRSs

ESBG believes that it is crucial to achieve consistency of sustainability reporting at global level and especially a full alignment of reporting requirements between ISSB standards and EFRAG European Sustainability Reporting Standards (ESRSs) in order to ensure a global playing field in terms of sustainability reporting. This convergence between both standards will address the risk of additional disclosures.

PROPORTIONALITY

ESBG highlights the lack of proportionality with respect to reporting requirements. In ESBG's view, some reporting requirements are disproportionate for unlisted/smaller companies in terms of the type, scope and level of detail of the information requested. The reporting standards should take into account the specifics of the European banking market. For example, options could be provided as to which reporting requirements are optional.

IMPLEMENTATION CHALLENGES / PHASE-IN

ESBG considers that the data availability issue is the most critical challenge for financial institutions, as they rely on the information provided by different types of counterparties with different abilities to disclose sustainability information, mainly driven by the size of the corporation. From the preparer perspective, the concept of value chain and boundaries is not mature enough. Taking into consideration the above, ESBG proposes two phase-in solutions that are mutually complementary: i) first year reporting on own operations and gradual reporting on information from the value chain and ii) prioritization of climate topics and gradual consideration of other environmental, social and governance topics.

DOUBLE MATERIALITY PRINCIPLE

ESBG believes that there is not enough guidance on how to apply the double-materiality principle. The Exposure Drafts and the accompanying guidance are not sufficiently clear and understandable to allow for appropriate and consistent application. The methodology on how to calculate double materiality, the distinction between qualitative or quantitative materiality, the disclosure of material issues in the management report as well as several terms used in the Exposure Drafts, such as financial materiality, impact materiality etc. and the interactions between them need to be clarified and more guidance needs to be given to specific sectors in due time.

VALUE CHAIN INFORMATION

It is difficult to obtain information from companies that are not under the control of the institution (e.g. associate companies). ESBG is concerned that the EFRAG standards do not put any limits in the value chain or do not allow at least an opening for such limitations (in contrast with the CSDD, that some limits are introduced). Therefore, a phase-in period of 2 years must be granted to financial undertakings to allow them to adapt their processes to collect the necessary information from their value chain.

CLIMATE CHANGE ADAPTATION DISCLOSURES

Climate adaptation disclosure requirements are sector specific not sector agnostic. Given that climate change adaptation is not significant for the financial industry two options are proposed: i) all disclosure requirements regarding climate change adaptation should be moved to the upcoming sector specific standards, ii) comply or explain approach: after every reference to climate change adaptation disclosures in the environmental – sector agnostic standards, the legislators should add “where applicable” or “where relevant” to ensure that banks wouldn't need to disclose information that are irrelevant.

SCOPE 3 GHG EMISSIONS

ESBG believes there is a need for comparable and common methodology as well as respective guidance is when it comes to the disclosure of Scope 3 GHG emissions.

[READ THE FULL DOCUMENTS HERE](#)