



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

sent via email

Subject: Need for a phased approach to the development of EU Sustainability Standards

Brussels, 27-09-2022

Dear Commissioner McGuinness,

As member associations of the European Financial Reporting Advisory Group's (EFRAG) General Assembly, we are committed to supporting the transition to a more sustainable economy and to tackling climate change as a matter of utmost priority. We strongly support the EU's objective of transforming Europe into the first climate-neutral continent by 2050 and are ready to contribute as representatives of the broader economy.

We share the European Commission's ambitious objective of developing a robust and proportionate sustainability reporting framework via the Corporate Sustainability Reporting Directive (CSRD), which can help provide greater transparency about the way companies operate and manage social and environmental challenges. The European Single Access Point (ESAP) is also key to avoid excessive costs in accessing and using the data arising from the CSRD.

We welcomed that the CSRD assigns EFRAG the role of developing European sustainability reporting standards (ESRS). We also commend the impressive work already being carried out by EFRAG in developing the ESRS, especially given the limited time allocated and resources available.

While we agree that the ESRS should ultimately cover all sustainability-related information to support an effective transition, we do not believe that seeking exhaustivity is necessary to that end. To be practical and efficient, EFRAG should not aim to deliver advice on all the draft standards by November this year. With the consultation covering 137 disclosure requirements which translate into over 600 reporting elements and with over 700 responses to consider, we believe EFRAG needs more time to reflect the significant stakeholder feedback and to submit in-depth advice of a suitable quality on the entire scope of the draft standards. Time is also needed to carry out the urgent and important work to achieve an outcome whereby companies complying with the ESRS de facto also comply with ISSB standards.

There is, therefore, an urgent need for EFRAG to adopt a phased approach in the development of the ESRS and for the Commission to also phase their adoption. This is because, given the time and resource constraints, attempting to deliver comprehensive advice on all disclosure requirements in November prioritises quantity to the detriment of quality.

Our associations see a clear benefit in adopting a phased approach to guarantee the necessary proportionality of the ESRS and their usability, for both preparers, as well as users. We fear that failing to provide high-quality standards would, conversely, put the reputation of EFRAG and the quality of sustainability reporting at risk.

EFRAG should deliver a limited set of crucial ESRS by November this year. After this they should agree on a detailed plan to deliver the rest of the first set of standards and all the other deliverables required by the CSRD. This will deliver at least minimum requirements by the required deadlines. As a priority, EFRAG should focus on a necessary set of data points within each standard needed for compliance with existing EU mandatory reporting requirements, taking into account the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy regulation and the Banking Capital Requirements Regulation (CRR). Following delivery of this first advice, a



concrete plan should be agreed to deliver on the other sector agnostic disclosure requirements and datapoints. It is crucial to consider a phased approach also for the next set of deliverables. This plan should take into account the minimum legal requirements of the CSRD text but also the necessary/available EFRAG resources, other expert input and the time needed for Technical Expert Group (TEG) and Sustainability Reporting Board (SRB) input, review and governance processes.

Such a phased approach would also allow EFRAG to better contribute to the finalisation of the International Sustainability Standards Board's (ISSB) standards to ensure maximum alignment and compatibility of the ESRS and the ISSB standards.

We believe that such an approach is not in conflict with the CSRD text. We therefore ask the Commission to clarify to EFRAG the flexibility that exists and encourage a phased approach to ensure the success of the CSRD implementation and Europe's sustainability goals.

Our associations remain committed to advancing the sustainability agenda and to providing our expertise via EFRAG's standard setting activities. We would welcome an opportunity to discuss this crucial matter with you, so please do not hesitate to contact us if you or your staff have any questions.

Yours sincerely,

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