European Commission consultation on the draft Delegated Act concerning EFRAG's Set 1 ESRS

High-level position paper – Executive summary

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The European Savings and Retail Banking Group (ESBG) submitted its response to the consultation launched by the European Commission on the draft Delegated Act for the first set of European Sustainability Reporting Standards (ESRS). This act supplements the Accounting Directive as amended by the Corporate Sustainability Reporting Directive, which requires large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. This first delegated act sets out cross-cutting standards and standards for the disclosure of environmental, social and governance information. The Commission plans to adopt the Delegated (DA) in July, so then they can start the legal scrutiny period. The final adoption is envisaged to be by the autumn of 2023.

Expanded materiality assessment vs. mandatory disclosures

The expanded materiality assessment in sustainability reporting is seen as a positive step as it allows companies to focus on relevant environmental, social, and governance (ESG) issues while avoiding the reporting of non-relevant information. However, there is concern that this approach may result in the omission of important information required for regulatory purposes, such as climate-related disclosures, greenhouse gas (GHG) emissions, and Sustainable Finance Disclosure Regulation (SFDR) Principle Adverse Impact (PAI) disclosures, which should remain mandatory. Balancing the materiality approach with the need for comprehensive disclosures is crucial. ESBG suggests maintaining mandatory climate disclosure indicators and topics, including GHG emissions and climate targets, as well as retaining mandatory environmental and social disclosures necessary for SFDR compliance and Pillar 3 disclosure requirements. It also proposes reconsidering the voluntary nature of certain disclosures, such as those related to biodiversity and a company's own workforce.

Phase-in of certain disclosure requirements

ESBG supports the intention of reducing the disclosure requirements on SMEs and expanding the flexibility on introducing the disclosure requirements. However, the new suggested phase-in approach risks making the implementation of the requirements more complex and less understandable and could potentially end up having the opposite of the desired effect. Moreover, if the expanded materiality assessment is kept for the ESRS, the need for further phase-in of the requirements is reduced further.

ESRS vs. CSDDD

To ensure regulatory consistency and avoid duplication, ESBG recommends aligning the ESRS with the upcoming Corporate Sustainability Due Diligence Directive (CSDDD) and using a single definition based on the CSDDD for reporting purposes. This should consider clarifications on the value chain composition of credit institutions and allow for simplified disclosures and transitional provisions due to limited data availability.

CSRD vs. ESRS

The CSRD mandates the disclosure of a company's business model and strategy, including plans and investments, to ensure alignment with a sustainable economy and the Paris Agreement's global warming limit. However, under the ESRS, the requirement to disclose a transition plan will be evaluated for its materiality, and there is a need for clarity on the priority between CSRD and ESRS disclosure requirements.

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