PRESS RELEASE

EUROSIF CALLS FOR AMBITIOUS EU SUSTAINABILITY REPORTING STANDARDS (ESRS)

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Eurosif - The European Sustainable Investment Forum - calls on the European Commission to retain the ambition of the European Sustainability Reporting Standards (ESRS) reflected in the final EFRAG proposals of November 2022.

On Friday 9th June, the European Commission published the draft Delegated Act laying down the contents of the first set of European Sustainability Reporting Standards (ESRS) as required by the Corporate Sustainability Reporting Directive (CSRD)[1] adopted in December 2022. The text of the draft Delegated Act and both its Annexes are available for public consultation until 7th July 2023.

Eurosif is very concerned with the European Commission's latest changes to the draft standards, which mark a significant setback in ambition compared to the final recommendations published by EFRAG in November 2022.

The development of robust and comprehensive ESRS, based on the double materiality principle and covering environmental, social and governance matters, is strongly supported by Eurosif. These standards are key to solving the corporate sustainability data gaps as well as to improving the quality, reliability and comparability of these disclosures.

However, the proposed draft Delegated Act renders all ESRS standards, disclosure requirements and data points subject to a materiality assessment. Combined with the added flexibility authorised by the Commission for these assessments, this would effectively allow companies to leave out entire parts of their sustainability disclosures.

This goes against EFRAG's final technical advice recognising the aforementioned disclosures as always being material**,** which were agreed upon by representatives of companies (preparers), investors, other financial market participants and civil society. It should also be noted that EFRAG proposals for ESRS Set 1, before they were submitted to the European Commission in November 2022, were nearly halved[2] following the public consultation last year.

If adopted as such, this draft Delegated Act **risks undermining the effectiveness of the CSRD as well as the implementation and coherence of the EU sustainable finance framework.**

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464

[2] The number of disclosure requirements was reduced from 136 to 84 (-40%) and the number of datapoints has been reduced from 2161 to 1144 (-47%). Source: EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft European Sustainability Reporting Standards of 15 November 2022.

Investors and other financial market participants need reliable and comparable sustainability-related corporate disclosures to make informed investment decisions and to comply with their own regulatory requirements stemming from the Sustainable Finance Disclosure Regulation (SFDR), Benchmark Regulation, and Pillar 3 disclosure requirements.

Furthermore, making some of the most essential climate disclosures – including indicators on GHG emissions, climate targets and transition plans – subject to a materiality assessment is inconsistent with the EU Commission's commitment to deliver on the objectives of the European Green Deal and EU Climate law.

Making some disclosures fully voluntary, such as why a sustainability topic would not be deemed material, or those related to biodiversity and own-workforce, can also be questioned.

Aleksandra Palinska, Eurosif's Executive Director, commented: "*It is regrettable that this Draft Delegated Act disregards the balanced agreement found within EFRAG structures between a representative panel of expert stakeholders and following a lengthy due process. In its current shape, this draft neglects in particular the concerns expressed for years by investors and financial institutions, calling for improved availability of comparable and reliable corporate sustainability disclosures."*

Palinska added: *"We acknowledge the challenges preparers will face when complying with the ESRS. However, the EU Commission should not prioritise reducing reporting requirements at the expense of the public interest and other stakeholders, including of investors and financial institutions in dire need of sustainability information to comply with their own regulatory requirements. If not amended, this draft Delegated Act will hinder the capacity of investors to make informed sustainable investment decisions and risks jeopardising EU commitments to deliver on the EU's Green Deal and Climate Law ambitions."*

Overall, Eurosif calls on the European Commission to reconsider its latest changes and to follow the final EFRAG recommendations, which were already the result of a compromise between preparers, financial market participants, including investors, and civil society. Specifically, we urge the European Commission to:

- Maintain mandatory key climate disclosure indicators and topics, including Scope 1, 2, and 3 GHG emissions, climate targets and transition plans;
- Keep mandatory key environmental and social disclosures necessary to comply with the SFDR, the Benchmark Regulation and Climate Benchmark Delegated Acts, as well as Pillar 3 disclosure requirements;
- Reconsider the voluntary nature of certain disclosures, including on why a specific sustainability topic would not be deemed material, as well as on biodiversity and own workforce.

- Ends -

Notes to editors

Background information

The main changes, compared to the EFRAG proposals submitted to the European Commission in November, include:

- All disclosure requirements are to be subject to materiality assessment (apart from ESRS 2 and fully voluntary disclosures), including disclosures on climate, own-workforce, SFDR, EU climate benchmarks and Pillar III-related disclosures which in the EFRAG proposals were always considered material and hence mandatory.
- Certain disclosures, in particular on scope 3 GHG emissions, biodiversity and social matters, are to be phased in over time, some for all companies in scope, some for companies with less than 750 employees.
- Increased number of voluntary disclosures. This includes explanations of why a topic is not considered material, biodiversity transition plans and certain own work force disclosures, particularly regarding non-employees.
- Additional flexibility by raised thresholds and changed definitions, as well as in materiality assessment disclosures requirements.

Next steps

- Eurosif will respond to the public consultation on this Delegated Act voicing its concerns.
- After the 4-week consultation period, the Delegated Act will be officially adopted subject to scrutiny of the European Parliament and the Council of the EU which will have 2 months (which can be extended by 2 additional months) to examine the delegated acts. Once adopted, the European Sustainability Reporting Standards will apply for data gathered as of January 2024 with first reports published in 2025 for the first companies following a phased in approach[3].

Eurosif positions on CSRD and ESRS

- Joint statement on the need to get improved corporate sustainability data by 2024 (January 2022)
- Joint sustainable investment industry letter on CSRD (April 2022)
- Eurosif response to the EFRAG consultation on the ESRS (August 2022)
- Press release on Set 1 ESRS (November 2022)
- Joint Open Letter on ESRS (February 2023)
- Joint letter to the European Commission on the CSRD and ESRS Set 1 (April 2023)

[3] During the first year of the rules' application, only companies in the scope of the Non-Financial Reporting Directive (NFRD), meaning public interest companies with more than 500 employees, will be subject to the reporting obligation.

About Eurosif

Eurosif is the leading pan-European association promoting sustainable finance at the European level - encompassing the European Union (EU), the wider European Economic Area (EEA) and the United Kingdom (UK). Eurosif is a partnership comprised of Europe-based national Sustainable Investment Fora (SIFs). Each of the SIFs has a broad and diverse membership including asset managers, institutional investors, index providers and ESG research & analytics providers. Eurosif's activities involve contributing substantively to public policy and conducting research that enables a better understanding of ESG and SRI markets and the obstacles encountered by sustainability-oriented investors.

Eurosif and its members are committed to the growth and development of sustainable finance and support the ambition of global and European policymakers in enabling a fully transparent and reliable sustainable investment market through appropriate and well-designed regulation and industry practice. If you wish to find out more, please visit our website at www.eurosif.org.

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