Eurosif response

European Commission consultation on the postponement of deadlines for sector specific & non-EU companies ESRS

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Summary

Eurosif welcomes the opportunity to respond to the European Commission's public consultation on the decision to postpone the deadline to adopt sector-specific European Sustainability Reporting Standards (ESRS) and the standards for certain third-country undertakings by two years.

Eurosif understands the decision of the European Commission to postpone the legal deadline for the adoption of sector specific standards by 2 years. However, we highlight the need for their timely and appropriate development and adoption. Sector-specific standards are expected to support reporting undertakings in developing comparable and meaningful disclosures and to better identify and disclose material sustainability information.

For this purpose, Eurosif calls on the European Commission to:

1. Guide and oversee the well-sequenced and timely development of sector specific ESRS. We also caution against developing standards for financial institutions before standards for other sectors are completed to avoid inconsistencies and overlaps with sectoral financial regulations.
2. Reflect on whether the deadline for the ESRS for third-country undertakings is appropriate given their later application.
3. Publish a clear timeline for the development of the remaining sector specific ESRS.
4. Ensure adequate resources for EFRAG to enable quality and timely delivery of all the expected outcomes.

Main considerations

Improved availability, comparability, quality, and reliability of sustainability-related corporate disclosures has been a longstanding ask from financial institutions and particularly from investors, as it will enable them to make better informed investment decisions. Robust and comparable sustainability-related disclosures are an essential prerequisite to mobilise finance towards the just transition to a net zero economy. The recent adoption of sector-agnostic European Sustainability Reporting Standards (ESRS) is a very welcome step in that direction.

However, to further improve corporate sustainability-related disclosures, the adoption of high-quality sector-specific European reporting standards is now needed. Sector-specific standards would support reporting companies in implementing sector-agnostic standards by clarifying which disclosures are material for their sector and by providing further clarity regarding how these must be made to ensure their compatibility and usefulness in investment decisions. As such, it can be argued that sector-specific standards can facilitate reporting burdens for companies.

Eurosif appreciates that the initial deadline for the development of the first batch of sector-specific ESRS set in the Corporate Sustainability Reporting Directive (CSRD) was overly optimistic given the length and complexity of the standard-setting process, EFRAG's limited resources, and the need to prioritise development of the application guidance to support implementation of the first set of ESRS.

Therefore, Eurosif understands the decision of the European Commission to postpone the legal deadline for the adoption of sector-specific standards by 2 years. Consequently, we also acknowledge the rationale for postponing the standards for certain third-country undertakings, while noting that the CSRD requires their application as from the 2028 financial year for first reports in 2029.

At the same time, we would like to emphasise the need for a well-thought through sequence, and timely development and adoption of sector specific ESRS. Their development and adoption should feature among the priorities in the European Commission's workplan for the next mandate, for the following reasons:

I. Sector-specific disclosures are expected to support companies from specific sectors in performing materiality assessment and deciding which disclosures are particularly relevant for them. Moreover, the sector-agnostic ESRS do not specify the detailed sector-specific content of disclosures for complex topics such as decarbonisation, biodiversity, or human rights. Sector-specific disclosures are therefore needed to provide more clarity and support the reporting companies in identifying and disclosing material sustainability information. This is expected to facilitate the standards' implementation and reduce associated costs.

II. High-impact sectors hold a key role in the transition towards a sustainable economy. Ensuring the adaptation of their business models is essential to meet important climate-related goals such as the objectives of the Paris Agreement and the 2030 and 2050 EU climate targets. Meaningful and comparable sector-specific disclosures are indispensable to assess the credibility of companies' transition pathways and enable informed investment decisions.

For these reasons, Eurosif calls on the European Commission to:

1. Guide and oversee the well-sequenced and timely development of sector specific ESRS. We suggest prioritising standards for high-impact sectors, the development of which is considerably advanced within EFRAG (*Oil & Gas; Mining, Quarrying & Coal; Road Transport; Textiles, Accessories, Footwear, and Jewelleries; Agriculture, Farming & Fishing)* and, if there is enough capacity, for which standard setting research has already started (*Food & Beverages; Motor Vehicles; Power Production & Energy Utilities)*. We suggest carefully evaluating the environmental and social impact of the sectors while deciding on the exact sequencing.

Eurosif cautions against developing standards for financial institutions before standards for other sectors are completed, to avoid inconsistencies. We would also like to draw attention to the existing Sustainable Finance Disclosure Regulation (SFDR) which *de facto* already sets sustainability-related disclosures for asset management, at both the financial market participant and financial product levels. This regulation could be considered a sectoral sustainability-related standard. Moreover, the European Commission has already started preparatory work for the review of this regulation which constitutes an opportunity to consider any adjustments that would be needed in line with the requirements in the CSRD. If that was not possible for legal or other reasons, at a minimum we urge careful consideration of all existing sustainability-related disclosures for financial institutions existing in SFDR, Benchmarks Regulation (BMR), and Pillar 3 disclosures for banks.

2. Reflect on whether the deadline for the ESRS for third-country undertakings is appropriate given that certain non-EU companies are expected to report only as from the 2028 financial year for first sustainability reports published in 2029. We acknowledge the needs of non-EU companies to prepare for this requirement and we welcome their commitment to apply the ESRS. We also strongly support the objective of striving for worldwide sustainability-reporting standards' convergence and harmonisation, as stated in the CSRD. At the same time, this can be addressed by referring non-EU companies to use sector agnostic ESRS already adopted as a reference point. This would enable the freeing up of resources for the development of sector-specific standards from high-impact sectors.
3. Once the thorough reflection on the sectoral standards sequencing is completed, the European Commission should publish a clear timeline for the development of the remaining sector specific ESRS. A clear plan would provide stakeholders with more clarity on the expected outcomes of EFRAG's complex standard-setting process.
4. Lastly, we would like to reiterate our plea to ensure adequate resources for EFRAG to enable quality and timely delivery of all the expected outcomes.

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