Commissioner Mairead McGuinness
Financial Services, Financial Stability and Capital Markets Union
European Commission
Rue de la Loi / Wetstraat 200 1049 Brussels Belgium

In defence of EU standards for corporate sustainability reporting

cc:
Executive Vice-Presidents Valdis Dombrovskis, Frans Timmermans; EU Commissioner Didier Reynders
John Berrigan Director General DG FISMA; Sven Gentner, Head of Unit DG FISMA
European Supervisory Authorities (ESMA, EBA, EIOPA)
Members of the European Parliament

24 October 2022

Dear Commissioner McGuinness,

In the last few weeks and months, strong pressure has been directed to the European Commission to slow down the pace and ambition of mandatory EU sustainability reporting standards (ESRS).

The undersigned 37 organisations, representing civil society and trade unions, **urge the European Commissioner to stay committed to the development and adoption of an ambitious and urgent framework to improve and standardise corporate disclosure on sustainability matters in the EU.** We are writing to decision-makers in order to dispel doubts and critiques that go against the mandate provided by co-legislators in the CSRD (Articles 19a and 29b).

1. Sustainability risks and impacts are connected: a climate-first approach does not work, including for climate

- Global climate challenges are deeply connected to environmental, social, and governance issues. Moreover, ESG matters are linked with climate mitigation, adaptation and business resilience[1]. The exploitation of people and natural resources in Europe and in emerging economies along the value chain are often root causes and/or consequences of climate change and must be addressed to ensure a just transition.

- The recently agreed Corporate Sustainability Reporting Directive (CSRD) sets the EU en route to adopt encompassing standards covering all sustainability areas. This lends itself towards an equal consideration of GSSB (GRI) and ISSB standards, as well as other international standards such as those on human rights. A holistic approach that encompasses all ESG matters has been supported repeatedly by supervisory authorities, business and investor representatives, and civil society organisations.[2] Artificially disconnecting sustainability matters and reducing or delaying standards that go beyond climate would risk omitting key information about risks and impacts.

2. A transparent process: groundless criticism of the draft proposal process

- The evolution of ESRS, from working papers to exposure drafts, has always been transparent in order to seek feedback and fine-tune the ESRS. These transparency and engagement efforts have been used, however, to create alarm or criticise procedural elements instead of taking this as an open process for improvement and a work in progress.
- In recent months, certain business associations have argued that the standards will be expensive and burdensome and have called to limit them to the bare minimum. However, a cost-benefit analysis commissioned by EFRAG has revealed that the additional costs to the economy will be marginal. This confirms the conclusion of the impact assessment that accompanied the CSRD proposal that the average recurring cost to the company from the legislation is negligible in relation to the overall costs of the business and is proportionate to the size of the company.

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[1] See more on the interdependencies between climate and biodiversity in the IPBES-IPCC workshop report: https://www.ipcc.ch/site/assets/uploads/2021/07/IPBES_ IPCC_WR_12_2020.pdf
[2] The European Central Bank has stated that any international standard should cover all aspects of sustainability. A joint statement by UN institutions, agencies, and associated organisations highlighted the need for "*a holistic and forward-looking approach to sustainability management and disclosure"* Furthermore, a group of Chief Financial Officers urged the ISSB to move quickly to "*move quickly to other topics after climate to capture the interconnectedness of all sustainability topics*"

3. Feasibility and increased competitiveness: the business case for EU standards

- EFRAG has cooperation agreements with GSSB/GRI and the ISSB to ensure a high level of compatibility between the three efforts. The European Union has made the ESRS mandate clear in that it must incorporate risks, opportunities and impacts of companies, meaning that the ESRS cannot narrowly exclude corporate impact on people and planet. International standardisation and a level playing field are in the interest of the EU, but they must not come at the price of lowered ambitions or de-prioritising certain governance, environmental or social disclosures.

- The basis for EU corporate disclosure standards is the assessment of impacts, risks and opportunities by the company. The articulation of mandatory reporting and companies' materiality assessment guarantees the availability and comparability of information needed by market participants and other stakeholders, while ensuring flexibility for businesses. ESRS will help companies save costs by clarifying which sustainability information is required of them, by making it easier for them to get data from business partners and supply chains, and by reducing the number of requests for sustainability information from investors, ESG rating agencies and other stakeholders.

4. The bigger picture: comprehensive and high quality corporate standards applied by 2024/2025

- The goal of ESRS is to improve the comparability, consistency and relevance of corporate sustainability disclosures to understand the performance, behaviour and direction of travel of companies on sustainability matters. Achieving EU goals on environment and social justice depend on swiftly adopting and implementing these standards.
- Investors and lenders have stated that any delay will affect their ability to support the sustainability transition of our economy. Moreover, ESRS provide relevant disclosure requirements and guidance to understand companies' alignment and plans with regards to limiting global temperatures to 1.5°C, whereas international proposals do not adequately incorporate these yet.

We appeal to the European Commission to uphold the legal mandate agreed in the CSRD and not give in to political pressure and narrow business interests that aim to hinder EU progress in the finalisation of much-awaited EU standards.The undersigned signatories oppose the prioritisation of certain sustainability matters over others, warn against an arbitrary reduction of disclosure requirements, and support international alignment but not at the cost of lowering EU's sustainability ambitions.