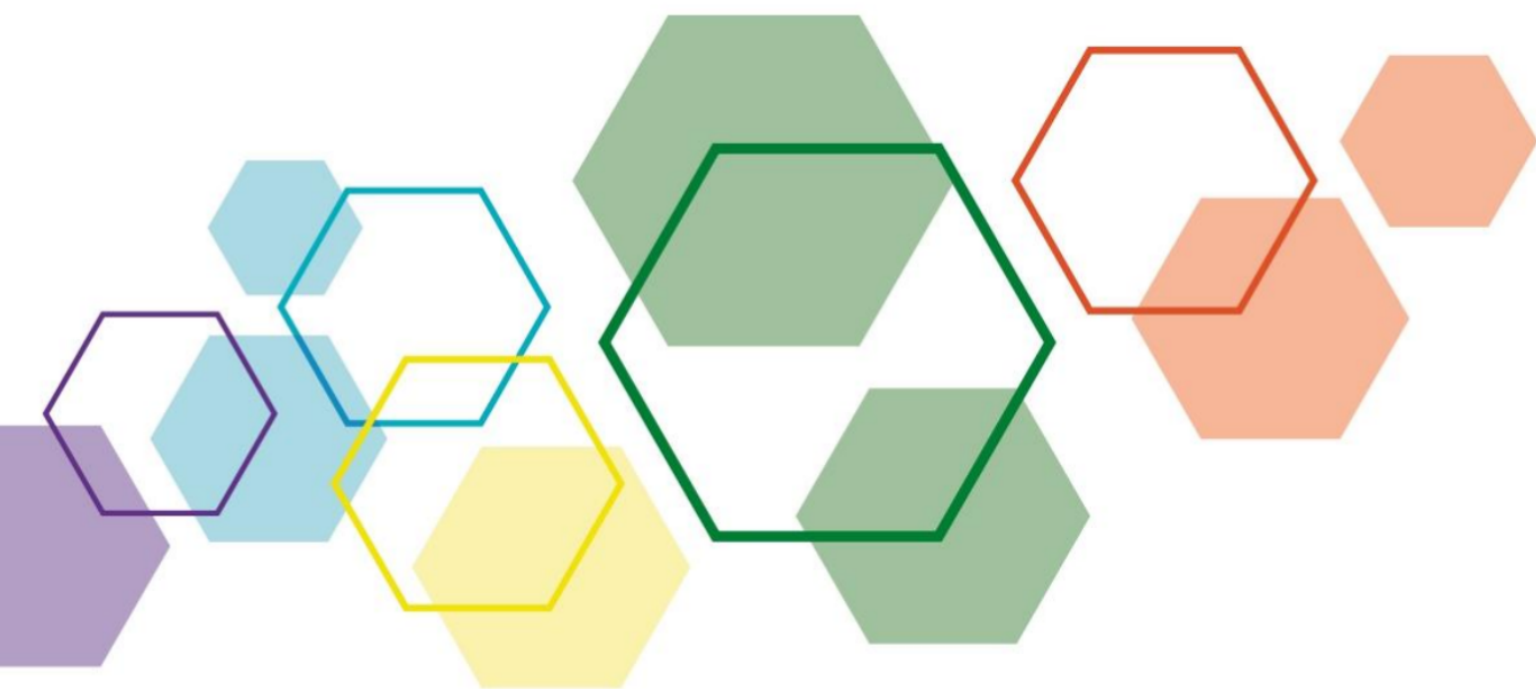


# DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

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## Cover letter



November 2022

**Ms. McGuinness**

European Commissioner for Financial services, financial stability  
and Capital Markets Union  
Rue de la Loi / Wetstraat 200  
1049 Brussels

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22 November 2022

Dear Commissioner McGuinness,

**Subject:** EFRAG's technical advice to the European Commission regarding the first set of draft European Sustainability Reporting Standards (ESRS)

It is my great pleasure to deliver, as technical advice to the European Commission, the first set of 12 draft European Sustainability Reporting Standards (ESRS) to you today. The EFRAG Sustainability Reporting Board (EFRAG SRB), which I had the pleasure of chairing during this important time, finished their work on the first set this month. The voting on the standards took place on November 15, 2022, they were nearly unanimously adopted with just one abstention on five of the draft standards.

From May to the first week of August 2022 we performed multiple outreach events and received a vast amount of comment letters on the exposure drafts (EDs) submitted to public consultation following the work performed by the Project Task Force organised at your request as from June 2021. The EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG) and the EFRAG SRB have addressed concerns and included important suggestions made by the stakeholders that participated in the public consultation, which have substantially improved the draft standards. These improvements are described in detail in the *Due process note* submitted alongside the draft standards themselves, but please allow me to briefly share here what I believe to be the main areas of improvement of these draft ESRS compared to the Exposure Drafts (EDs).

**First: Taking account of international reporting standards and other international instruments to the maximum extent possible**

Many comments were received on the need to carefully consider the alignment between ESRS and the proposed standards by the International Sustainability Reporting Standards Board (ISSB). The EFRAG SR TEG and EFRAG SRB fully appreciate the importance of this and have sought as much interoperability as possible in both structure and content within the parameters set by the CSRD. The draft ESRS now follow the same structure as the ISSB (Governance—Strategy—Risk Management—Metrics and Targets) as first proposed by the Task Force on Climate-related Financial Disclosures (TCFD) with the necessary adaptations to account for the double materiality principle and to secure an efficient interaction between the general disclosures and the various topics that the ESRS have to cover according to the CSRD. Content-wise we have sought to align all the key concepts and definitions, including financial materiality and value chains, and the Disclosure Requirements are often literally the same as proposed by ISSB, with changes and additions made where this is required by the CSRD or other EU legislation. (Please also note that ISSB is still deliberating on their standards, but through very regular exchanges we have worked with them in order to anticipate and coordinate potential changes in standards). From a general standpoint the goal is that the undertakings which comply with ESRS are also considered as complying with the ISSB standards to avoid unnecessary multiple reporting.

In addition, we have continued in-depth exchanges with the Global Reporting Initiative (GRI) to ensure that the changes made after the EDs incorporate to the greatest extent possible the content of GRI standards, including key concepts in the GRI Universal Standards.

In an effort to enhance further alignment and convergence for companies in relation to due diligence expectations, the draft ESRS take account of the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises to the greatest extent possible, as required by the CSRD, without prejudice to on-going EU legislative processes regarding sustainability due diligence. This also reflects further alignment with GRI Universal Standards, as well as key EU regulations of the Taxonomy Minimum Safeguards and SFDR.

## Second: A more central role for the materiality assessment process

Many comments were received with concerns about the concept of “rebuttable presumption” in the EDs, which many found unworkable and feared would lead to a compliance exercise. Early on during the revision process, the EFRAG SRB decided to abandon this concept and instead have a simpler approach to the pivotal materiality assessment process. Undertakings will now be able to meet the requirements of the draft ESRS through:

- Reporting on a set of “mandatory for all” disclosures that flow from EU legislation, complemented with additional disclosures that the EFRAG SR TEG and EFRAG SRB consider critical to contextualize the overall reporting and provide minimum basic information to users (often building on the ISSB Exposure Drafts of Sustainability Standards or on the standards of the GRI), including general disclosures and information about climate change;
- implementing and reporting on a robust materiality assessment process covering both impact materiality and financial materiality, with due consideration for where the two intersect;
- providing additional topical disclosures only for those sustainability matters that undertakings themselves assess to be material.

## Third: A significant reduction in the reporting burden compared to the EDs

Through further alignment with international standards and more reliance on the materiality assessment process, significant improvements were already made to ensure a good balance between comparability and relevance as well as between burden and benefits. Nevertheless, the EFRAG SRB, advised by the EFRAG SR TEG, felt further reductions in disclosure requirements were needed to the first set of draft standards compared to the EDs. Through a series of intensive discussions, we were able to agree on a series of measures to streamline and slim down the overall requirements:

- a significant number of Disclosure Requirements (DRs) were removed altogether, while some may be reconsidered for inclusion in future sector-specific standards where appropriate;
- many DRs were made subject to a phase-in period, meaning they will have to be reported only 1, 2 or 3 years after the particular ESRS goes into effect for that particular contingent of companies;
- reporting that requires obtaining data from value chain partners will not be required for the first 3 years (during which time undertakings use in-house data to provide insights on their value chain), except when value chain data is needed to enable users to comply with the requirements of other pieces of EU legislation.

These changes have led to a reduction by nearly half of the disclosure requirements compared to the EDs. In addition, it should be noted that the centrality of the materiality assessment process will mean that, with very rare exceptions, no company will be required to report on all of the datapoints (and without having to disclose why certain disclosures are not relevant as per the initial ‘rebuttable assumption’ approach), and most undertakings will only be reporting on a subset of the ESRS, because only a subset of sustainability matters will be material for them.

Overall, I believe these changes are a very significant improvement and constitute a strong and appropriate response to the public consultation, as well as a balanced and a fair reflection of the various perspectives in the EFRAG SR TEG and the EFRAG SRB. While the ESRS will for many undertakings lead to new and enhanced reporting, I am confident that we have struck the right balance between implementing the ambitious EU sustainability reporting agenda comprised of robust reporting requirements and responding seriously and effectively to legitimate calls to come up with a manageable reporting system that provides sufficient clarity and a phased approach that undertakings will be able to implement in practice—of course, where needed, with additional guidance and support provided by EFRAG and other parties involved.

In approving the draft standards, the EFRAG SRB notes that the time available for the standard setting process, from the end of the consultation to the delivery of the [draft] standards, as well as the timing available for public consultation, were unprecedentedly challenging. In this regard, while no members of the EFRAG SRB, except one, had concerns that were so important as to impede their approval of the standards, the EFRAG SRB is committed to pursuing a process of progressive enhancement of the content of the standards, in the next standard setting cycles, in full compatibility with the work program to be agreed with the European Commission and the three year’s review envisaged in the CSRD.

The EFRAG SRB encourages the European Commission to consider establishing a mechanism of interpretation of the standards, that would support their implementation and address the questions that will arise in practice. The EFRAG SRB also confirms its availability to be part of that process.

I would like to thank my fellow EFRAG SRB members and observers for their remarkable effort and dedication during the past months. We had to work under immense time pressure, and I appreciate the time they spent—often from early in the morning till late at night—helping draft and finalize the standards. As a team, we are pleased to have achieved this remarkable milestone in developing robust but practicable sustainability reporting standards that will help bring transparency to the objectives and activities of undertakings with regard to sustainability.

My thanks also go to Sven Gentner and his team at DG FISMA for placing their trust in the EFRAG SRB and for supporting us during this entire process. They understood the complexity of trying to maximize interoperability with the ISSB while at the same time adhering to the specific requirements of the CSRD. This remains a delicate balancing act, and their input was instrumental in helping us arrive at a very positive outcome.

Additionally, I would like to warmly thank the members and observers of the EFRAG SR TEG and, for their tireless support, the members of the EFRAG Secretariat.

With the finalisation of the first set of the ESRS, I hand over to my esteemed fellow board member, Patrick de Cambourg, the Chair of the EFRAG SRB. I am confident he will lead the EFRAG SRB skilfully and I wish him great success.

If you would like to discuss our advice further, please do not hesitate to contact either myself or Chiara Del Prete (EFRAG SR TEG Acting Chair).

With kind regards,



**Prof. Dr. Kerstin Lopatta - Acting Chair of the EFRAG SRB**

22 November 2022

**EFRAG's advice package consists, in addition to this letter, of the following:**

- Due process note
- Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation
- EFRAG's Cover Letter on the Cost-benefit analysis of the first set of draft ESRS **and the** Cost-benefit analysis of the first set of draft ESRS prepared by CEPS and Milieu
- Draft ESRS 1 *General requirements*
- Draft ESRS 2 *General disclosures*
- Draft ESRS E1 *Climate change*
- Draft ESRS E2 *Pollution*
- Draft ESRS E3 *Water & marine resources*
- Draft ESRS E4 *Biodiversity & ecosystems*
- Draft ESRS E5 *Resources & circular economy*
- Draft ESRS S1 *Own workforce*
- Draft ESRS S2 *Workers in the value chain*
- Draft ESRS S3 *Affected communities*
- Draft ESRS S4 *Customers and end-users*
- Draft ESRS G1 *Business conduct*
- Appendix I –Disclosure Requirements index
- Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
- Appendix III – Datapoints in accordance with EU laws in the ESRS
- Appendix IV – TCFD Recommendations and ESRS reconciliation table
- Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
- Appendix VI – Acronyms and glossary of terms