Hans Buysse
Administrative Board President, EFRAG
Saskia Slomp
CEO, EFRAG
35 Square de Meeûs
1000 Brussels

Brussels, 20th July 2022

Dear Hans and Saskia,

On behalf of the Members of the Federation of European Securities Exchanges (FESE), we are contacting you regarding EFRAG's work on the Draft EU Sustainability Reporting Standards.

We fully appreciate the need for this workstream to develop harmonised European standards of environmental, social and governance (ESG) information to enhance transparency, promote investments in ESG activities and ensure that potential systemic risks to the financial system can be addressed. We believe that the proposal for the overall Corporate Sustainability Reporting Directive (CSRD) should reinforce and harmonise existing provisions and strive to achieve both horizontal and vertical consistency with other EU sustainability reporting regulations, such as the EU Taxonomy, the Sustainable Finance Disclosure Regulation and the recently proposed Directive on Corporate Sustainability Due Diligence.

While we are not in a position as a Federation to respond to EFRAG's ongoing technical consultation, we would like to share some overarching considerations on certain key aspects and the overall process.

In the CSRD proposal, we wholeheartedly support the European Commission in outlining its aim to build on and contribute to international sustainability reporting initiatives, and to align as far as possible with those, while taking into account European specificities. We strongly believe that there should be increased dialogue at the global level on ESG reporting standards to ensure the consistency of legal frameworks and to avoid overlapping regulatory obligations. The EU has played a leading role in driving development within sustainable finance, but to avoid fragmentation in today's global financial markets we need consistent and comparable data. Interoperability between European and global standards – for instance, those being now developed by the International Sustainability Standards Board (ISSB) – as well as with other jurisdictional initiatives such as that of the U.S. Securities and Exchnage Commission (SEC), is therefore key. If the standards now being developed by EFRAG, and later issued by the European Commission, would not be compatible with international standards, this would lead to de facto double reporting and, in consequence, to unnecessary additional costs for European companies still recovering from the Covid-19 pandemic and now facing the ramifications of war.

In addition, we support EFRAG's double materiality approach which comprises both "impact materiality", which concerns actual or potential significant impacts by the entity on people or the environment, and "financial materiality", which defines that a sustainability matter is material if it triggers significant financial effects on the entity (i.e. it may have an impact on the future cash flows and therefore the value of the enterprise). EFRAG's standards successfully adopt the concept of double materiality (i.e. impact by the company and impact on the company). It seems, however, that the focus on materiality differs across alternate international standards. For example, the ISSB standard focuses on the "financial impact", with information only having to be disclosed if it has an impact on the company (on its enterprise value). We would, therefore, call for more consistency at EU and global level on this key topic, aligned to EFRAG's double materiality approach, to avoid losing time with future harmonisation needs. Moreover, sustainability issues beyond climate considerations should also be examined.

Secondly, the standards developed by EFRAG will be used for companies' reporting under the CSRD proposal. More specifically, the European Commission will adopt a delegated act based on the technical advice provided by EFRAG. Disclosure according to the EFRAG standards is presently understood to be framed as mandatory. This means that a company would have to disclose all elements of the standards, regardless of whether the ESG activities are considered relevant. Current common practice, however, indicates that companies only disclose what is material to them according to other reporting standards (e.g. as per the Global Reporting Initiative – GRI) rather than comply with a list of mandatory indicators. While we understand that the current EFRAG's European sustainability reporting standards (ESRS) exposure drafts provide for a "rebuttable presumption" mechanism, it is not clear to us how this will work and how this mechanism will differ from a "comply or explain" approach. The "comply or explain" approach is well understood, while there is uncertainty as to how the materiality presumption in the ESRS framework can be rebutted by a reporting entity and what level and type of evidence should be provided by the company in order for the rebuttal to be verified by a provider of assurance services. We would therefore suggest introducing a "comply or explain" provision to allow companies to justify their decision not to disclose some indicators. If requested, companies can further explain why these indicators are not deemed relevant for them.

Last but not least, we fully embrace the urgency of delivering high-quality standards to companies and the overall investment chain as soon as possible but we fear that the timeline given to EFRAG might be too ambitious. If the draft Sustainability Reporting Standards are to be adopted by October 2022, this would not give sufficient time to stakeholders to assess the work done and provide meaningful input, considering also that EFRAG and the ISSB are running parallel consultations on their respective draft sustainability standards.

While aware that this letter does not address all the questions raised in the ongoing consultation, we hope that EFRAG will take due account of FESE's remarks when defining the Draft EU Sustainability Reporting Standards.

Yours sincerely,

Rainer Riess
Director General

Copy to:

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