

JOINT STATEMENT ON THE DEVELOPMENT OF EUROPEAN SUSTAINABILITY REPORTING STANDARD

Our associations are committed to supporting the transition to a more sustainable economy and to tackling climate change as a matter of priority. We strongly support the EU's objective of transforming Europe into the first climate-neutral continent in the world by 2050 and are ready to contribute as representatives of the financial sector.

We share the European Commission's (EC) ambitious objective of developing a robust sustainability reporting framework via the Corporate Sustainability Reporting Directive (CSRD) to ensure greater transparency of information on the way companies operate and manage social and environmental challenges.

The CSRD proposal assigns the European Financial Reporting Advisory Group (EFRAG) the role of developing European sustainability reporting standards. Commissioner McGuinness requested that EFRAG begins the preparatory work on its governance reform and on the reporting standards in parallel with the legislative process to ensure that the standards can be ready as soon as October 2022. We commend the impressive work carried out by EFRAG so far on the elaboration of draft EU sustainability reporting standards (ESRS), especially given the limited time allocated and resources available. We are convinced that, once finalised, these standards will enhance the availability and quality of sustainability information,

In line with these efforts to ensure the success of the CSRD, we would like to stress the importance of three elements:

- **The need for a phased approach in the development and implementation of the ESRS, and for a mapping of the standards and disclosure requirements covering the data needed under the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation as well as EBA Pillar 3 and Solvency II Pillar 3 for financial institutions.**

We call on the EC to adopt a phased approach by asking EFRAG to prioritise which standards will first be developed and through the adoption of the relevant delegated acts. The first set of standards should allow financial market participants to comply with existing EU rules, notably the SFDR, the EU Taxonomy Regulation as well as EBA Pillar 3 disclosure requirements for banks and Solvency II Pillar 3 disclosure requirements for insurance undertakings. Once work on what is already needed by market participants is finalised, focus can shift to the additional requirements brought in by the CSRD.

To allow for appropriate prioritisation and a phased approach, it is essential that EFRAG provides a mapping identifying which ESRS and disclosure requirements cover data that is required under the SFDR and the EU Taxonomy Regulation. This mapping is needed as part of the upcoming consultation process.

Our organisations acknowledge and welcome the work undertaken by the EFRAG Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) to develop a large number of working papers, which are soon-to-be released for public consultation to meet the ambitious timeline drawn-up by the EC. However, we are concerned about the number of standards being developed simultaneously, and we strongly believe that a phased approach is needed for the development and implementation of the standards. Such an approach would moreover reflect the approach of the ISSB, which will conduct a consultation in parallel on its first two proposed standards: one sets out general sustainability-related disclosure requirements and the other specifies climate-related disclosure requirements. A similar prioritisation for the development of the ESRS would foster increased alignment between the European and international standards.

20 April 2022

An additional reason why a phased approach is necessary is the emerging volume of reporting requirements. EFRAG's current draft ESRS requirements appear to be very extensive with 189 mandatory disclosures for sector-agnostic standards alone. The success of their implementation is under threat if such a high volume of disclosures is to be made from the first application. This will be particularly challenging for the high number of companies who will disclose sustainability information for the first time.

This is also particularly challenging for companies reporting on their value chain, for which the data will not be available in time for first application. A phased approach, where the first set of reporting requirements focuses on companies' own business activities is preferred.

- **The need to contribute to the finalisation of the International Sustainability Standards Board's (ISSB) standards and to ensure alignment/compatibility of the ESRS with the ISSB.**

Our organisations appreciate that the EC took the lead in developing sustainability standards, given the current climate emergency. However, the climate change challenge has a global nature, and so do many European companies with footprints across Europe and other continents/jurisdictions. We strongly believe that European standards should contribute towards standardisation initiatives at a global level through constructive two-way cooperation between EFRAG and the ISSB to achieve alignment and compatibility of the two sets of standards. Alignment and compatibility of the two sets of standards must be a priority to ensure that undertakings reporting under the future ESRS are also, at the same time, compliant with the international ISSB sustainability disclosure standards, to avoid a double reporting burden, for the undertakings.

We appreciate that EFRAG is working on conceptual guidelines on EU alignment and international convergence. However, we understand that this workstream has not been prioritised to date. We strongly believe that we need an ex-ante framework on EU alignment and convergence. As the ISSB is developing work, one can only assess the EFRAG-ISSB work in parallel if a clear EU framework is provided on how alignment and convergence is envisaged.

To facilitate alignment, it is important that EFRAG provides a clear mapping identifying which of the draft ESRS cover which of the draft ISSB standards and which, if any, ISSB standards are not covered by the draft ESRS. Any extensions going beyond the global baseline should be easily identifiable (e.g., for SFDR or to cover the double materiality perspective).

- **The need to ensure proportionality in disclosure requirements.**

From a preparer perspective, proportionality in the requirements of the CSRD is very important. We therefore support the suggestion in the EFRAG working papers to allow entity-specific materiality assessment as the primary proportionality lever, and in particular the rebuttable nature of the disclosure requirements on sector agnostic standards, as long as reporting on non-material information, including the requirement to provide appropriate evidence why the information is non-material, remains proportionate, too.

We also support the EC proposal to have a simplified version of the standards for SMEs and for this to apply to listed SMEs for mandatory reporting and for voluntary reporting from other SMEs. However, the standard definition of SME does not work for small financial undertakings and so we have been calling on the co-legislators to include a definition for small financial undertakings under which qualifying undertakings would be under mandatory reporting but allowed to use the simplified standards. If suitable definitions for small financial undertakings is not allowed for in the text, then we believe that the EC should include proportionality measures through delegated acts to avoid overburdening smaller entities with reporting requirements.



20 April 2022

About:

Insurance Europe

Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies – the national insurance associations – it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe’s economic growth and development. European insurers pay out over €1 000bn annually – or €2.8bn a day – in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.

European Banking Federation (EBF)

The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 5,981 banks – large and small, wholesale and retail, local and international – employing about 2,6 million people.