International Corporate Governance Network
Inspiring good governance & stewardship

European Commission
DG Financial Stability, Financial Services and Capital Markets Union
Rue de Spa, 2
1049 Brussels

6 July 2023

Dear Sir or Madam,

Subject: European Sustainability Reporting Standards, European Commission draft Delegated Regulation

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the draft Delegated Regulation supplementing Directive 2013/34/EU as regards sustainability reporting standards.[1]

Led by investors responsible for assets under management of $77 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. The ICGN Global Governance Principles[2], written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

Investors have been calling for comparable, reliable and verifiable corporate sustainability disclosures in order to make informed stewardship, investment and risk management decisions, and for their own reporting. Therefore, the ICGN supports the objective of the Corporate Sustainability Reporting Directive (CSRD), which requires large companies and listed companies to disclose, in a dedicated section of the management report, the social and environmental risks they face, and how their activities impact people and the environment.

We were also pleased to see that the CSRD refers to the ICGN Global Governance Principles as an authoritative global framework of governance information of most relevance to users.[3] We would like to emphasize that good corporate governance is the necessary foundation for effective management of sustainability issues and for robust corporate reporting.

In this letter, we share some observations on the first set of European Sustainability Reporting Standards (ESRS), subject to consultation.

Reducing the reporting burden

In our response to the European Financial Reporting Advisory Group (EFRAG)'s consultation in August 2022, we expressed caution regarding the complexity and granularity

[1] European sustainability reporting standards – first set (europa.eu)
[2] ICGN Global Governance Principles
[3] Directive (EU) 2022/2464, recital 44

of the draft ESRS and the potential challenges it would bring for companies to comply with the reporting requirements. Since then, EFRAG and the European Commission have amended the draft standards to reduce the reporting burden. We welcome, for instance, the decision by EFRAG to reduce the number of disclosure requirements by 40% and the number of individual data points by 50%, and to remove the principle that all information prescribed in the standards should be considered material for all companies, unless demonstrated otherwise. We also understand why the Commission proposed some additional reliefs and phasing in of certain requirements to make the reporting process more straightforward.

Materiality assessments

We welcome the decision by EFRAG and the European Commission to give a more central role to the materiality assessment. It is a fundamental and well-understood concept in financial reporting. It is also the logic of international responsible business conduct standards, such as the OECD Guidelines for Multinational Enterprises or the UN Guiding Principles on Business and Human Rights. Finally, it is the approach chosen by the International Sustainability Standards Board (ISSB). Materiality assessments should be conducted in a serious, thorough, and ethical manner by companies, with board oversight, and transparency to users.

At the same time, investors are dependent on companies' disclosures for their own reporting under the Sustainable Finance Disclosure Regulation (SFDR), which was adopted before the CSRD. If companies, following their materiality assessment, decide not to disclose certain elements that investors need for own reporting, this will be very problematic. Therefore, we invite the Commission to keep the approach proposed by EFRAG, under which all the disclosure requirements and data points in the ESRS which directly correspond to the information needs of other parties to meet their own disclosure requirements under separate pieces of legislation should be mandatory to report.

Furthermore, we recommend that the European Commission keeps the mandatory reporting of key climate indicators and transition plans. It is true that, under the double materiality approach, climate-related information should be deemed material by most companies across sectors and should therefore be reported. However, considering the EU's climate commitments, we believe it is preferable for the Commission to send a strong signal to companies by making this information mandatory. It is also important to note that investors need these disclosures to assess their portfolio's carbon footprint.

To help companies in their sustainability reporting journey, the forthcoming implementation guidance on how to conduct materiality assessments under the CSRD will very useful.

Inter-operability with IFRS sustainability standards

Ensuring the inter-operability of sustainability reporting standards is important. This will help reduce the reporting burden for companies and ensure the comparability of information for investors (and thereby facilitate the integration of this data in investors' decision-making). We acknowledge that many markets are trying to emulate the work of ISSB and the European Commission towards this objective.

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The ICGN appreciates the regular technical discussions that have taken place between the ISSB and EFRAG/the European Commission towards achieving such inter-operability. We encourage the European Commission to make sure that its defining of financial materiality is the same as the one used by the ISSB. We note that the sentences *‘includes but not limited to*’ in paragraph 48, and ‘*other undertaking and stakeholders’* in paragraph 49 of ESRS 1 would be a departure from a common definition.

The ICGN asks that the ISSB and the Commission publish the detailed mapping they have done comparing similarities and differences between the two sets of standards. This would be useful for regulators, companies, advisers and auditors alike.

Thank you again for the opportunity to share our perspective on the draft Delegated Regulation. If you would like to follow up with questions or comments, please contact our Global Policy Director, Séverine Neervoort (severine.neervoort@icgn.org).

Yours faithfully,

Kerrie Waring
Chief Executive Officer, ICGN

Cc: Catherine McCall, Chair, ICGN Global Stewardship Committee; Nga Pham, Co-Chair, ICGN Financial Capital Committee; Michela Gregory, Co-Chair, Human Capital Committee