



Brussels, July 2023

Mairead McGuinness

*Commissioner for Financial Services,
Financial Stability and Capital Markets Union
European Commission*

Dear Commissioner McGuinness,

The members of [CSR Europe's Markets Leadership Hub](#) (the "group") would like to share in this letter some reflections related to the draft delegated act ("DA") on the first set of European Sustainability Reporting Standards, published by the European Commission for feedback on June 9th and which follows the final recommendations elaborated by EFRAG in November 2022.

Firstly, the members of the group support the goal of providing companies with clear frameworks and indicators for reporting their sustainability performance. Additionally, they welcome the proposal to establish an interpretation mechanism to provide clarity on the expectations of the ESRS, as mentioned in the proposed delegated act currently open for consultation. Finally, they recognise the efforts undertaken by both EFRAG and the European Commission in shaping the first batch of ESRS. **This represents a significant milestone towards further comparability and accountability of sustainability disclosure.** This letter stems from these considerations and aims at providing useful inputs for further reflection and improvement, to ensure the *European Sustainability Reporting Standards truly work for Businesses*.

While the members of CSR Europe's Leadership Hub appreciate the recent efforts to rationalise the overall corporate reporting requirements, they also consider important to remain aware that some of the modifications introduced in the draft DA may not share the same level of ambition that the European regulators showcased in the adoption of others milestone targets and legislations, such as the Fit for 55 Package and the EU Taxonomy Regulation. In this regard, it is important to avoid giving any wrong signal to the market and to not add uncertainty in an already complex and evolving regulatory environment. Moreover, they acknowledge the need for other stakeholders, including investors and other financial actors, to receive reliable and comparable information for their own compliance requirements and to measure the impact of their investments. The group, therefore, invites the Commission to ensure that the Delegated Act fully complies with the spirit of the CSRD, as adopted by the co-legislators, and of the Corporate Sustainability Due Diligence Directive (CSDDD), and contributes consistently to the achievement of the EU targets and ambitions included in the European Green Deal.

In line with the above elements, five points for reflection have been listed below.



1. HARMONISATION AND COHERENCE

First of all, the group supports the constant effort of the EU regulators to **enhance the harmonisation across EU policies** and the **collaboration with other standard setters**, such as ISSB and SEC, towards interoperability across sustainability standards worldwide. At the same time, they also observe that a stronger strive towards harmonisation and coherence could be undertaken. Concerning the first element of alignment within the EU legislative framework, further clarity may be promoted regarding ambition, expectations, and timelines. On this point, the group appreciates the drafting conventions and formal presentation changes aimed at clarifying the content of the ESRS and improving its user-friendly character and readability.

Moving to the international ecosystem, there should be ongoing consideration as to how the development of further global frameworks will interact with the ESRS and how these global standards can support non-EU companies complying with CSRD, due to the CSRD's extraterritorial impacts. Additionally, the members of CSR Europe's Leadership Hub would like to reiterate that the final goal for such exchange and progressive alignment should remain the **promotion of mutual recognition** among such standards.

2. SUPPORT IN THE DEPLOYMENT AND CAPACITY-BUILDING

The members of CSR Europe's Leadership Hub strongly advocate for **sufficient support to companies in the deployment of EU regulations**, as well as for adequate interpretation actions. For transparency-related regulations to be effective, businesses need to be accompanied in the implementation of the various requirements. For example, a **toolbox with resources and educational supports**, would represent a welcomed initiative, also in light to overcome the evident sustainability skills shortage. In this regard, we applaud the intention of the European Commission to establish an **interpretation mechanism**, as a subsequent step to the publication of implementation guidelines by EFRAG, to provide clear, practical, tailored, and timely guidance, especially in relation to the newest sustainability reporting requirements introduced by the ESRS, among which the financial and non-financial connection and the conducting of the double materiality analysis. This interpretation mechanism would benefit particularly the wide number of first-time preparers targeted by the CSRD and ESRS, who might lack experience and knowledge of these requirements. Concerning this point, we suggest ensuring **sufficient and systemic engagement of such body with business representatives**, to make sure that practical experiences are taken into consideration and guidance needs are addressed.

Moreover, **national contact points** may be established for more in-depth local support as, in addition to intelligence and support in understanding, they could provide nationwide perceived vulnerabilities and macro trends information on ESG-related risks and targets, especially useful for suppliers. In this regard, it is considered fundamental to unlock adequate funding and training opportunities for the establishment of local collaborative platforms for **SMEs' capacity-building activities**. Preparers are at risk of bearing high costs due to unprepared and unaware partners in the EU and third countries. This should build on the efforts already made in the framework of the CSDDD's accompanying measures (*art. 18*) as amended by the European Parliament, according to which the Commission should actively participate to the capacity building of companies.

3. MONITORING AND ENFORCEMENT

Another challenging area identified by the group concerning the roll-out of the CSRD and the ESRS is potentially related to the monitoring of compliance by the European Commission and other extra-governmental bodies. **Periodic reporting of overall implementation levels by the Commission** should be introduced, as well as yearly checks on the qualification and expertise of the national bodies, since at the current stage national public authorities seem to not have the required capacity. In this context, a **key role will also be played by accounting enforcers and governmental bodies**, which will have to rapidly develop sustainability skills and receive adequate resources to guarantee reliable results and ensure unbiased perspectives on sustainability disclosure. It would also be very important for public authorities to adopt a **constructive approach to enforcement**, providing guidance while also building their own expertise. In this regard, the adoption of a “*best effort perspective*” by governments while assessing the use of the ESRS by companies would be welcome. This would safeguard companies whenever they are not able to fully comply with certain disclosure requirements simply because the data was not available. Indeed, this could support companies’ preparation for the subsequent years, which will be characterised by more stringent supervision.

4. RATIONALISATION

The members of the group recognise the rationalisation efforts, as well as the attempt to take actions towards a simpler framework to address companies’ challenges in complying with ESRS requirements. Yet, they also invite the European Commission to make sure the introduced modifications inform and remain functional to the EU commitments to deliver on the EU’s Green Deal and the Sustainable Finance Agenda’s ambitions.

In principle, **we welcome the introduction of the phasing-in mechanism for particularly complex and not yet mature topics** (e.g. financial effects of environmental topics), as it may provide greater flexibility for preparers and **supports the establishment of mainstreamed reporting practices**. Indeed, the time delay will allow the development and consolidation of solid calculation methodologies and enable companies to design appropriate business processes and procedures for reporting on such topics. At the same time, the group would like to highlight that the inclusion of a phase-in approach to entire sets of standards, regardless of them being considered material topics by companies, might bear the risk of disincentivising companies’ efforts, as well as **create a mismatch with other EU existing requirements and ambitions**, among which those introduced by the Sustainable Finance Disclosure Regulation (SFDR) and the CSDDD.

Additionally, the **progressive publication of FAQs** and the maintenance of a constant regulatory dialogue with business representatives may represent suitable tools to gather feedback about the feasibility and effective implementability of the obligations. Indeed, the great amount of information requested to first-time preparers will likely lead to an initial low level of quality and reliability, which will be gradually improved by a continuous engagement with companies.

5. FINANCIAL AND NON-FINANCIAL RECONCILIATION

Finally, concerning financial and non-financial harmonisation, **this group identifies great challenges in monetising certain sustainability impacts, as well as in reconciling the two different disclosures.** It is believed that the European Commission has taken this point into consideration, by phasing-in disclosure on financial effects of non-climate related themes. In this regard, **qualitative criteria and more extensive and clearer guidance from the EU Commission would be appreciated,** to support financial reporting officers and statutory auditors in understanding how to calculate the monetary and financial impacts of sustainability factors. Indeed, the monetisation of ESG impact is often discussed, however, structures and methodologies in this regard are still limited.

The members of CSR Europe’s Leadership Hub and the Secretariat remain committed to engaging with the European Commission on this theme and are ready to provide additional insights and practical experience to make the European Sustainability Reporting Standards work for businesses. Please do not hesitate to contact **Lorena Sorrentino**, *CSR Europe’s Markets Leadership Hub Manager*, at (ls@csreurope.org) to engage further on this matter and organise follow-up exchanges and meetings with your Cabinet or relevant units in your Directorate-General.

On that occasion, we would be also glad to share how this work fits in the wider efforts of CSR Europe’s policy position towards the new EU leadership on Just Transition and further implementation of the European Green Deal.

Sincerely,

CSR Europe’s Markets Leadership Hub Members



This letter has also received the endorsement of the following organisations:



DISCLAIMER

The list of elements for reflection included in this document has been compiled by CSR Europe as a result of the collective discussions which took place during CSR Europe’s Markets Leadership Hub “Making the European Sustainability Reporting Standards Work for Businesses” and do not represent the individual positions or views of each of the participating stakeholders. Moreover, none of the members of the group is expected to endorse every element or view entailed in this letter and each has the right to take a different view on the issues covered.

ABOUT THE MARKETS' LEADERSHIP HUB:

Making the European Sustainability Reporting Standards Work for Business

To address the challenges related to the multitude of sustainability reporting requirements, and SMEs' lack of expertise and resources to comply with the requests coming from their clients and investors, CSR Europe has created [the Markets Leadership Hub](#): a group of business leaders, experts, and civil society organisations committed to work towards a smoother implementation of the upcoming European Sustainability Reporting Standards.