IIGCC

IIGCC feedback on ESRS – postponement of deadlines under the Accounting Directive

The Institutional Investors Group on Climate Change (IIGCC) welcomes the opportunity to provide feedback on the decision to postpone the adoption of sector-specific standards under the European Sustainability Reporting Standards (ESRS).

Disclosure remains the foundation of the EU's Sustainable Finance Action Plan, and the ESRS are an essential component of this. They establish the parameters for the detailed, credible and comparable reporting needed by investors to assess their exposures to climate-related risks and opportunities, inform stewardship activities and investment decisions, and reorient capital in line with a net zero world. However, we were disappointed by the Commission's decision to move away from mandatory disclosure requirements under the sector-agnostic standards, with all reporting topics now subject to materiality assessment.

In this uncertain context, and noting the EU's wider work in taking forward comprehensive policies for sectoral decarbonisation under the 'Fit for 55' package, the need for sector-specific disclosures has become more urgent than ever. Many of IIGCC's members have committed to net zero and are seeking to assess the alignment of their holdings with a 1.5c world. Increasingly, this requires a deeper understanding of the transition challenges and opportunities within key sectors, and of how companies are planning to navigate them.

Investors rely upon company disclosures to make these assessments. At IIGCC, and along with CA100+ network partners, we have been working to establish investor expectations for sector-neutral and sector-specific disclosures that provide investors with the information they need to interpret how well-positioned an entity is for the transition. Enhanced regulatory disclosures would serve the same aim, by improving the baseline of reporting across the board.

We note that it would have been highly challenging, if not impossible, for EFRAG to deliver 40 sector standards by June 2024, as was originally set out in the Corporate Sustainability Reporting Directive. Nevertheless, significant progress has been made in drafting and developing sector standards for a number of high impact sectors (e.g. Mining, Quarrying and Coal; Oil and Gas; Road Transport). Given that a number of these

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standards are near-final, our view is that they could be adopted as soon as practicable, and well before the new 2026 implementation date.

IIGCC would also like to highlight the need for closer and more transparent collaboration with investors, who arguably represent the key audience for corporate disclosures. This would not only help to ensure the standards are decision-useful for users of sustainability disclosures, but also help to relieve the burdens that have been placed on individuals and organisations that have contributed to the drafting of standards to date. We have developed a range of sector-specific and investor-led standards, and have sought to feed into and support the development of EFRAG's sector-specific standards, including by applying to relevant sector-specific communities. However, we have found the process opaque and challenging to navigate, and have received little to no communication on the status of our application or on opportunities to participate in discussions. The development of standards requires the input of a diverse set of users and preparers of disclosures, to ensure that they will be robust and widely useful.

Based on the above, our key recommendations to the Commission are as follows:

1. Adopt the first set of five high impact standards, many of which are far-advanced, at the earliest possible opportunity. This will provide investors and other users of corporate sustainability disclosures with the granular indicators and information they need to assess the transition potential of their holdings more credibly, and better support their engagement efforts.
2. Prioritise the development and adoption of standards for the remaining high-impact sectors identified by EFRAG.
3. Increased communication and engagement with key external stakeholders (including investors), including clarity on avenues to feed into the development and design of sector-specific standards.