

OSSERVATORIO ESG

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AIAF, Standard setter for Financial Analysis, with round 1000 members in Italy and, under the coordination of EFFAS “The European Federation of Financial Analysts Societies”, operating in 23 European countries with round 16000 members welcomes the opportunity to provide some comments on the recent EFRAG’S PUBLIC CONSULTATION PAPER “Due process procedures for EU sustainability reporting standard-setting”.

AIAF COMMENTS LETTER TO EFRAG “DUE PROCESS ESRS”

Introduction

It is indisputable that the European Union already has a leading position in increasing sustainability standard levels and, therefore, AIAF welcomes the European Commission’s mandate to EFRAG to initiate as soon as possible the technical work necessary to develop draft sustainability reporting standards.

We welcome the purpose to introduce a modular standard for sustainability reporting, that expands with granularity on various sustainable aspects for larger companies, while in the essential modules it must initially be both simpler and leaner for SMEs. In this manner, creating comparable data for all European companies, we support the intended introduction of a tailored reporting standard for small and medium-sized enterprises. A subsequent experimental phase could be useful to understand the feasibility to adopt these standards and if all the issues that fall within the scope of the investigation have been addressed.

However, we would like to point out that a number of international standards and frameworks for sustainability reporting already exists and EFRAG has an essential role to rationalize this landscape.

AIAF welcomes the opportunity to provide some comments on the recent EFRAG’S PUBLIC CONSULTATION PAPER “Due process procedures for EU sustainability reporting standard-setting” and we would like to draw attention in particular to the key aspects summarized below which should be considered to prepare Technical Advice with a “*proper due process, public oversight and transparency, and with the expertise of relevant stakeholders, and it is accompanied by impact analyses that include cost-benefit analyses and of the impacts of the Technical Advice on sustainability matters,*

contributing to the delegated acts through which the ESRS will be adopted in the European Union”

1. Interconnectivity between EFRAG FRB and SRB

EFRAG’s technical work will be carried out under the responsibility of the Financial Reporting Board (EFRAG FRB) and a newly formed Sustainability Reporting Board (EFRAG SRB) that will be responsible for all positions expressed within its area of competence, including setting the work plan and approving draft standards submitted to the European Commission.

The European Lab activities may help to foster interconnectivity between financial and sustainability reporting and could identify good practices, stimulating innovation and debate related to sustainability reporting and include work on cross-cutting issues with the financial reporting activities.

However, the methods of dialogue on the issue of interconnectivity between FRB and SRB during the standard-setting process is not deemed a required step indicated in the successive and connected activities where Aiaf suggest describing it (page 14).

2. Establishing a committee dedicated to analyzing the standards developed under the auspices of IFRS Foundation and to dialogue between EFRAG boards

The proposed CSRD Directive as of 21 April 2021 indicates the action of the International Financial Reporting Standards Foundation (IFRS) to create a new Sustainability Standards Board (SSB). The EU sustainability reporting standards should be developed in a constructive two-way cooperation with leading international initiatives and they should align with those

sustainability reporting standards developed under the auspices of IFRS as much as possible, while taking into account European specificities.

To avoid unnecessary regulatory fragmentation that may have negative consequences for undertakings operating globally, European standards should contribute to the process of convergence of sustainability reporting standards at global level.

It should be considered that it is not enough to monitor the developments of global standards but a dialogue with IFRS itself must be included in the due process flow, in addition to a moment of verifying the convergence.

In conclusion, Aiaf suggest to establish a committee dedicated to analyzing the standards developed under the auspices of IFRS Foundation and to dialogue with IFRS.

3. Description and measurement of impact analysis sustainability matters

The purpose of impact analyses is to permit EFRAG SRB to understand the impacts of proposed European Sustainability Reporting Standards (ESRS) on a systematic basis to enable informed judgements about how to balance the needs of competing interests, including costs and benefits but also wider impacts on sustainability matters.

Understanding the impacts is not sufficient, it is also necessary to be able to measure them. Several Stakeholders ensure ESG disclosure on the impact even if they do not clearly indicate how the impacts are measured. This information is needed to avoid adopting standards that are already old, which is a step forward, but the next step of understanding the entity of impact remains.

A clear understanding of the impacts is necessary to deal with emerging ESG risks litigation: practically all stakeholders are able to contest the information and, in a logic of possible contestability of the information, the role of independent auditors becomes essential.

4. Digital Guidance

CSRD proposal contains a requirement to use a standardized machine-readable digital format established by Delegated Regulation (EU) 2018/815, companies will have to 'tag' their reported sustainability information according to a digital categorization system to be developed together with the sustainability reporting standards.

Adopting a common digital language to consolidate technical content of the standard reporting is essential to

make the interoperable building blocks more easily accessible through a digital language but reporting entities will likely need some guidance on this process.

Aiaf welcome that the EFRAG Technical Advice provided to the European Commission is accompanied by a proposed digital guidance and hold the experience of XBRL Europe could be very useful. More information are necessary to describe the process of the digital guidance.

5. Suggestions of other topics to take care of ESRS

- Consistency between ESRS and CSRD: must be ensured at the double level of content and timing to avoid administrative burdens, reduce costs for companies and optimize the efforts of companies to comply with multiple legislations. In terms of content it is essential to avoid duplication and redundancy of reporting and in terms of timing of adoption, should be aligned that of ESRS with SFDR 2019/2088 and Taxonomy Regulation 2020/852,
- ESMA and information processing: in the due process EFRAG must describe the relation with the European Securities and Markets Authority (ESMA) that must provide an opinion on the EFRAG's Technical Advice,
- European Single Access Point (ESAP): as part of the action plan on the Capital Markets Union (COM(2020) 590 final), the Commission will put forward a legislative proposal to set up an EU-wide digital access platform to companies' public financial and sustainability information,
- Financial Data Exchange Templates (FinDatEx) is a joint structure established by representatives of the European financial services sector with the view to coordinate, organize and carry out standardization work to facilitate the exchange of data between stakeholders in application of European Financial markets legislation, such as MiFID II, PRIIPs and Solvency 2.

References

- Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) 537/2014, as regards corporate sustainability reporting COM/2021/189 final
- EFRAG'S PUBLIC CONSULTATION PAPER "Due process procedures for EU sustainability reporting standard-setting" for comment by 15 September June 2021,