European Sustainability Reporting Standards

Exposure drafts issued by EFRAG Project Task Force in April 2022

Overall comments from ACCA
July 2022

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OVERALL COMMENTS

ACCA welcomes the opportunity to provide views in response to EFRAG's exposure drafts of European Sustainability Reporting Standards (ESRS). We have contributed to the responses made by Accountancy Europe and by European Federation of Accountants and Auditors of SMEs and we support those responses. We have answered only those questions in the survey which we consider most important or where we have additional perspectives to add.

Global alignment

ACCA has consistently advocated for a global approach to the development of sustainability disclosure standards, and we fully support the role of ISSB in setting a consistent and comparable global baseline to sustainability reporting around the world. At the same time, we recognise that Europe's Green Deal may necessitate some further requirements. We call on EFRAG to maximise alignment between the ESRS and the ISSB global baseline. This is of paramount importance for:

- Investors and other stakeholders to have easily comparable information on sustainability-related issues, and

- The costs of reporting and assurance, particularly for businesses that need to report under both ESRS and ISSB standards: including European businesses operating internationally, and non-EU businesses with branches or subsidiaries within scope of the Corporate Sustainability Reporting Directive (CSRD).

There is significant scope for greater alignment between the two sets of standards and we have noted in our answers to the EFRAG Survey various instances where this could be achieved in finalising the ESRS. Those affecting the determination of materiality are of particular importance. We urge EFRAG to provide clearer definition and guidance on double materiality: specifically on how impact materiality should be assessed in practice, and ensure that the financial materiality is aligned with the ISSB definition.

Equivalence

Paragraph 7 of Article 19a of the CSRD, amending Directive 2013/34/EU, provides for branches and subsidiaries of non-EU parent undertakings to be exempted from CSRD requirements, where the parent undertaking produces sustainability reports in accordance with equivalent sustainability reporting standards. To promote global alignment and facilitate cross-border trade, ACCA encourages the European Commission and EFRAG to consider reporting in accordance with ISSB standards as equivalent, when these are supplemented with comparable impact reporting standards such as the GRI Standards.

Volume of disclosures

Our other main concern is the quantity of disclosures that are required in the draft ESRS and we urge EFRAG to reconsider the scale of these. Not only this will prove unnecessarily difficult for the entities within scope considering the vast amount of information to collect alongside changes to systems required, but this might also not lead to more relevant reporting. This will also impact the companies in the value chain who may be called on to supply information. Many of these will be SMEs who may have limited resources to do so.

In addition to this request to reconsider the overall level of disclosures, we suggest

- Deleting the rebuttable presumption that all disclosures in the standards are material

- Limiting the definition of the value chain to those parties over which the reporting entity has influence

- Removing the bias on direct collection of information from the value chain

- Phasing in of requirements, emphasising the urgency of the reporting on climate change (ESRS E1), and allowing more time before mandating value chain disclosures.

Both the ESRS and the IFRS Sustainability Disclosure Standards will rightly require companies to operationalise transition plans towards a more sustainable future. This will entail significant changes to planning processes, investment appraisal and in some cases supply chains and business models. With this in mind, we would urge EFRAG to ensure that the costs of compliance are not overly burdensome, so that businesses' financial and human resources can be directed to making the strategic and operational changes that are needed.

Due process

EFRAG has issued 13 exposure drafts of new standards for comment and a survey to gather views that runs to hundreds of questions, in a 4-month period. EFRAG will need to consider carefully whether due process has been achieved in this case. We are especially concerned that the feedback received in such a compressed comment period, in particular relating to certain topical standards, may not be sufficient to ensure that standards are of good quality and capable of implementation.