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The complexity of EU sustainability reporting standards could undermine their effectiveness

Dear Commissioner, dear Ms McGuinness,

We are writing on behalf of AFEP, the French association of large companies, and Deutsches Aktieninstitut, the association of German listed companies. Our members are strongly committed to adopt sustainability strategies to transition to a low-carbon economy, notably by drastically reducing their greenhouse gas emissions. Reporting to stakeholders on their actions and progress (e.g. in accordance with the TCFD recommendations) is an important cornerstone of the transition efforts and is hence taken very seriously by French and German large companies.

In this context, our members are however highly concerned about the working documents released so far by EFRAG's Project Task Force on European Sustainability Reporting Standards (PTF-ESRS). The proposals as they stand are overly complex, too extensive and lack prioritisation. They could also require the release of commercially sensitive information to the detriment of European companies. Unless radically simplified, the disclosure requirements envisaged could put the effectiveness of the future EU Sustainability Reporting Standards (ESRS) at stake.

Overly complex EU standards will jeopardise their effectiveness and the information quality for users

Since mid-January, hundreds of pages of working documents have been released by EFRAG. Instead of following a principle-based approach, the 24 draft standards for companies include roughly 200 disclosure requirements, 200 authoritative application guidelines, comprising more than thousand data points. These draft standards address only the sector agnostic level and will be supplemented by sector specific disclosure requirements.

It is furthermore necessary to allocate sufficient time for serious discussions on the draft standards. The hasty approach also risks pre-empting the outcome of negotiations regarding the CSRD proposal and going beyond level 1 disclosure requirements as they stand. We would also like to put into question the fact that detailed

draft standards are prepared before the due process procedures of EFRAG are in place and the overriding guiding principles have been adopted. This working method may be compared to putting the cart before the horse: it cannot work.

While supporting an ambitious EU framework, we think that the road taken by the PTF-ESRS is far too complex and detailed to be acceptable and applicable for preparers. EU companies will be unduly overburdened and lost in the seemingly impossible task of applying such standards. In addition, the hundreds, if not thousands of pages of information which companies would have to disclose, would impede their stakeholders to gain any valuable insight and lead to a loss in readability. Since the information would have to be disclosed in the annual report, it would furthermore side-line the financial report contained therein.

EU standards will put EU companies' competitiveness at stake

The draft documents go into a detail of disclosure requirements which touch on commercially sensitive business information. Not only are they often impossible to deliver, even if they were, they would raise critical liability issues and unilaterally allow non-EU competitors to gain valuable insights in strategic data (for example, the « description of opportunities over the long term and their potential financial impact »). Even financial reporting standards – whether international or national GAAPs – do not go into as much detail. Examples of this kind are numerous and field-testing new requirements may be a way to check the practicability of future standards.

Taking the international dimension into account is crucial and indispensable

Both for preparers and users of sustainability reports it is essential that EU standards are aligned with internationally recognised standards. The newly established International Sustainability Standards Board (ISSB) of the IFRS Foundation will design standards that will serve as a global baseline for sustainability reporting standards, based on financial materiality. We thus strongly encourage EFRAG and the EU Commission to build on the future ISSB standards and add only strictly necessary disclosure requirements, reflecting the EU's double materiality perspective. Investors, including those active in the EU, are international and adopting different approaches to satisfy financial materiality will create confusion and complexity and thus undermine the quality of information. German and French issuers fully support ISSB's work and oppose diverging information requirements on ESG related financially material issues.

Focusing on most urgent issues is needed

For the above-mentioned reasons, we suggest focusing on climate first, then on the 14 indicators of the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) and finally dealing with other issues. This should be tackled in due course, when CSRD and guiding principles have been adopted with the necessary due process involving issuers and other interested stakeholders, in particular through public consultations carried out within sufficient delay (120 days).

The challenge is to green the EU economy, and this can only be achieved with the involvement and support of companies which are key players in the transition to a sustainable economy. AFEP and Deutsches

Aktieninstitut remain at your disposal and would be grateful for the opportunity to meet with your cabinet or Commission staff – together with practitioners amongst our membership – to go through the working papers and point out the numerous disclosure requirements we are concerned about.

Yours sincerely



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