THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

Commissioner Mairead McGuinness
European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels

12 October 2022

Dear Commissioner McGuinness,

European corporate treasurers on ESG reporting standards - EACT letter

As European corporate treasurers, we are committed to the EU efforts to ambitiously address the challenges posed by climate change, environmental and social issues. The development of an EU sustainability disclosure framework is a key component of these efforts as it will enable availability and comparability of information from a user perspective. Equally, environmental, social and governance (ESG) reporting reinforces accountability for actions and commitments from a corporate perspective, to helping us steer businesses in a holistic way.

As European companies with both EU and global operations, we strongly believe that our ambitions should not only be to develop strong EU standards but to also seek a framework that is as coherent as possible with and that builds on international standards – to both ensure that European multi-nationals are not faced with a fragmented system requiring significant work to overcome when reporting in different regions, as well as to bring other jurisdictions and companies on board.

The need for coherent EU and international ESG reporting standards

The debates are advancing at different speeds globally, and we understand that the EU may have different needs to put forward specific reporting obligations reflecting its vision and existing legislative framework around sustainability. As the EU but also the ISSB and others develop new ESG frameworks, requirements could begin to overlap and create a fog of sustainability information, increasing the cost of compliance for businesses. We would strongly urge, for the sake of avoiding duplicate requirements for European companies, that wherever it makes sense to have coherence between European and international standards there be a clear commitment to and prioritisation of ensuring a consistent outcome.

European co-legislators recognised the implications of global fragmentation and committed in the Corporate Sustainability Reporting Directive (CSRD) to ensure that EU standards take account of international standards being developed by the IFRS Foundation, asking that EU standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB. Beyond the work of the IFRS Foundation, the EU should also consider the work of other international bodies, for example the Task Force on Climate-Related Financial Disclosures (TCFD) and the United Nations Guiding Principles on Business and Human Rights (UNGP) among others. Creating fit-for-purpose reporting obligations will leave room for businesses to focus on driving corporate action and promoting effective impact on the ground, rather than having a "box-ticking" exercise and administrative burdens.

The reasons for the co-legislators to have called for that coherence remain valid.

As companies preparing those reporting obligations, we are concerned that if we fail to achieve coherence, European companies will be burdened by duplicate reporting, impacting our competitiveness in what are already very challenging economic times on several other fronts. This would undermine the original aim of standard setters: clarity and comparability to better finance the green transition. As an association representing companies of all sizes, we are also concerned of the impact that lack of coherence would have on businesses of mid and small size as we go forward with reporting and due diligence requirements that will have spill-over effects across value chains of larger companies.

A common foundation allowing for a building-block approach

To make this coherence a reality, policy makers in Europe and beyond should give political priority to the issue and commit to building from a common foundation. To achieve this common foundation several key elements need to be consistent:

- Common terminology – i.e., aligning definitions used across conceptual guidelines (where e.g., terms such as financial materiality and enterprise value creation need to have a common understanding).
- Common methodology for metrics – i.e., ensuring that when requiring the same metrics, they are also calculated in the same manner across different frameworks (e.g., ensuring that greenhouse gas (GHG) emissions are calculated in consistent manner).
- Common understanding of management and risk processes within the framework – embedding a common approach for disclosure of how sustainability-related factors are considered in goal setting, planning and governance of company functions, reflecting the work of the internationally supported TCFD framework.
- Consistent presentation of disclosure – ensuring the same approach to the reporting structure with the view to avoid additional reconciliation tables across different standards and additional electronic disclosure formats.

In addition, highest priority should be given to ensuring an ongoing and structured dialogue between the EU and international standard setting bodies – further building and formalizing the work being undertaken under the IFRS Jurisdictional Working Group.

Finally, if a decision is taken to diverge on aspects of the sustainability reporting framework, we urge to have a clear and public cost-benefit assessment of such divergence, taking into account the impact on European preparers. If any divergence happens, it should still ensure a building block approach so businesses can secure compliance in a resource-effective manner. This would enable an objective assessment by co-legislators of the impact of divergence when adopting the standards.

We are at a crucial inflection point in the development of standards in Europe and globally. If we fail to achieve a common foundation and coherence now, we will be faced with further fragmentation and a potentially unbridgeable gap to a globally used framework – ultimately risking burdening European companies and putting them at a disadvantage in the long-run.

Yours sincerely,

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Chair of EACT

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