

8 August 2022

Hans Buysse
Administrative Board President
European Financial Reporting Advisory Group
35 Square de Meeûs
Fifth Floor
1000 Brussels, Belgium

Re: Public Consultation on the First Set of Draft European Sustainability Reporting Standards

Dear Mr. Buysse:

CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (CDPC),² welcomes the opportunity to comment on the European Financial Reporting Advisory Groups' (EFRAG's), [Public Consultation on the First Set of Draft European Sustainability Reporting Standards \(ESRS\)](#)³.

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures—and the related independent audits—provided to investors and other end users are reliable and of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the CDPC.

We laud EFRAG's commitment, the degree of work that has been undertaken, and the rapid pace at which this first set of draft European Sustainability Reporting Standards has been issued. We understand the urgency that is required. We provide the comments which follow in the spirit of being able to provide input that would be useful to EFRAG in the establishment of the ESRSs for the benefit of investors and with the objective of ensuring investors have the opportunity to understand the impact of such disclosures relative to the requirements under the Corporate

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Shanghai; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on [LinkedIn](#) and Twitter at [@CFAInstitute](#).

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is composed of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

³ [EFRAG - Public Consultation On The First Set Of Draft ESRS \(https://www.efrag.org/lab3\)](https://www.efrag.org/lab3)

Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR).

Due Process: Number of Consultations, Breadth of Subject Matter, Time to Respond and Timing of Consultation Period

In the spirit noted above, we are concerned about the robustness of the due process around the publication of the final ESRs. In early May the 13 consultations – listed in the **Appendix** – on 11 different topics and comprising nearly 800 pages of content were issued for comment in a period of approximately 90 calendar, and 75 business, days.

Investors need to review each of EFRAG’s 13 proposals on the wide breadth of topics, ascertain the feasibility of preparers providing such information, and whether the information will be decision-useful for investors. Further, and importantly, investors must also consider the link between these disclosures as mandated by CSRD and whether they facilitate investors’ ability to meet the requirements of the SFDR.

Making this more challenging is that during this same time period, the US Securities and Exchange Commission issued their Proposed Rule [*The Enhancement and Standardization of Climate-Related Disclosures for Investors*](#)⁴ and the International Sustainability Standards Board (ISSB) issued their [*General Sustainability Related Disclosures Exposure Draft*](#) and [*Climate-Related Disclosures Exposure Draft*](#) consultations⁵.

Further, we note that EFRAG plans to finalize its feedback summary on the standards by the end of September 2022, less than sixty days from the due date of comments on these proposals.

Overall, the number of consultations, breadth of subject matter, time to respond and the overlap in the timing of the consultation period for investors – who have much more limited resources to consider these proposals, in contrast to preparers or accountants – makes it virtually impossible to respond and provide commentary in a substantive, thoughtful and cohesive manner. Further,

⁴ In addition to our [full comment letter](#), we have provided the following summaries or excerpts:

- a) For a short two-page summary see:
[CFA Institute Responds to SEC Proposal on Climate-Related Disclosures: 5 Key Takeaways | CFA Institute Market Integrity Insights](#)
(<https://blogs.cfainstitute.org/marketintegrity/2022/07/07/cfa-institute-responds-to-sec-proposal-on-climate-related-disclosures-5-key-takeaways/>)
- b) For the seven-page Executive Summary contained within the comment letter see:
[CFA Institute to SEC Proposal on Climate-Related Disclosures: Executive Summary](#)
(<https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalExecutive-Summary7182022.pdf>)
- c) For the table within the letter that represents a Summary of Positions see:
[CFA Institute to SEC Proposal on Climate-Related Disclosures: Summary of Positions](#)
(<https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalSummary-of-Positions7182022.pdf>)

⁵ See our [comment letters](#) at CFA Institute’s comment letter home page.

the rapid EFRAG turnaround suggests the time devoted to such an endeavor might not yield feedback that will be integrated into the final decision-making process.

Overall, we are concerned the timeline and timing do not result in a robust process that yields the meaningful feedback that EFRAG needs to ensure the development of high-quality standards as well as acceptance and legitimacy of such standards by all stakeholders.

***Additional Time Required for Consultation & Implementation:
Prioritization Also Necessary***

We believe additional time is needed to consider these proposals by all stakeholders such that meaningful consensus can be reached on the most useful path forward. We also believe that implementation of all of these proposals at one time will not be feasible for preparers and result in ineffective disclosures from companies. Further, it is unlikely that investors will be able to consume and assimilate all such information if delivered simultaneously. For this reason, we believe an extended due process and commentary period is necessary to be able to provide meaningful feedback and a staggered adoption date for the proposals is essential. We believe prioritization of ESRS 1 (General Principles), ESRS 2 (General, Strategy, Governance and Materiality Assessment Disclosure Requirements) and ESRS E1 (Climate) would be a useful starting point.

Implementing this many proposals at once is not something that has been undertaken in the financial reporting ecosystem where processes and controls simply need to be tailored – not created from scratch as is the case with many sustainability standards – and where there is a well understood conceptual framework and attestation procedures. Further, investors will want to understand the connection to financial results and how the application of double materiality has produced information that is supplementary to information that is required for single, financial materiality.

Global Baseline is Elusive Without Coordination

Investors stand to be the greatest beneficiary of a global baseline as it relates to sustainability standards. As such, we support the idea of a global baseline.

The challenge, as we have articulated it to the ISSB, is that multiple jurisdictions are working on the same disclosures at the same time. Each is using similar ingredients but using a different recipe which will result in a different outcome in standards and different disclosures for investors.

All three organizations/regulators (SEC, EFRAG and ISSB) are issuing standards or regulations that do not reference each other and have simple and fundamental differences, suggesting that while the idea of a global baseline is a worthy goal, the reality is that the three most significant bodies are developing different versions simultaneously and even basic disclosures (e.g., governance, defined terms) that should be part of a baseline are simply different. A baseline is challenging to develop when everything is moving simultaneously.

As we have communicated to the ISSB, the notion of a global baseline is not something it can achieve alone. It needs to be a shared pursuit and objective. At this stage, we struggle to see the

manifestation of a global baseline – other than the broadest categories – at a level that will yield comparable data for investors. As we shared with the ISSB, its recently formed Jurisdictional Working Group must articulate for all stakeholders the differences – stakeholders should not be creating the comparisons – and ironing out the differences. Further, there needs to be consensus on what a global baseline really means.

We welcome the ISSB’s pursuit of a global baseline and the [call by the G7 and G20](#) for the ISSB and national and regional standard-setters as well as other reporting initiatives to actively cooperate in the process of elaborating the baseline with the aim of reaching standards that can be implemented globally. We believe EFRAG must play an important role in that process.

Thank you for your consideration of our views and perspectives. We recognize the need for swift implementation, but equally important is an effective standard setting process that yields high-quality, globally integrated standards that stakeholders are willing to accept.

We welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact me by email at sandra.peters@cfainstitute.org.

Sincerely,



Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
CFA Institute

cc:

Paul Andrews, Managing Director, Research, Advocacy and Standards

Mairead McGuinness,

European Commissioner for Financial Stability, Financial Services and Capital Markets Union

John Berrigan,

Director General, Financial Stability, Financial Services and Capital Markets Union, European Commission

Sven Gentner,

Head of Unit, DG FISMA, Corporate Reporting, Audit and Credit Rating Agencies, European Commission

Emmanuel Faber, Chair, International Sustainability Standards Board

Sue Lloyd, Vice Chair, International Sustainability Standards Board

Gary Gensler, Chair, US Securities and Exchange Commission

Paul Munter, Acting Chief Accountant, US Securities and Exchange Commission

Martin Moloney, Secretary General, International Organization of Securities Commissions

Overarching

Cover Note for Public Consultation

Appendix I: Navigating the ESRS: ESRS Index

(Mapping of ESRS/Disclosure Requirements/Application guidance including in table 4 the reconciliation between the Working Papers and the ESRS Exposure Drafts)

Appendix II: CSRD requirements for the development of sustainability reporting standards and their coverage by the ESRS Exposure Drafts

Appendix III: SFDR Principal Adverse Impacts in the ESRS

Appendix IV: TCFD Recommendations and ESRS reconciliation table

Appendix V: IFRS Sustainability Standards and ESRS reconciliation table

Appendix VI: Acronyms and glossary of terms.

General

ESRS 1: General principles

ESRS 2: General, strategy, governance, and materiality assessment disclosure requirements

Environmental

ESRS E1: Climate change

ESRS E2: Pollution

ESRS E3: Water and marine resources

ESRS E4: Biodiversity and ecosystems

ESRS E5: Resource use and circular economy

Social

ESRS S1: Own workforce

ESRS S2: Workers in the value chain

ESRS S3: Affected communities

ESRS S4: Consumers and end-users

Governance

ESRS G1: Governance, risk management and internal control

ESRS G2: Business conduct