CFA Institute

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May 6, 2025

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

Dear Mr. Jaspar:

CFA Institute[1] appreciates the opportunity to comment and provide our perspectives on the European Financial Reporting Advisory Group's ("EFRAG's") call for public input on the revision of the European Sustainable Reporting Standards ("ESRS"), *Questionnaire for Public Feedback: ESRS Set 1 Revision* (the "Questionnaire"), under the Corporate Sustainability Reporting Directive ("CSRD") in relation to the European Commission's (EC's) Omnibus Regulation ("Omnibus").

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 audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Support Scaling of ESRS Requirements Under the CSRD – We support the Omnibus Regulation's reconsideration of the scope and applicability of the CSRD requirements and the scaling of the ESRS requirements being undertaken by EFRAG. We appreciate that EFRAG has undertaken a call for public input in the Questionnaire.

Timeframe for Input Should Be Longer –That said, we believe the amount of time allowed for public comment (four weeks from April 8th to May 6th) and the lack of broad awareness with respect to the existence of the Questionnaire is concerning. In our 2022 comment letter to EFRAG on the first set of ESRS we warned:

> *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,*

[1] With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 200,000 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.

> *the rapid EFRAG turnaround suggests the time devoted to such an endeavour 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****.*

Our concern at that time was that the rapid development of the ESRS would impact the development of high-quality standards and whether they would be considered legitimate and well accepted by all stakeholders. We believe that recent events suggest this concern was valid and has manifested itself in the need for these revisions.

We believe this expedited timeline with respect to the revisions of the ESRS will yield a similar result as the timing is highly accelerated and the feedback approach is passive rather than active. Feedback from investors needs to be sought – through active engagement with them – not simply requested by way of a passive posting of a questionnaire.

Further, only now are investors beginning to digest the extensive reporting under CSRD, which has recently been published. Anecdotally, the feedback we receive is that the reports are lengthy, the data is highly qualitative, and the information is not linked to financial results or financial reporting. The result is the information is not necessarily decision useful. Investors advise us they want a limited number of highly financially value relevant metrics.

At this moment, those complying with the ESRS standards (i.e., preparers) have had several years to digest and apply the standards, but investors are only just now beginning to see the output of the standards. As such, this – along with the passive feedback approach – is likely to yield feedback which is more focused on preparers interests than those of investors. We believe EFRAG needs to be mindful of this when considering the feedback received.

In addition to the timing of the Questionnaire we are concerned that the timing in the EFRAG [ESRS Revision Work Plan and Timeline] submitted to the EC (i.e., see box to the right) is aggressive and will only exacerbate the concern we expressed in 2022.

Work plan and timeline

Overview

10. On the basis of the 31 October 2025 deadline for delivery of the revised draft ESRS to the EC, EFRAG envisages the following internal timeline and steps, supported by a detailed operational work plan reviewed and approved by the SRB in its 23 April meeting:

Activity	Timing
1. Establishing a vision on actionable levers for substantial simplification (to be confirmed following the stakeholders' feedback)	April to mid-May 2025
2. Gathering evidence from stakeholders, analysis of the issued reports and other sources	
3. Drafting and approving the Exposure Drafts amending ESRS	Second half of May to July 2025
4. Publishing the Exposure Drafts, receiving and analysing feedback (including via public consultation) from stakeholders	August and September 2025
5. Finalising and delivering the technical advice to the EC	October 2025

We are also concerned that any revisions will not be synched up with the information needs relative to the Sustainable Finance Disclosure Regulation ("SFDR").

The Nature of Our Input – Time does not permit that we go through each ESRS standard and provide detailed input. Accordingly, we provide here several overarching matters for your consideration related to topics touched upon in the Questionnaire.

Focus on Investors and Financial Materiality – We recognize that the EU Green Deal which includes the EU Taxonomy of Sustainability Activities, the SFDR, the CSRD and the Corporate Sustainability Due Diligence Directive ("CSDDD") were developed based upon the EU's civil society objectives rather than the needs and objectives of investors, per se. That said, these regulations and directives are focused on mobilizing capital towards a more sustainable future. This necessitates that investors find them decision useful.

In our 2020 comment letter to Accountancy Europe we advocated for an approach focused on investors and financially value relevant information as a starting point upon which information necessary for values based investing could subsequently be developed. An appropriate discernment of the financially material information was an essential first step.

The ESRS's developed to comply with the CSRD have attempted to achieve many objectives at once and the volume and qualitative information has, in our view, obfuscated the truly financially material information that investor can assess – and more importantly the company management can integrate into not only their reporting but their business processes.

The objective of the aforementioned regulation should not be to create disclosures for disclosures sake but to create disclosures which alter the behaviour of management and investors.

Location of Information and Link to Financial Information – In that same letter to Accountancy Europe we noted that the location of the information matters as the location of the information drives the nature and purpose of the information being reported.

We believe that one of the key considerations EFRAG needs to make is to discern which information within the ESRS is financially material and to require quantitative information with disclosures in the annual reports – not simply sustainability reports – of such information with linkages to the financial statements.

These characteristics are essential to making the information decision useful. Only when it is decision useful is the information relevant to investors and will it drive capital formation.

We also believe the concept of double materiality is extremely complicated and to be meaningful it needs to be differentiated from financial materiality. Only when financially material information is identified separately can additional, or different, information which results from the application of double materiality be consumed and digested by not only investors – but by management and other users.

ISSB and SASB Standards: Quantitative and Financially Value Relevant – We have previously conveyed publicly our concerns regarding the notion of "interoperability". [2] It is our long-standing and seasoned experience that tells us that when the words in standards are

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[2] See discussion of interoperability at Page 15 of CFA Institute Comment Letter to ISSB on Agenda Consultation at https://rpc.cfainstitute.org/sites/default/files/-/media/documents/comment-letter/2020-2024/ISSB-Agenda-Consultation-Comment-Letter_10-18-23.pdf

not identical, the disclosures provided to investors are not the same. Interoperability sounds good, but it is rarely effective for investors.

We believe EFRAG needs to utilize the ISSB standards – not simply communicate interoperability of the ESRS and ISSB standards – for the financially material elements of the ESRS standards. Further, it is our view, that any revisions to the ESRS should not result in sustainability standards that are below the requirements in the ISSB standards.

More specifically, we believe it is important for the ESRS to use the SASB standards, in addition to IFRS S1 and S2 because they are focused on the industry specific, financially material, sustainability related risks and opportunities investors have concluded are decision-useful in making capital allocation decision.

Disclosures Should Facilitate Integration into Business Decision-making – At this juncture, we also believe that it is essential for EFRAG to focus on risks and related disclosures that are financially relevant and those which can be integrated into annual reports and connected to financial reporting information such that not only can investors utilize this information but such that the management of the reporting companies can align the risks and disclosures to company operations and financial results.

The continued inclusion of such information in corporate sustainability reports without direct linkage to the financial reports fails to not only provide investors with decision-useful information, but it fails to integrate the risks into the operations of the company and create durable change in company behaviour.

It is our experience – after many decades of advocating for disclosures – that what gets measured and linked to financial results is what gets monitored by companies.

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Thank you for your consideration of our views and perspectives. We would 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 Sandra J. Peters at sandra.peters@cfainstitute.org.

Sincerely,

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Global Financial Reporting Policy Advocacy
CFA Institute