Principles for Responsible Investment

ENSURING THAT THE FIRST SET OF EUROPEAN SUSTAINABILITY REPORTING STANDARDS MEET INVESTOR NEEDS

25 November 2022

The Principles for Responsible Investment (PRI) strongly welcomes Europe's leadership in sustainability reporting, which has resulted in the provisionally agreed Corporate Sustainability Reporting Directive (CSRD). Furthermore, we welcome EFRAG's extensive work in producing the latest draft European Sustainability Reporting Standards (ESRS), which are a major step towards providing investors with the decision-useful corporate sustainability-related information they need.

As the first set of draft ESRS are being deliberated, it is of the utmost importance that the final ESRS meet investors' information needs by informing their decision making and helping them to meet their own reporting obligations. This statement sets out five aspects that co-legislators should ensure are reflected in the first set of ESRS.

The PRI has previously provided recommendations on sustainability reporting developments in Europe through public statements and our response to EFRAG's consultation on the first set of draft ESRS, reflecting signatories' views and the PRI's own research.

Alignment with global standards and frameworks

Interoperability – allowing undertakings to collect data and report in a manner that serves both local and global requirements – is a key concern for investors who allocate capital globally to ensure comparability of data across their portfolios. For these investors, interoperability is a matter of investor protection, growing market demand, and the ability to incorporate sustainability issues into investment decisions that contribute to sustainability outcomes.

In this regard, we strongly welcome the announcement at COP27 on the level of alignment to be achieved between the first set of ESRS and the IFRS Sustainability Disclosure Standards.

The first set of ESRS should be as interoperable as possible with global sustainability reporting standards and frameworks – including the final IFRS Sustainability Disclosure Standards, the GRI Standards and the UN Guiding Principles on Business and Human Rights (UNGPs) – in terms of the concepts, terminologies, metrics and methodologies upon which disclosure requirements are built. In addition, we recommend continued engagement between EFRAG and global standard-setters, and future amendments to ESRS delegated acts to align with the final IFRS Sustainability Disclosure Standards.

Regulatory coherence

To ensure that investors can comply with sustainability disclosure requirements such as the SFDR and the Taxonomy Regulation in the most effective and efficient manner, the regulatory framework within the European Union must be coherent – creating an end-to-end sustainability reporting system aligning corporate and investor disclosure.

The first set of ESRS should contain all information that investors need to meet their regulatory reporting obligations, including mandatory SFDR Principal Adverse Impact indicators. In this regard, we welcome the proposal to exclude information needed for reporting under the SFDR from the materiality assessment.

In addition, it will be important to ensure compatibility between the proposed Corporate Sustainability Due Diligence Directive (CSDDD) as it is finalised and the ESRS. As acknowledged within the proposed CSDDD, such alignment is crucial to ensuring proper information collection for reporting purposes under the CSRD and better identification of adverse impacts under the proposed CSDDD.

Materiality

We support the principle of double materiality in the provisionally agreed CSRD and its incorporation in the draft ESRS.

To ensure interoperability, the definitions of financial materiality and impact materiality should remain as aligned as possible with international standards and frameworks.

Furthermore, we welcome the following elements of draft ESRS 1 and draft ESRS 2:

- the requirement to specify which disclosure requirements an undertaking has disclosed against, and where applicable to explain why all disclosure requirements in a topical standard are deemed 'not material';
- the requirement to specify the thresholds and/or criteria used to determine when information is 'not material' for an undertaking and therefore omitted; and
- guidance on implementing the materiality assessment.

These elements should remain within the final ESRS, since they clearly indicate which information has been deemed 'not material' and why. The transparency of an undertaking's materiality assessment helps to ensure verifiability of data to investors, while guidance would improve consistency in the application of materiality assessments and the comparability of resulting disclosures.

Climate change

We support the level of ambition of draft ESRS E1 on climate-related disclosures, and the proposal to exclude ESRS E1 from the scope of the materiality assessment.

Policy makers should retain disclosures on the below topics. Investors need these to assess an undertaking's resilience to climate-related risks, ability to pursue climate-related opportunities, and climate-related impacts.

- **Scenario analysis** – indicating how climate-related risks and opportunities were assessed.
- **Transition planning** – indicating the future compatibility of an undertaking's strategy and business model with limiting global warming to 1.5°C, in line with the Paris Agreement. Robust and credible reporting on transition plans is necessary for investors to understand how an organisation will pivot its existing assets, operations and entire business model to achieve this – and should therefore remain within the ESRS.
- **Policies, targets and action plans** – indicating how an undertaking is implementing strategic decisions and initiatives, resulting future performance and underpinning actions and resources.
- **Climate-related metrics** – including Scope 1, 2 and 3 greenhouse gas (GHG) emissions, carbon pricing and potential financial effects. This is needed by investors to assess financial and sustainability performance, and to meet their regulatory and client reporting obligations.

On Scope 3 GHG emissions, these are the largest source of emissions in some industries. Their inclusion would mean that a large share of GHG emissions, where material, will not go unreported.

Subsidiaries

We support the introduction of a requirement to assess material sustainability matters for the entire consolidated group – ensuring subsidiaries are covered – and to specify significant differences between material matters for the consolidated undertaking and subsidiary-level undertakings. This is needed to provide investors with relevant information on all of an undertaking's material risks, opportunities and impacts.

For more information, contact:

René van Merrienboer
Director of Sustainable Markets
rene.van-merrienboer@unpri.org

Benjamin Taylor
Analyst, Driving Meaningful Data
benjamin.taylor@unpri.org

Elise Attal
Head of EU Policy
elise.attal@unpri.org

Edward Baker
Head of Climate Policy
edward.baker@unpri.org

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research.