PRI REACTION STATEMENT AND QUOTE ON ADOPTION OF ESRS 1 AND ESRS 2

Monday 31st July 2023.

Today the European Commission has adopted its first delegated act of European Sustainability Reporting Standards (ESRS). This sets out cross-cutting standards for disclosure of environmental, social and governance (ESG) information by companies subject to the Corporate Sustainability Reporting Directive (CSRD), which entered into force earlier this year.

PRI welcomes this delegated act as an important step towards investors having access to the data they need to assess sustainability risks, opportunities and impacts of investee companies – an essential requirement to guide investment decisions towards the net-zero transition.

The requirements on companies to explain why they have deemed climate change to be non-material, and hence not worth disclosing, and to explicitly state which datapoints deriving from the Sustainable Finance Disclosure Regulation (SFDR) are non-material, are important. They will improve the transparency of materiality assessments in these areas for investors, assurance providers and civil society. Investors will be able to keep a watchful eye on investee reporting and will expect comprehensive disclosures based on accurate and science-based materiality assessments. In particular, given climate change is a growing and acute system-level risk, related indicators such as GHG emissions should be considered material and thus reported on by all companies subject to the CSRD.

However, as flagged in a joint statement released earlier in the month with support from over 90 investors, the Commission's decision to subject all issue-specific reporting to a materiality assessment means the ESRS may not guarantee investors access to the data they need to comply with their own mandatory reporting obligations – such as those under the SFDR – and allocate capital in line with sustainability goals such as those of the European Green Deal, the EU Biodiversity Strategy for 2030 and the EU Climate Law.

Therefore, while we encourage co-legislators to support the delegated act through the scrutiny period to avoid further delay in the implementation of the CSRD, we urge the European Commission to commit to making key climate disclosure indicators[1], and environmental and social indicators relevant to SFDR and other investor reporting regulations, mandatory to disclose in the first review of this delegated act in 2026. In the meantime, the Commission should provide clear, comprehensive and robust guidance on materiality assessments, so that material sustainability information is not omitted by companies.

[1] Including Scope 1, 2, and 3 GHG emissions and disclosures enabling investors to assess the credibility of corporate transition plans.

The Commission should also consider how its move away from requiring certain indicators as mandatory may influence the rest of the EU sustainable finance framework as well as the global development of sustainable finance legislation. Investors need policy stability and coherence to invest in sustainable assets effectively and with confidence. These standards should be seen as a steppingstone towards a fully functioning sustainable finance framework and a whole-of-government approach to the sustainability transition, and not as a signal of a less stringent policy approach.

PRI will continue to engage with the Commission and other stakeholders to encourage a comprehensive and ambitious sustainability reporting framework and standards that provide investors with meaningful, comparable and reliable information. This is necessary to allow investor to fulfil their duty to evaluate a company's prospects based on its sustainability performance and finance the transition to a sustainable economy.

QUOTE FOR PRESS REQUESTS

PRI welcomes the publication of the first ESRS delegated act. This is an important steppingstone towards investors having access to the data they need to assess sustainability risks, opportunities and impacts.

The requirements on companies to explain why they have deemed climate change to be non-material, and hence not worth disclosing, and to explicitly state which datapoints deriving from the SFDR are non-material, are important to improve transparency of materiality assessments. Investors will be able to keep a watchful eye on investee reporting and will expect comprehensive disclosures based on accurate and science-based materiality assessments. In particular, given climate change is a growing and acute system-level risk, related indicators such as GHG emissions should be considered material and thus reported on by all companies subject to CSRD.

Nevertheless, the Commission's decision to subject all issue-specific reporting to a materiality assessment may not guarantee investor's access to the consistent and reliable information they urgently need to allocate capital in line with sustainability goals and meet mandatory reporting obligations, such as the SFDR. The European Commission should commit to making key climate disclosure indicators and environmental and social indicators relevant to SFDR mandatory to disclose in the first review of this delegated act in 2026. In the meantime, it should provide clear, comprehensive and robust guidance on materiality assessments, so that material sustainability information is not omitted by companies.

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