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## ICMA's response to the draft European Sustainability Reporting Standards proposed by EFRAG

The International Capital Market Association (ICMA) welcomes the opportunity to provide feedback on the first set of the European Sustainability Reporting Standards (ESRS) proposed by the European Financial Reporting Advisory Group (EFRAG), as envisaged by the upcoming Corporate Sustainability Reporting Directive (CSRD). Relatedly, ICMA also welcomes the recent [provisional political agreement](#) reached between the co-legislators on the CSRD. The EFRAG's technical advice on the ESRS, which is the subject matter of this consultation, will inform the delegated acts that will be adopted by the European Commission to provide the disclosures requirements under the CSRD.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has around 600 members located in over 65 jurisdictions. See: [www.icmagroup.org](http://www.icmagroup.org).

This feedback is given on behalf of ICMA and its constituencies representing, among other, issuers and investors in the global debt capital markets for whom corporate sustainability reporting is important as part of their strategy, financial planning, and analysis. In a wider context it is also important to the global sustainable bond market underpinned by the voluntary product standards represented by the [Principles](#) supported by ICMA.

ICMA supports the development of a European standard for sustainability reporting based on the double materiality perspective and which will produce understandable, relevant, verifiable, comparable, and faithful sustainability information, while at the same time, be proportionate as well as interoperable and consistent with international initiatives. The key points that we are making in our response are in summary:

- **Double materiality:** ICMA welcomes the double materiality perspective by the CSRD and ESRS as it will, among other, provide a more comprehensive picture to investors and promote transparency to all other stakeholders.
- **Balancing prescriptiveness with usability:** While ICMA welcomes the high ambition underpinning the ESRS, it recommends: (i) attributing more weight to sector-specific disclosures; (ii) ensuring data calibration; and (iii) providing flexibility for undertakings in the initial experimentation and capacity building phase.
- **Implementation of value chain reporting:** ICMA supports the incorporation of value chain reporting (including Scope 3 emissions, where relevant) while also welcoming the recognition of potential implementation challenges. ICMA recommends further consideration of proportionality and gradual implementation to ease adoption, including via the prioritisation of reporting boundaries and sustainability topics.
- **International operability and usability:** ICMA emphasises the importance of interoperability and consistency of reporting standards and encourages further dialogue and exchange between EFRAG and ISSB (as well as other bodies and jurisdictions) to avoid or minimise divergences and advance towards a convergent standard.
- **Climate-related reporting and transition:** ICMA recognises the importance of transition plans and supports the inclusion of Scope 3 emission reporting, where relevant.



Our attached response has been submitted electronically.

Yours faithfully,

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## General remarks

We welcome the recent preliminary [political agreement](#) between the co-legislators on the CSRD, which will replace the existing Non-financial Reporting Directive 2014/95/EU, with the aim to both broaden the undertakings in scope of disclosure requirements and enhance the quality of data. The CSRD sets forth the general parameters for the disclosure requirements which will be adopted by the Commission as delegated acts taking into consideration EFRAG's technical advice, i.e., the subject matter of this consultation.

We support the development of a European standard for sustainability reporting based on the double materiality perspective and which will produce understandable, relevant, verifiable, comparable, and faithful sustainability information, while at the same time, be proportionate as well as interoperable and consistent with international initiatives.

### Adoption of double materiality

In line with the CSRD, the proposed ESRS adopts the double materiality perspective, which we welcome as it will, among other, provide a more comprehensive picture to investors and promote transparency to all other stakeholders.

### Balancing prescriptiveness with usability

We welcome the ESRS' high ambition on standardising sustainability-related information, which supports one of the main objectives of the CSRD. The ESRS provide preparers with the flexibility to contextualise sustainability assessments via entity-specific disclosures and a mechanism to assess the presumed materiality of disclosures based on reasonable and supportable evidence. These are intended to counterbalance the prescriptive nature of the disclosure requirements and introduce proportionality to take account of specific facts and circumstances related to the undertaking, which we find positive from a usability and implementation perspective.

Nevertheless, with the exception of key climate-related metrics and disclosures, we believe EFRAG should concentrate materiality assessments under the future sector-specific standards. Such approach would enable a more meaningful comparison of undertakings active in the same business sector by attributing a greater weight to sector-specific disclosures. It would also make the proposed rebuttable presumption mechanism more usable and streamlined and help avoid redundant materiality assessments which can lead to a big amount of insignificant data. As mentioned below, it would also contribute to the international consistency and compatibility of the ESRS as this approach will also potentially be taken under the upcoming ISSB standards. In any case, we believe EFRAG should provide guidance and examples on materiality assessments in order to achieve consistency and comparability between undertakings in line with the CSRD's objectives.

More generally, we believe the data to be generated from the required disclosures should be calibrated and non-duplicative. Reporting which may lead to data being disclosed in a duplicative, or redundant manner should be avoided. From a comparability and standardisation perspective, it would also be ideal to concentrate disclosures on more quantitative datapoints with accompanying calculation methodologies rather than qualitative statements. Furthermore, the specific data that will be needed as per the requirements of other EU sustainable finance legislations should be embedded in the ESRS requirements and provided by preparers. We welcome in this respect the very helpful Appendix III which locate the SFDR PAIs in the ESRS.

Lastly, we also believe that undertakings will generally need flexibility during the initial experimentation and capacity-building phase when they aim to get the disclosures in place for the first time.

### **Implementation of value chain reporting**

While we support the incorporation of value chain reporting including Scope 3 emissions, where relevant, under the CSRD and the ESRS, its implementation needs to be proportionate and gradual. This would involve: (i) recognising the existing data gaps, especially in Emerging Markets and other less developed regions; (ii) facilitating “buy-in” from value chain actors that would enhance data availability gradually and potentially incentivise them to act on sustainability matters; (iii) avoiding situations where business relationships as well as the supply of goods and services are disrupted ; and, (iv) allowing preparers build capacity in the initial stage in terms of getting the right data in place.

In this respect, we positively note that the CSRD and the ESRS accommodate an important degree of proportionality in their requirements and measures. We welcome the flexibility provided by the CSRD political agreement for the first three years for value chain reporting where undertakings can explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future.

Consistently, it is welcome that the proposed ESRS also recognise the potential challenges related to the implementation of the value chain disclosures and allow reasonable estimates (e.g., based on peer or sector analysis) following engagement efforts (ESRS 1, par.67). Moreover, under the ESRS, undertakings with complex value chains are allowed to start their related due diligences with most significant sustainability issues while being expected to broaden coverage over time under the draft standards (ESRS 1, p.39.).

Nonetheless we recommend further proportionality and gradual implementation to ease the adoption and implementation of the ESRS. Subject to the CSRD’s final limitations and without diluting the ambition of the ESRS, such approach could be implemented based on: (i) the prioritisation of the value chain reporting boundaries, for instance, by focusing on direct value chain/client relationships; (ii) the prioritisation in terms of sustainability topics, for instance, by focusing first on climate change; (iii) application of the future ESRS for SMEs across the value chain, where appropriate; (iv) a combined application of some or all of those; and, (v) a time-bound application.

We also recommend more guidance on the definition and implementation of value chain reporting boundaries due to the complexity of the exercise.

### **International operability and usability**

Sustainability reporting standards should be interoperable and consistent globally while aiming to avoid or minimise divergences between them. This is essential for international usability and equivalency purposes as preparers would avoid broadly duplicative yet divergent (e.g., in details and format) reporting while users would not have to deal with multiple reports from the same undertaking. Convergent standards would also generate convergent data, which is essential for

value chain reporting to function. We emphasise that one of the fundamental objectives behind the consolidation efforts in sustainability reporting was to mitigate fragmentation risks.

In this respect, we see it positive that the CSRD political agreement explicitly requires the Commission to take account of the work of global standard setters such as the ISSB “to the greatest extent possible” when adopting the final ESRS. Maximum alignment between the ESRS and ISSB in common areas would therefore increase the adoptability of EFRAG’s technical advice by the European Commission.

More concretely, while the proposed ESRS are considerably more prescriptive and detailed compared to the ISSB standards and as such, already include the proposed ISSB requirements to a large degree, important divergences remain between these two. These include the weight attributed to the sector-specific disclosures and some important details in the climate reporting standards.

We encourage the EFRAG and ISSB to cooperate and exchange further to avoid or minimise divergences and advance towards a convergent standard. Cooperation and dialogue should also extend to other bodies that are influential in their related sustainability reporting fields as well as other jurisdictions. More generally, we recommend the development of usable equivalency mechanisms and/or specific reporting templates for the purposes of reporting of third country undertakings.

We otherwise welcome that both standards largely leverage the Taskforce on Climate-related Financial Disclosures (TCFD) in climate reporting although further consistency with the pillars of the TCFD in terms of structure could be achieved under the ESRS. We also note the reconciliation tables provided by EFRAG (Annex IV- TCFD Recommendations and ESRS reconciliation table and Annex V- IFRS Sustainability Standards and ESRS reconciliation table) and find these very helpful guidance.

### **Climate-related reporting and transition**

We agree that transition plans are critical, and they are a key tool for investors to assess whether companies, especially those in hard to abate sectors, have a strategy and detailed plan for their necessary transition. ICMA’s [Climate Transition Finance Handbook](#) also provides voluntary guidance applicable to transition plans. More generally, EFRAG should consider how official and market-based guidance (such as on the impact reporting of green and social bonds as well as SLB KPIs) can be referenced in its standards.

We also support the inclusion of Scope 3 GHG emissions reporting, where relevant, in the proposed climate reporting standard.