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EFRAG Heeds Call to Prioritize General ESRS Guidance Over New Sector-Specific Standards

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On March 29, the European Financial Reporting Advisory Group (EFRAG) announced that it would start to develop additional guidance for sector-agnostic European Sustainability Reporting Standards (ESRS). In making this announcement, EFRAG adjusted its planned publication schedule in response to comments from European Commissioner Mairead McGuinness, who publicly stated that companies across a range of sectors need further assistance on sustainability reporting.

EFRAG is a private association established in 2001 to, among other things, provide technical advice to the European Commission on sustainability reporting. The ESRS provides companies with guidance regarding climate-related and other ESG disclosures and audit obligations as part of the [EU Corporate Sustainability Reporting Directive \(CSRD\)](#).

As we have [previously reported](#), EFRAG approved [revised versions of the ESRS](#) in November. The November publications are sector-agnostic, and EFRAG has since been working on sector-specific standards (including for the textiles, mining, road transport, food and beverage, and energy and utilities sectors), as well as proposed standards for small- to medium-sized enterprises.

Acknowledging that compliance with the ESRS presents a significant challenge for companies, Commissioner McGuinness, whose areas of responsibility include the financial services sector, [publicly called on EFRAG](#) to prioritize developing additional guidance for the sector-agnostic ESRS over its work on the sector-specific standards.

In its March 29 statement, EFRAG announced that it would adjust its planned work in accordance with Commissioner McGuinness' request. In particular, EFRAG intends to develop "an ESRS implementation support function," which would potentially include the development of additional guidance, the deployment of a "comprehensive documentation hub," and the facilitation of educational resources. To meet these objectives, EFRAG is increasing staffing and dedicating additional resources, as well as "actively working" on the digitalization of the sector-agnostic ESRS.

The statement also noted that EFRAG would continue to work on the sector-specific standards, but on an altered timeline.

Taking the Temperature: EFRAG's shift in priorities and resourcing is notable for a few reasons.

First, we can expect that the reshuffling will mean some delay in the development, adoption and implementation of the sector-specific and SME reposting standards. How much of a delay remains unclear. Second, EFRAG's intention to develop a supportive framework that includes additional guidance as well as informational and educational resources reflects an acknowledgment that compliance with the CSRD is on the horizon, will impact a substantial number of companies and will present significant challenges for those companies.

As has been [widely reported](#), the new CRSD obligations are estimated to apply to more than 50,000 EU public companies and large public companies headquartered outside the EU that do substantial business in the EU. This represents a more than four-fold increase in the number of companies currently covered by the existing Non-Financial Reporting Directive 2014/95/EU (NFRD). The compliance timeline under the CSRD contemplates that the largest of these companies will need to publish fiscal year 2024 sustainability reports in 2025, with other categories of companies coming online thereafter.

As Commissioner McGuinness acknowledged in her statement, meeting the new reporting and audit requirements is a looming challenge. A number of commentators have observed that preparing to collect, analyze and report on information in compliance with the CSRD will be a data- and resource-heavy undertaking for many organizations. Companies relatively new to ESG reporting will likely incur significant one-time costs in developing data gathering and reporting infrastructure, as well as ongoing costs tied to annual reporting.

As we [reported recently](#), business leaders in the U.S. have expressed concern over the anticipated compliance cost, as well as the availability of sufficient human and technological resources, of meeting the SEC's proposed climate disclosure rule. Similar concerns exist regarding the CSRD. While additional EFRAG guidance will be welcomed and may well bear on compliance with the SEC's anticipated rule given the degree of overlap, companies should be (and as we [have reported](#) in large part are) planning ahead for incoming disclosure requirements. Specifically, we observe that the ESRS: (i) addresses many of the same subject areas as non-EU regulatory guidance, including the SEC's proposed climate change disclosure rule—an important step toward achieving regulatory and market consensus on climate-related disclosure; (ii) mandates disclosure

of Scope 3 emissions and, consistent with related EU regulation, adopts a double materiality standard (i.e., issuer impact and external impact of issuer activities), which diverges from current U.S. guidance; and (iii) recognizes the need for companies to have sufficient time to comply, therefore adopting a gradual approach to implementation.