

CONSULTATION RESPONSE

DUE PROCESS PROCEDURES FOR EU SUSTAINABILITY REPORTING STANDARD-SETTING

15 September 2021

INTRODUCTION

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 4,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US \$121 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

The PRI welcomes the opportunity to respond to EFRAG's Public Consultation Paper on Due Process Procedures for setting EU sustainability reporting standards. The PRI has previously submitted a [consultation response](#) to the ad personam mandate on the potential need for changes to the governance and funding of EFRAG in January 2021, and a [Questionnaire Response](#) to the ad personam mandate on Non-Financial Reporting Standard Setting in October 2020.

ABOUT THIS CONSULTATION

EFRAG is seeking feedback on its [proposed Due Process Procedures](#) to be followed in its role as technical advisor to the European Commission in preparation of draft EU sustainability reporting standards (ESRS) and / or draft amendments of ESRS, which will underpin the proposed Corporate Sustainability Reporting Directive (CSRD).

The procedures include underlying principles as well as arrangements for due process oversight and agenda-setting. The consultation is open for comment until 15 September 2021.

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KEY RECOMMENDATIONS

The Principles for Responsible Investment welcome the opportunity to provide its views on EFRAG's proposals for Due Process Procedures underlying the preparation of draft ESRS and/or draft amendments of ESRS.

In full support of the EU's CSRD proposal and cognisant of the EU's leadership role in developing sustainability reporting standards that could serve as a useful reference for [future developments at international level](#), the PRI's key recommendations are:

- **Maximise user and preparer input.** Regularly engaging with investors, corporates and regulators throughout the standard-setting process would allow for a final standard that promotes proportionate, decision-useful reporting. Discussion papers, specialised working groups, public outreach and fieldwork are useful tools for achieving this and should be used where possible.
- **Engage and contribute to global sustainability reporting initiatives.** Consistently engage global sustainability standard-setters and reporting initiatives, such as the proposed International Sustainability Standards Board (ISSB) and the Task Force on Climate-related Financial Disclosures (TCFD) and take international developments into consideration as they develop.

DETAILED RESPONSE

CHAPTER 2: PRINCIPLES

The PRI supports the proposed approach to transparency, the public consultation process and impact assessment. Furthermore, we welcome the ability of the EFRAG Sustainability Reporting Board (SRB) and EFRAG Sustainability Reporting Technical Expert Group (SR TEG) Chairs to solicit the contribution of sustainability standard setters, initiatives, and other individuals / guests to public meetings, as outlined in paragraph 2.8.

In order to deliver decision-useful information and ensure interoperability with existing and emerging sustainability reporting standards and practices, it is crucial that the standard-setting process allows for consistent feedback from users – in particular investors – and preparers of sustainability information and international standard-setters.

Therefore, we would strongly suggest embedding these stakeholders within the standard-setting process. This can be done by ensuring that users of corporate sustainability information are represented within the EFRAG SRB and EFRAG SR TEG, and via regular outreach and engagement with these stakeholders beyond public consultations.

CHAPTER 3: DUE PROCESS OVERSIGHT

The PRI is supportive of the proposed approach to the oversight of due process. Given the large remit of the EFRAG Administrative Board, we would recommend establishing a Committee to support the oversight of due process of the EFRAG SRB and EFRAG SR TEG, as described in paragraphs 3.1 – 3.3. This would help to ensure a robust and consistent approach to due process.

CHAPTER 4: AGENDA-SETTING

Defining the Work Plan

The PRI welcomes the proposed “double-materiality” approach to both sets of ESRS, as outlined in paragraph 4.2. Increased availability of data on companies’ ESG risks and opportunities, environmental and social performance, and contribution to wider sustainability outcomes would help investors to better fulfil their fiduciary duties and incorporate sustainability issues in their investment decisions, active ownership and policy engagement.

Furthermore, we strongly support the intention to specify information needed by relevant financial market participants to meet their requirements under SFDR (as noted in paragraph 4.2). This will be crucial for the implementation of the SFDR, particularly with respect to reporting on principal adverse impact indicators. We suggest conducting a similar exercise for voluntary disclosure initiatives that are widely used by investors. Ensuring interoperability with these initiatives would improve the decision-usefulness of required disclosures and prevent further fragmentation in global sustainability reporting.

Finally, we note that the European Commission shall review the standard at least every three years following the application date and consider developments with regard to international standards, as described in paragraph 4.8. We support this proposal, as it should allow the ESRS to regularly build on best practice and global developments in this field. However, we encourage EFRAG to take international developments into consideration as soon as possible.

Research Programme

The PRI supports EFRAG’s intention to engage with stakeholders to understand their issues and relationship with sustainability reporting, and to influence the development of global sustainability reporting standards, as described in paragraph 4.9. The PRI recognises and supports the EU’s leadership role in developing standards for corporate reporting on sustainability performance.

Renewed efforts to develop global sustainability standards are a crucial step toward improving the consistency, comparability, and quality of corporate sustainability reporting. To make the most of this opportunity and avoid further fragmentation in this space, we suggest EFRAG also adopts an outward-looking perspective in its own standard development process, working closely with other regulatory bodies and initiatives on sustainability reporting.

We recommend building on existing initiatives applied internationally where possible, with reference to widely used voluntary ESG reporting standards, such as the TCFD Recommendations and GRI, along with the work of the IFRS Foundation to develop a global corporate sustainability reporting standard.

This would not prevent the ESRS from meeting the needs of European stakeholders – but would help to ensure coherence and interoperability with evolving global sustainability disclosure practices.

CHAPTER 5: STANDARD-SETTING

With regard to non-mandatory steps in the due process procedures, described in paragraph 5.2, we suggest that these steps be taken whenever feasible and appropriate to ensure that users and preparers of sustainability information have ample opportunity to express their views throughout the standard-setting process.

Regular engagement and fieldwork will help to ensure the ESRS is both relevant for information users and proportionate for preparers. For this reason, we also support plans to issue non-mandatory materials to support exposure drafts, as outlined in paragraph 5.22.

Furthermore, we welcome the intention to consult with sustainability reporting standard setters and existing global initiatives on the draft standards and amendments, the work plan, and work priorities, as described in paragraph 5.10. Beyond helping to ensure interoperability with widely used existing initiatives and standards, regular engagement and consultation should not be limited to existing initiatives, the EFRAG SR TEG should also target relevant global emerging initiatives.

Finally, we welcome the proposed approach on Sustainability Reporting Standards for SMEs, as described in paragraph 5.7. In particular, we support following the same procedure in developing SME standards while also conducting relevant field-testing to ensure proportionality.