



IEEP's response to the public consultation

## 'European sustainability reporting standards'

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**Context:** On 9 June 2023, the European Commission published a draft Delegated Act on European sustainability reporting standards. This act supplements the Accounting Directive as amended by the Corporate Sustainability Reporting Directive, which requires large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. This first delegated act sets out cross-cutting standards and standards for the disclosure of environmental, social and governance information.

The IEEP welcomed the opportunity to respond to the Commission's public consultation (the IEEP reply to the consultation can be found here [Feedback from: Institute for European Environmental Policy \(europa.eu\)](#)).

We shared our concern regarding the fact that the draft Delegated Act departs from the technical advice provided by EFRAG in November 2022 ([First Set of draft ESRS - EFRAG](#)) in several areas, hence significantly reducing the scope and usefulness of the European Union (hereafter also EU) sustainability reporting rules.

Still, we would like to take a hopeful approach by defending that there is space for improvement in the ambition displayed by the reporting framework now proposed by the Commission in order to make better use of its potential as a cornerstone of green finance architecture.

This instrument can reshape the fundamentals of the economy and promote a civilizational shift by actively supporting a just and sustainable transition and the IEEP emphasizes the importance of making a better use of this instrument. The IEEP trusts the Council and the European Parliament will put their best effort into pursuing such improvement.

### Broad comments

The IEEP raises several specific points for improvement in the reporting framework, which highlight the need for mandatory reporting on environmental and

social impacts and risks, including biodiversity, human capital, and social impacts. We argue that a wait-and-see approach and voluntary reporting can lead to greenwashing and undermine the credibility of the EU's green finance strategy. The IEEP suggests the introduction of a compulsory minimum materiality assessment to reduce the risk of greenwashing and ensure that material sustainability matters are not left undisclosed.

The IEEP specifically points out the weak position on double materiality in the draft Delegated Act. The reporting should cover both the financial materiality of ESG factors and the broader environmental and social impacts of organizations on the community. The IEEP criticizes the phase-ins and delays granted to smaller undertakings, as this hinders the timely availability of information on the broader impacts of organizations.

We hence emphasize the need for mandatory reporting on material sustainability matters, including environmental, social, and biodiversity aspects, and advocate for greater regulatory coherence and the inclusion of transition plans and reporting on access and benefit sharing.

### Greater policy coherence

In terms of coherence, the IEEP argues that the proposed reporting framework lacks consistency with scientific data, EU policy goals, and EU and international law. We highlight the inconsistency between the framework and scientific findings on the environmental emergency, EU policies on climate and environmental action, and legal frameworks binding EU undertakings. The IEEP suggests that the reporting framework should align more closely with these factors.

More specifically, the IEEP raises concerns about regulatory coherence within the EU regulatory framework, particularly regarding the insertion of relevant information in the management report and the lack of reporting on key climate, social, and biodiversity metrics. These inconsistencies hinder the assessment of risks and financial stability management.

Additionally, we also highlight the missed opportunities to align sustainability reporting with international responsibilities, such as the Kunming-Montreal Pact and the Nagoya Protocol. The proposed framework ignores the need for mandatory nature-based reporting and reporting on access and benefit sharing, which could support the effective application of these important international agreements.

## Supporting a just and sustainable transition

The IEEP emphasizes the importance of reporting transition plans to address environmental and social sustainability matters and hence criticizes the optional reporting of biodiversity transition plans. We argue that these plans are crucial for addressing material risks, and mandatory reporting should be required. Moreover, we advocate for mandatory reporting on social issues related to the workforce, in line with the EU's goal of building an inclusive and gender-balanced society.

Though the IEEP understands there may be concerns with interoperability between the proposed framework and the ISSB's standards, we urge both the EU and the ISSB to move towards a strong double materiality as well as biodiversity reporting and social impact reporting to ensure sustainability reporting supports a just and sustainable transition. Overall, the IEEP urges for improvements in the reporting framework to enhance its ambition, effectiveness, and alignment with scientific data, EU policy goals, and international responsibilities.

## Kunming-Montreal Global Biodiversity Framework and Nagoya Protocol compatibility

The [Kunming-Montreal Pact](#) (one of the main outcomes of the COP15 Biodiversity conference in Montreal officially known as the [Kunming-Montreal Global Biodiversity Framework](#)) outlines 23 targets for action that should evolve from voluntary to mandatory to protect biodiversity (as it was the case with Task Force on Climate-related Financial Disclosures, in short TCFT, which began as a voluntary set of recommendations and has become part of the regulatory framework in many jurisdictions, in the European Union but also outside the European Union). The Commission's proposal does not fully acknowledge these international responsibilities. It is here worth mentioning especially Targets 14-15 and Targets 18-19.

Target 15 of the Kunming-Montreal Pact is especially relevant for financial institutions since it is the first step towards mandatory nature-based reporting and requires signatories to implement Access & Benefit Sharing (ABS) regulation. ABS regulation (see [Nagoya Protocol on Access and Benefit Sharing](#)) calls for fair and equitable sharing of the use of genetic resources and traditional knowledge as an incentive to conservation, by reducing the incentives to biodiversity exploitation since under ABS profits need to be shared. Target 14 of the same framework requires signatories to ensure full integration of developments in biodiversity and nature-based reporting into policies, treating this reporting similarly to emissions-based scope 1, 2 and 3 reporting by 2030. The Act proposed by the Commission falls short of supporting this target.

The [EU Regulation 511/2014](#) on compliance measures for users from the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from the Utilization in the Union applies to all use of genetic material and has as its basic requirement due diligence. However, in the EU, compliance with the named Protocol is difficult to monitor due to lack of information. The Delegated Act proposed by the Commission would be a great opportunity for compulsory reporting of ABS, which would then support the application of the Protocol and related EU regulation. Additionally, lack of reporting on ABS hides this financial and reputational risk away from financial supervisory surveyance and investors' eyes.

Target 18 of the Kunming-Montreal Pact requires the rollback of biodiversity harmful subsidies (these need to be identified by 2025 and reduced by at least \$500 billion/yearly by 2030), whereas Target 19 of the same Framework incentivises the implementation of national biodiversity financing strategies to mobilise at least \$200 billion/yearly by 2030. New financial incentives should be created for biodiversity finance to address the investment gap, which is set at around \$700 billion/yearly. It is however difficult to understand how this can be done when information is not available.

## More info

IEEP's response to the European Commission's public consultation drew on the legal frameworks referred in the text above and identified in the References list below.

The response was drafted and submitted by IEEP Head of Climate and Circular Economy Dr Claudia Dias Soares. For more information on IEEP's work on this area, please contact Claudia ([cdias-soares@ieep.eu](mailto:cdias-soares@ieep.eu)).

## References

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