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Sector-specific sustainability reporting standards are instrumental for a pragmatic and cost-effective disclosure regime for companies

Following the reform of the EU legal reporting framework and the adoption of sector-agnostic sustainability standards (applicable to companies across all industries), the EU Corporate Sustainability Reporting Directive requires the adoption of complementary sector-specific standards by 2024.

The EU Commission is now gathering views on a proposal to delay the adoption of these standards which will clarify the key issues companies within 20 high risk and high impact sectors need to report upon. Bringing clarity over what material topics preparers should focus on is instrumental for a straightforward and cost-effective sustainability reporting process that does not overburden companies.

Earlier this year, and against the technical advice submitted by EFRAG,[1] the EU Commission removed the common core of mandatory disclosures from the draft sector-agnostic standards and made reporting on all ESG topics including climate change, biodiversity or own workforce subject to the materiality assessment of companies. This has significantly increased uncertainty for companies as well as for investors as users of sustainability information.

In the context of changes made to sector-agnostic standards, the need for sector-specific standards has only heightened. **The development and adoption of these standards is now under risk of being deprioritised**. **The EU Commission is formally asking the European Parliament and the Council to change the law and postpone its obligation to adopt these standards until 2026** (meaning this information would not be available until 2028 at the earliest, and potentially for a very limited number of high-risk sectors).

Why are sector-specific standards so important?

- The **sector-agnostic standards already require companies to provide sector-specific disclosures** on difficult issues such as decarbonisation, biodiversity or human rights issues in the value chain. **However it was left to sector-specific standards to clarify what exactly and in what detail should be disclosed,** because concrete impacts and methods differ from sector to sector. Before the second set of standards are adopted, companies have to determine the sector-specific disclosures fully by themselves, despite this determination being subject to audit. This increases the burden placed on companies, and undermines reliability of information.[2]
- **The development and adoption of sector-specific standards is instrumental to make the reporting exercise easier for companies, while ensuring meaningful and comparable information for investors.** Instead of relieving companies, delaying sectoral standards will only reduce clarity for companies to deliver on their reporting. This is particularly true for companies that have never performed a materiality assessment or that will start reporting sustainability information for the first time. It will also leave the door open for greenwashing, as the uncertainty could be unduly exploited.

- Investors and banks have been repeatedly calling to improve and enhance the mandatory reporting framework for companies[3] to ensure they factor in relevant data in their decisions, carry out adequate risk assessments and fulfil their own disclosure obligations. This need is particularly urgent for companies in high-impact sectors and industries key to the sustainable transformation of our economy, for example oil & gas, mining, textiles, agriculture, transportation, car manufacturing, construction or real estate. **The adoption of well-focused standards with clear priorities for companies in key sectors for climate transition and human rights risks will ensure that reporting outcomes are meaningful and comparable, focusing on what matters.**

- The **replacement of the mandatory core of sector-agnostic disclosures with a materiality assessment regime exposes the audit community to do the impossible** - assure a process and outcome without clear guidance from standards on typical sectoral issues, and placing unrealistic expectations of auditors to possess in-depth expertise on all sustainability topics.

- **Sector-specific sustainability standards are essential to create a tailored baseline** that guarantees that the **focus of reporting from companies within the same sector is aligned on the same outcomes.** This information will help companies (and other stakeholders) to compare their performance and **identify hot spots and opportunities to innovate and improve their competitiveness throughout the climate transition.**

Recommendations to EU policy-makers

- **By the end of 2024 or early 2025** (depending on EFRAG's due process and the EU legislative calendar) **the EU Commission must guarantee the adoption of the high impact sector standards that have been already worked on by EFRAG.** This is feasible taking into consideration the technical work already produced by EFRAG on Oil and Gas, Mining, Road Transport and Textiles.

- **By 2026, all high-impact sectors already identified[4] by EFRAG should be covered.** EFRAG has the capacity of delivering these standards if sector-specific work is prioritised again. Since there is a clear market need, a delay in delivering these standards would be based only on a political decision by the EU Commission, rather than for practical reasons.

- **The EU Commission must provide a clear mandate for EFRAG's Sustainability Reporting Pillar to prioritise the development of proposals and consultation for the rest of sector-specific standards** over other work which the Commission requested from EFRAG. The standards must be developed as soon as possible, as already from 2024, companies must start applying sector-agnostic reporting requirements which include requirements to report sector-specific information.

For any questions, please contact Susanna Arus (susanna.arus@frankbold.org)

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1. The CSRD requires companies within its scope to report using a double materiality perspective in compliance with European Sustainability Reporting Standards (ESRS) adopted by the European Commission as delegated acts. Under the CSRD, EFRAG was appointed technical adviser to the European Commission developing draft ESRS.
2. See CDP's 2023 "Tracking nature across the supply chain"; Alliance for Corporate Transparency studies; World Benchmarking Alliance benchmarks
3. See EY Global Corporate Reporting and Institutional Investor Survey
4. Agriculture, Farming and Fishing, Food and Beverage Services, Motor Vehicles, Power Production and Energy Utilities, Financial Institutions