

PRESS RELEASE

Diluted European Sustainability Reporting Standards Raise Greenwashing Concerns

Brussels, 7 August 2023 - The European Commission has issued the Delegated Act on the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD) to enhance transparency in sustainability reporting by companies. However, it faces criticism for weakening key aspects of the initial proposal by the European Financial Reporting Advisory Group (EFRAG) and neglecting vital concerns.

Critics – including investor associations, environmental NGOs, and think tanks - argue that the Act fails to provide reliable and comparable sustainability data, raising fears of greenwashing as companies might downplay their environmental impacts. This has led to disappointment and diminished trust, undermining Europe's leadership in fostering a socially just and environmentally compatible economy.

During public consultations, civil society stakeholders, including BETTER FINANCE, voiced four key demands that the Commission largely disregarded. These demands encompassed requiring companies to report on biodiversity transition plans, mandating explanations for excluding certain topics as 'immaterial,' making specific disclosures mandatory for EU regulation compliance, and eliminating reporting delays for smaller companies.

The Commission's approach has made reporting primarily reliant on materiality assessments, with more stringent requirements for climate change but lacking similar provisions for other topics. Moreover, no changes were made concerning sources of estimations and outcome uncertainty, missing an opportunity for a standardised approach to calculation methods.

Arnaud Houdmont, spokesperson for BETTER FINANCE, states that *“BETTER FINANCE appreciates the Commission's requirement for entities to explain comprehensively when they consider climate-related information as immaterial, along with a forward-looking analysis of potential future materiality.”* However, he also highlights *“the inconsistency in applying the same level of scrutiny to other topics, where entities are not obliged to provide explanations despite having the option to do so”*.

While sector-specific standards are expected in 2024, BETTER FINANCE and other civil society stakeholders call on the Commission to address the Act's shortcomings and enforce mandatory sector-specific standards to ensure reliable and meaningful sustainability data disclosure in the future. The Delegated Act is scheduled to take effect from January 2024.

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