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EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft European Sustainability Reporting Standards

The Corporate Sustainability Reporting Directive¹ (CSRD) requires that EFRAG's Technical Advice is 'accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters'.

The objective of this cover letter is to explain how EFRAG has discharged these obligations for the first set of draft ESRS.

EFRAG's Due Process Procedures (paragraph 2.22) states that 'the purpose of Cost-Benefit Analyses is to understand the impacts of proposed ESRS and amendments to ESRS from various stakeholders' perspectives on a systematic basis to enable informed judgements about how to balance the needs of competing interests, including costs and benefits but also wider impacts on sustainability matters.

EFRAG has commissioned Centre for European Policy Studies (CEPS) and its partner Milieu (hereafter 'the contractors') to conduct an assessment of the costs and benefits of the first Set 1 of Draft ESRS. The report will be submitted to the EC and published together with the Draft ESRS and this cover letter. The decision to outsource the assessment was made on account of EFRAG's resource and time constraints meeting the deadline requested by the EC of mid-November.

In selecting the contractors, through a public tender process, EFRAG has in particular considered the experience of the contractors in conducting similar work and in particular the contractors' contribution to the impact assessment conducted by the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) on the proposals in the CSRD.

Contractors' report on the Cost-benefit analysis of the First Set of draft ESRS

The contractors' report accompanying this cover letter assesses the possible costs and benefits of the first set of draft ESRS and presents the methodology, evidence and data collected in the

¹ Article 1 of the CSRD amending Article 3 of the Accounting Directive (2013/34/EU). Text of the political agreement reached in June 2022.

context of the costs and benefits analysis to arrive at estimates. The study presents an assessment of the impact of the first set of draft ESRS across different stakeholder groups, these are mainly EU undertakings (under the scope of the CSRD or that form part of their value chain), investors, NGOs, trade unions and society at large. The survey design and the contractors' cost calculations followed the EU Standard Cost Model. In particular, the administrative and assurance costs were estimated by CEPS for various groups of companies across several dimensions, such as sectors, company sizes, country of the company headquarters, use of frameworks, the level of assurance, etc.

The information, and views set out in the contractors' report are those of the authors and do not necessarily reflect the views or opinion of EFRAG. The EFRAG Sustainability Reporting Board (EFRAG SRB) and EFRAG Sustainability Reporting TEG (EFRAG SR TEG) have been informed of the work and progresses done by the contractors in the following meetings:

In August 2022, the EFRAG SR TEG and EFRAG SRB were invited to provide their comments on the draft methodology and on the draft interview questionnaires prepared by the Contractors to gather input from stakeholders.

Between September and early November 2022, the EFRAG SRB and SR TEG were regularly updated on the progress made by the contractors and provided their views and comments on the preliminary drafts of the reports.

On 11 November 2022, the contractors presented the conclusions of their final report in a public joint meeting of the EFRAG SRB and EFRAG SR TEG.

EFRAG has also shared with the contractors the feedback received from the public consultation on the Exposure Drafts of the draft ESRS. Specific questions in relation to the costs and benefit of the proposals were included in the consultation.

EFRAG acknowledges the information in the report and its conclusions. It also observes that the costs for individual companies depending on their circumstances may differ widely. Moreover, it should be underlined that the benefits, given their nature, can hardly be quantified and in the report the benefits are assessed mainly in qualitative terms.

EFRAG's consideration of cost and benefits in finalising its Technical Advice to the European Commission

In finalising its Technical Advice to the EC, EFRAG has considered the draft and final reports prepared by the contractors including the acknowledged limitations and uncertainties inherent to the ex-ante assessment of the costs and benefits of the First Set of draft ESRS.

EFRAG has also considered the extensive insight that it gained into the likely impacts of the draft ESRS through the public exposure of its proposals, which included several detailed questions at level of each Disclosure Requirements on the cost/benefit profile, and through consultation and outreaches with stakeholders, including the questionnaire and workshops with the preparers that participated to the Field Test Focus Group in June and July. This feedback has led EFRAG to significantly review and streamline the proposals in the Exposure Drafts. In particular:

- the final proposal reflects a higher scope of materiality assessment, eliminating the burden of having to justify and explain the omission of specific information under the rebuttable presumption;
- the number of Disclosure Requirements has been reduced from 136 to 84 and the number of quantitative and qualitative datapoints has been reduced from 2,161 to 1,144. This reflects the decision to move some of the requirements to the future sector specific standards and to eliminate other requirements, where the benefits in terms of information provided according to the CSRD requirements were assessed as not exceeding the corresponding preparation costs;

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- one of the initial 13 standards (ED ESRS G1) has been eliminated following the narrower focus on Governance in the CSRD text released in June 2022;
- the approach to the value chain has been clarified and focused on materiality of the value chain information;
- a specific phase-in of three years has been included for the value chain information, also reflecting the corresponding provision in the CSRD; and
- for several disclosure requirements there a phase-in from one to three years has been introduced.

On this basis, there are no elements that would lead EFRAG to believe that the overall cost/benefit profile of the first set of standards is incompatible with the policy objectives of the CSRD. EFRAG also notes that, while the costs affect some specific categories of stakeholders, the scope of expected beneficiaries is much broader. In conclusion, EFRAG considers that the costs of this set of standards, are likely to not exceed, in the longer run, the corresponding benefits including those to the society and environment.

On behalf of EFRAG, I would be happy to discuss this cover letter with you, other officials of the European Commission as you may wish.

Yours sincerely,

Kerstin Lopatta

Acting Chair of the EFRAG Sustainability Reporting Board.