To:
Ms Ursula von der Leyen, President of the European Commission
Ms Mairead McGuinness, Commissioner for Financial services, financial stability and Capital Markets Union
Mr Valdis Dombrovskis, Executive Vice-President for an Economy that works for People
Mr Maroš Šefčovič, Executive Vice-President for the EU Green Deal
Mr Wopke Hoekstra, Commissioner-designate for Climate Action
Mr Didier Reynders, Commissioner for Justice

cc:
Mr John Berrigan, Director-General, DG FISMA
Ms Florika Fink-Hooijer, Director-General, DG ENV
Mr Kurt Vandenberghe, Director-General, DG CLIMA
Ms Kerstin Jorna, Director-General, DG GROW
Mr Koen Doens, Director-General, DG INTPA

Subject: Postponing sector-specific standards jeopardizes immediate benefits for businesses, financial institutions and sustainable development

Dear President von der Leyen,

Dear Commissioner McGuinness,

Dear Executive Vice-Presidents Dombrovskis and Šefčovič,

Dear Commissioners Reynders and Hoekstra,

We write to you as 21 academics from 15 universities and organisations who have followed with appreciation the leading role of the EU in developing comprehensive and high-quality sustainability reporting standards. The currently developed sector-specific standards (henceforth: sector standards) can continue this success story by providing guidance on the material topics that businesses should prioritise within their sector context.

However, as the academic community, we are worried by the current proposal to postpone the sector standards by two years. This suggestion jeopardises not only the immediate benefits of sector standards for sustainable development and the financial sector but also deprives companies of guidance for their reporting obligation under the CSRD.

Empirical research has shown that the information provided by specific reporting requirements is connected to subsequent improvements in the related impacts. Additionally, sector standards will help companies to identify their most significant impacts, reducing information asymmetry and thereby excessive burdens. Companies have to start reporting now and sector standards can be crucial to support their materiality assessment. Furthermore, empirical research has shown that the information provided by sector-specific reporting is connected to subsequent improvements in the related impacts throughout value chains. For example, mine accidents have decreased after a disclosure mandate from the SEC.[1] Also, the financial sector depends on the information provided by sector standards: Research has shown that sector-dependent data provides financial institutions with necessary data for their risk assessment and own disclosure obligations. For an overview of the benefits of sector standards, see ANNEX.

Therefore, we urge the Commission to opt for a timely adoption and usage of sector-specific standards. We would like to recommend that the Commission consider the following three actions accordingly:

1. Adopt the already drafted high-impact sector standards[2]

By 2024 or early 2025, the Commission should adopt the high-impact sector standards that have already been (largely) developed by EFRAG. These include Oil and Gas, Mining, Road Transport, Textiles, and, notably, Agriculture, Farming, and Fishing (AFF). Beyond the proven importance of sector-specific standards due to potential positive sustainability impacts,[3] the timely adoption of high-impact ESRS sector standards will ensure alignment and potential comparability with other global standards such as GRI sector-specific standards.[4] From our involvement in the writing team of AFF, we are confident that these standards will be prepared and ready for implementation.

2. Prioritise EFRAG's sector-specific work

The prompt release of standards for sectors with significant impact is crucial. By 2026, all high-impact sectors identified by EFRAG should be comprehensively addressed. EFRAG can do this if the Commission issues a distinct mandate for EFRAG's Sustainability Reporting Pillar to prioritise sector standards**.**

3. Consider pilot studies/projects to address sector-specific issues

Any remaining 'gaps' between EFRAG's draft sector standards and adoption by the Commission should be used as an opportunity to pilot drafts and collect decision-relevant feedback, highlighting that the standards can actually be implemented, and/or indicating where they might need adjusting. Pilot projects could, for instance, address sector-specific issues such as materiality analyses or transition pathways/plans.

[1] Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M. (2017). The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. Journal of Accounting and Economics, 64(2-3), 284-304. https://doi.org/10.1016/j.jacceco.2017.08.001
2 Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of accounting research, 54(2), 525-622. https://doi.org/10.1111/1475-679X.12115
3 Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M. (2017). The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. Journal of Accounting and Economics, 64(2-3), 284-304. https://doi.org/10.1016/j.jacceco.2017.08.001
4 GRI has already published some sector-specific standards and is in the process of publication for other sectors.

Yours sincerely,

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ANNEX

1. Postponing the sector standards leaves companies in the dark about how to address complex issues like biodiversity, decarbonisation and human rights within their sector contexts. ESRS Set 1 requires companies to disclose information that was to be further clarified by the sector standards, especially on complex issues like biodiversity, decarbonisation, and human rights in the value chain.

2. By postponing the sector standards, we miss the opportunity to translate sector-specific information into positive sector-specific real effects. Empirical research has shown that the information provided by specifically sector-specific reporting is connected to subsequent improvements of the related impacts.[5] For carbon emissions, regulation mandates focussed on carbon-intensive industries had measurable effects on the mitigation of carbon emissions (intensity).[6]

3. The financial sector relies on companies' sector-dependent data for informed decision-making, risk assessment, and meeting its disclosure obligations: The reliability of information is crucial for stakeholders to make informed investment decisions, avoid greenwashing, and to understand sustainability-related risks and opportunities. The sector standards help companies clarify the scope and detail of their disclosure, fostering meaningful and comparable information.

4. Sector standards support stakeholder engagement and capital dynamics: The imperative for sector-dependent data disclosure finds solid grounding in finance and accounting literature, notably illuminated by previous research.[7] Enhanced information availability directly correlates with reduced information asymmetry for key stakeholders, including investors, debtholders, and financial intermediaries. This reduction, among others driven by sector-dependent data disclosure, not only curtails the cost of capital but amplifies investment opportunities. Moreover, the positive impact can extend to heightened customer satisfaction and improved reputation, fostering an environment conducive to increased sales.

5. Sector standards enable a holistic stakeholder influence: The assertion gains scientific backing from the comprehensive stakeholder perspective offered by relevant research.[8] The information made available through mandated sector-dependent data and within a double materiality-based reporting

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[5] Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M. (2017). The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. Journal of Accounting and Economics, 64(2-3), 284-304. https://doi.org/10.1007/s11142-021-09609-5

6 Tomar, S. (2023). Greenhouse gas disclosure and emissions benchmarking. Journal of Accounting Research, 61(2), 451-492.
Bauckloh, T., Klein, C., Pioch, T., & Schiemann, F. (2023). Under pressure? The link between mandatory climate reporting and firms' carbon performance. Organization & Environment, 36(1), 126-149. https://doi.org/10.1111/1475-679X.12473
Downar, B., Ernstberger, J., Reichelstein, S., Schwenen, S., & Zaklan, A. (2021). The impact of carbon disclosure mandates on emissions and financial operating performance. Review of Accounting Studies, 26, 1137-1175.

7 Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. Review of Accounting Studies, 26(3), 1176-1248.

8 Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. Review of Accounting Studies, 26(3), 1176-1248.

regime not only empowers capital market participants but also equips other stakeholders, such as NGOs, employees and customers, with the tools to exert influence on corporate behaviour. Stakeholders utilise this information to exert pressure on companies, prompting managers to respond by increasing engagement and effecting meaningful behavioural changes. This cascade of events, rooted in reliable sector-dependent data, underlines the tangible real-world effects of such disclosures.

6. Virtually all of the ESRS Set 1 disclosure metrics are subject to a materiality assessment, with limited requirements for reporting on their methodology. This deviance from EFRAG's technical advice threatens the comparability of disclosure information, as potentially varying methodologies and discretion in materiality assessments may lead different companies within the same sector to have divergent opinions on material topics.[9] This jeopardises stakeholders' ability to compare entities' performance on specific material topics among peers.[10] Besides that, companies within the same sector might define very different material topics to report about. They might even define different scopes and boundaries which will make the information even less comparable. In addition to differences between companies, discretion in materiality assessment might allow for the omission of information within one company across years. Inconsistent disclosure hampers information comparability and makes progress monitoring more challenging. Excessive discretion may open the door for boilerplate language in reports[11] and obfuscation.[12] Sector standards can provide a potential reference amidst that uncertainty and offer the opportunity for more comparability across years and among companies within the same sector. The sector standards must specify potential material topics for companies within one sector. Thereby, they facilitate disclosure for companies and reduce opportunities for inconsistent and incomparable disclosure.

7. Finalising and adopting parts of the sector standards following the initial legislative timeline is achievable. We acknowledge that the implementation of the sector standards imposes additional costs on the targeted undertakings. However, the findings of the cost-benefit analysis of the first set of draft ESRS[13] point in the direction that benefits outweigh costs. While this cost-benefit analysis argued that costs are more visible and tangible in the short term, the benefits are more intangible and non-measurable, dependent on other legislative and non-legislative proposals. We are confident that the benefits will increase if the sector standards are adopted.

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[9] Korca, B., Costa, E., & Bouten, L. (2023). Disentangling the concept of comparability in sustainability reporting. Sustainability Accounting, Management and Policy Journal. https://doi.org/10.1108/SAMPJ-05-2022-0284

[10] Jørgensen et al. (2023) state that "[t]he reporting needs to be as consistent as possible over time in order to allow for comparison. Jørgensen, S., Mjøs, A., & Pedersen, L. J. T. (2022). Sustainability reporting and approaches to materiality: Tensions and potential resolutions. Sustainability Accounting, Management and Policy Journal, 13(2), 341-361. https://doi.org/10.1108/SAMPJ-01-2021-0009

[11] Christensen, H.B., Hail, L. and Leuz, C. (2021), "Mandatory CSR and sustainability reporting: economic analysis and literature review", Review of Accounting Studies, Vol. 26 No. 3, pp. 1176-1248, doi: 10.1007/s11142-021-09609-5

12 Cho, C.H., Roberts, R.W. and Patten, D.M. (2010), "The language of US corporate environmental disclosure", Accounting, Organizations and Society, Vol. 35 No. 4, pp. 431-443, doi: 10.1016/j.aos.2009.10.002.

13 Mileu and CEPS (2022) Cost-Benefit Analyses of the First Set of Draft European Sustainability Reporting Standards link