5 August 2022

Re: Comment on European Sustainability Reporting Standards

To whom it may concern,

Accountability Counsel thanks the European Financial Reporting Advisory Group for the opportunity to comment on its draft of the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive. As a legal non-profit organization that supports communities seeking justice for harm caused by internationally financed projects, we welcome and appreciate efforts to set environmental and social standards around corporate sustainability.

We commend the draft for its inclusion of grievance mechanisms in ESRS 1 on General Principles and in ESRS S3 on Affected Communities (see para. 23; AG 34, 35, 38, 56). We know from our work that grievance redress mechanisms play a critical role in measuring and managing the net impact of investments and corporate activities. Accountability processes like grievance redress mechanisms have proven to be effective tools in preventing, mitigating, and redressing unintended environmental and social impacts at odds with an institution’s state objectives and rules. The unfiltered perspective of affected communities and documented organizational responses to their concerns offer insight into whether an organization holds itself accountable to environmental and social policies intended to achieve sustainable outcomes. In this regard, AG 38’s requirement for qualitative disclosures on the effectiveness of grievance mechanisms is necessary to assess whether a grievance mechanism is adequate.

We are concerned, however, that the draft Standards do not clearly convey that having an effective grievance mechanism—and reporting on its effectiveness—is critical for good governance of all environmental and social impacts. We know from our casework that communities raise both social and environmental issues to grievance mechanisms. In this regard, their existence is not merely a metric of how well an investor engages with and respects the rights of investment-impacted communities but also how well an investor is managing and mitigating a broad range of environmental and social impacts. Of the 1,614 complaints to existing independent accountability mechanisms, for example, communities raised issues related to biodiversity destruction and pollution as well as issues related to community health and safety, cultural heritage, gender-based violence, property damage, labor rights, and harm to livelihoods.

Therefore, Accountability Counsel recommends that disclosure requirements pertaining to grievance redress mechanisms present in ESRS S3 on Affected Communities be included in full within the cross-cutting standards in ESRS 2 on General, strategy, governance, and materiality assessment and referenced in the other issue-specific standards so that it is apparent that grievance redress mechanisms are necessary governance tools for addressing a broad range of social and environmental risks.

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Further, Accountability Counsel would also like to express its support for the recommendations put forth by the Danish Institute for Human Rights.

Thank you again for the opportunity to contribute to the development of the European Sustainability Reporting Standards.

Sincerely,

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