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EFRAG Sustainability Reporting Board Consultation Survey 1

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EFRAG Sustainability Reporting Board Consultation Survey 1A - 1C, 2

Consultation survey structure

1. Overall European Sustainability Reporting Standards (ESRS) Exposure Drafts' relevance (Survey 1)

- 1A. Architecture
- 1B. Implementation of Corporate Sustainability Reporting Directive (CSRD) principles
- 1C. Exposure Drafts' content

2. European Sustainability Reporting Standards (ESRS) implementation prioritisation / phasing-in (Survey 1)

3. Adequacy of Disclosure Requirements (Survey 2)

- 3A. Cross cutting standards
- 3B Environmental standards
- 3C Social standards
- 3D Governance standards

Respondent Profile

1. Personal details

* Organisation name

50 character(s) maximum

Confederation of Danish Industry (DI)

* First name

50 character(s) maximum

Tina

* Surname

50 character(s) maximum

Aggerholm

* Email (this information will not be published or made public)

50 character(s) maximum

tiag@di.dk

* Country of origin

50 character(s) maximum

Denmark

*** 2. Type of respondent**

- ○ Academic / research institution
- ○ Audit firm, assurance provider and/or accounting firm
- ● Business association
- ○ Consumer organization
- ○ ESG reporting initiative
- ○ EU Citizen
- ○ Financial institution (Bank)
- ○ Financial institution (Other financial Market Participant, including pension funds and other asset managers)
- ○ Financial institution (Insurance)
- ○ National Standard Setter
- ○ Non-governmental organisation
- ○ Non-financial corporation with securities listed on EU regulated markets
- ○ Non-financial corporation with securities listed outside EU regulated markets
- ○ Public authority/regulator/supervisor
- ○ Rating agency and analysts
- ○ Trade unions or other workers representatives
- ○ Unlisted non-financial corporations
- ○ Other

*** 3. Size**

- ○ Micro (1 to 9 employees)
- ○ Small (10 to 49 employees)
- ○ Medium (50 to 249 employees)
- ● Large (250 or more employees)
- ○ Not relevant

*** 4. User/Preparer perspective**

- User
- Preparer
- Both
- Neither

*** 5. Subject to CSRD**

Separate non-financial corps subject to CSRD from those not subject to CSRD?

- Yes
- No

EFRAG Sustainability Reporting Board Consultation Survey 1A - 1C, 2

1A. Overall ESRS Exposure Drafts' relevance – Architecture

Cross-cutting and topical standards

To facilitate a coherent coverage of the CSRD topics and reporting areas (as per Article 19a paragraph 2 and Article 19b paragraph 2 – see Appendix II) the Exposure Drafts ("EDs") submitted for public consultation are based upon two categories of standards:

• **Cross-cutting ESRS** which:

1. Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions
2. Mandate Disclosure Requirements ("DRs") aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics.

• **Topical ESRS** which, from a sector-agnostic perspective:

1. Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment
2. Mandate DRs about the undertaking's implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources)
3. Mandate performance measurement metrics.

A full list of standards and whether they are cross-cutting standards or topical standards can be found in Appendix I.

Q1: in your opinion, to what extent do the structure and articulation of cross-cutting and topical standards adequately support the coverage of CSRD topics and reporting areas?

- Not at all

- [x] To a limited extent with strong reservations
- [ ] To a large extent with some reservations
- [ ] Fully
- [ ] No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We fully support the objective of transforming Europe into the first climate-neutral continent by 2050 and believe that reliable sustainability information is a fundamental precondition for the success.

In the development of the final standards, we suggest EFRAG focuses on the following areas, which – in our opinion – are the most crucial in developing standards that fosters high quality reporting:

- Reduce the scope of the standards as much as possible within the already ambitious CSRD requirements and focus on the key priorities, including ensuring the consistency with the sustainable finance disclosure requirements to ensure a high quality and relevant reporting
- ESRS 1 and 2, which should be reworked and streamlined
- Narrow the definition of and reduce the disclosure requirements on the value chain to ensure focus on material issues only, as recommended by both GRI and SASB
- Remove the rebuttable presumptions and replace it by a materiality assessment as known from other international standards, e.g., IFRS and GRI,
- Remove the three different presentation formats to allow full flexibility within the CSRD guidelines.

Further explaining the most crucial areas and describing our additional key concerns we would highlight the below areas. Please see our comment letter and answers to the survey for further details:
The ESRSs are too granular and will result in an unfocused reporting with an information overload. The level of granularity will have a negative impact on data quality and undermine the purpose of fostering the transition to a more sustainable economy. We suggest limiting the general disclosure requirements and make better use of sector specific reporting requirements.

We suggest to significantly reduce ESRS 1 to describe the principles only, avoiding duplication with ESRS2, and to simplify the language of ESRS 2. Further, we recommend that the application guidance to ESRS 2 disclosures is only provided in ESRS 2 and that the disclosure requirements currently included in the topical standards are moved the ESRS 2.

The concept and required description of the Value Chain and boundaries thereof is a significant issue for large corporations as the up- and downstream value chains will be extensive with thousands of customers in all industries and millions of affected stakeholders. To ensure meaningful disclosures and avoid excessive and unproportionate burdens the value chain concept must be clarified and above all focused. EFRAG should take on the role of determining when information about the value chain is applicable as per the CSRD.

The materiality definitions are unclear as they are not fully aligned with neither the financial materiality approach from the financial statements section nor commonly agreed approaches to impact materiality. This combined with the rebuttable presumption foster a very granular approach to disclosure requirements, drives immaterial reporting elements, and leads to compliance reporting. We suggest aligning with well-known international frameworks, especially ISSB (financial materiality) and GRI (impact materiality) to foster comparability across jurisdictions, and to remove the rebuttable presumption and introduce a materiality assessment in line with that of other standard-setters (E.g., IFRS and GRI).

The mandated structure of the sustainability reporting does not foster effective communication and disclosure. We suggest a full flexibility in the reporting (within the possibilities of the CSRD), and that EFRAG places more emphasis on the users of the reporting instead of making this a data-provision exercise.

Overall, we support the structure of the standards, but the content of the standards needs to be more streamlined. From our members we have been informed that the standards are very difficult to read, even for experienced readers.

A number of topical standards, e.g., the ESRS on Biodiversity, covers areas where there is either a lack of or very immature measurement principles and methods available. We suggest factoring in the maturity of the measurement and reporting areas, to move disclosure requirements to sector specific standards, and to delay the effective dates for the detailed disclosure requirements in order to ensure that an appropriate methodology is developed.

In line with the CSRD, companies should be able to provide sustainability reporting at group level, while exempting subsidiary undertakings from direct reporting obligations when they are included in the consolidated management report.

We encourage EFRAG to specify which essential industry defining KPIs a parent undertaking should always consider disclosing at entity level in the group reporting for the subsidiaries that have obtained separate funding. Without such a standardized approach, the companies will face numerous inquiries for data at entity level from the financial sector causing significant burdens for both entities and banks.

Alignment and interoperability with international standards and frameworks

- Article 19b paragraph 3a of the CSRD requires that "When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting, responsible business conduct, corporate social responsibility, and sustainable development."
- ESRS EDs were drafted accordingly, with the objective of fostering as much alignment as possible considering the constraints imposed by other provisions included in articles 19a and 19b as per the CSRD proposal. Details of these provisions and how they are covered by the ESRS EDs can be found in Appendix I.
- The structure and organisation of the reporting areas was one aspect of alignment to which particular attention was paid. Thus, the two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics (as considered by the Task Force on Climate-Related Financial Disclosures - TCFD and source of inspiration for the IFRS Sustainability standards). A detailed mapping of the ESRS EDs disclosure requirements with TCFD recommendations and with IFRS Sustainability Exposure Drafts can be found in Appendices 5 and 6.

Q2: in your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ◉ To a large extent with some reservations
- ○ Fully

- [ ] No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The TCFD-structure is fully compatible, but the actual application of ESRS needs to ensure the compatibility and we thus believe some restructuring is needed.

It should be ensured, that it is not only a formal alignment, and that there is a full alignment on the actual approach. We believe that disclosures in the TCFD covered by the crosscutting standards needs to be included in the crosscutting only in order to ensure horizontal alignment across the topics. The same go for the application guidance ensuring that all topics are considered holistically and not on a topical level. The cross-cutting standards should explain the frameworks used when drafting the underlying, topical standards.

We would like to see a stronger obligation on the Commission and EFRAG to ensure alignment with sustainability reporting standards that are currently being prepared by the International Sustainability Standards Board - ISSB. This is crucial to avoid duplicating or contradicting reporting obligations on companies operating globally. We do not understand why only the TCFD and IFRS are referenced here. Alignment with other reporting/CSR frameworks which reporting companies are required to follow are equally as important, such as the OECD MNE Guidelines, UN Guiding Principles on Business and Human Rights, and the ILO tripartite declaration for transnational enterprises. In addition the voluntary frameworks issued by GRI, Sustainability Accounting Standards Board, and UN global compact are important as these are driven by market adoption and stakeholder expectations as this would significantly ease the reporting burden. At the same time, it is important to distinguish alignment with coverage of all existing reporting frameworks, as it is not possible to cover all requirements within ESRS. Convergence requires streamlining and prioritizing among the different disclosures and taking a position on the starting point for drafting the standards, where we would suggest either the ISSB or GRI-standards as the starting point.

However, the focus of the TCFD on the disclosure processes rather than on the prescription of disclosure requirements should be positively retained. In particular, flexibility in the reporting should be assured for the entity to disclosure the information related to the compatibility of the entity plans with the climate goal of the Paris agreement or the compatibility with conclusive scientific evidence.

Q3: in your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts?

- [ ] Not at all
- [x] To a limited extent with strong reservations
- [ ] To a large extent with some reservations
- [ ] Fully
- [ ] No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Given the differences in scope, stakeholder groups etc., we believe that the approach taken is appropriate. However, for both users and preparers, alignment between the ESRS and ISSB is crucial due to both subsidiaries in third countries as well as international alignment for investing and competitive purposes.

Alignment and compatibility of the two sets of standards must therefore be a priority to ensure that undertakings reporting under the future ESRS are also, at the same time, compliant with the international ISSB sustainability disclosure standards, to avoid a double reporting burden for the undertakings.

In particular we support the need for a joint effort of the SEC, EU and ISSB to develop comparable standards, especially in terms of measurement, recognition and aggregation/consolidation of for instance CO2-emissions

We appreciate that EFRAG provided a reconciliation between IFRS Sustainability Standards and ESRS to facilitate the comparison of the initiatives. Nevertheless, the reconciliation seems insufficient to determine alignment between the standards. To facilitate alignment, it is important that EFRAG provides a clear mapping identifying which of the draft ESRS cover which of the draft ISSB standards and which, if any, ISSB standards are not covered by the draft ESRS. Any ISSB requirement not covered by the ESRS and any extension going beyond the global baseline (e.g., for SFDR or to cover the double materiality perspective) should be easily identifiable.

Consideration given to EU policies and legislation

Article 19b paragraph 3 of the CSRD also requires that “When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of:

1. the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation - **Su stainable Finance Disclosure Requirements**;
2. the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852 - **Taxonomy Regulation**;
3. the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818 - **Benchmark Regulation**;
4. the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; **Prudential requirements for Credit Institutions and Investment Firms**;
5. Commission Recommendation 2013/179/EU; **European Commission recommendation on the life cycle environmental performance of products and services**;
6. Directive 2003/87/EC of the European Parliament and of the Council; **GHG allowance Directive**;
7. Regulation (EC) No 1221/2009 of the European Parliament and of the Council; **EMAS regulation**.

Q4: in your opinion, have these European legislation and initiatives been considered properly?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ◉ To a large extent with some reservations
- ○ Fully

No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Generally, we believe and can see that a lot of efforts have been put into bridging the different, legal frameworks listed above. Bearing in mind that the CSRD is meant to be the authoritative EU sustainability reporting frameworks, it is important that standards are aligned with the directive and other existing EU level reporting obligations, without adding to them unnecessarily.

We do however note that some of the disclosure requirements go beyond other legal frameworks and CSRD-requirements, for instance in the G-standards as illustrated in our comments to the specific standards.

Q5: are there any other European policies and legislation you would suggest should be considered more fully?

Considerations should also be given to the upcoming CSDDD and how to embed this in the ESRS, as well as to the alignment with Minimum Safeguards.

Coverage of sustainability topics

Article 19b paragraph 2 of the CSRD proposal defines the sustainability subject matters (referred to as sustainability topics or subtopics in the ESRS) that the sustainability reporting standards shall address when defining the sustainability information required by article 19a paragraphs 1 and 2 of the CSRD.
The ESRS architecture was designed to cover all the detailed subject matters listed in article 19b paragraph 2 for environment-, social- and governance-related matters and to ensure that sustainability information is reported in a carefully articulated manner.
In terms of timing of adoption of European sustainability reporting standards, article 19b paragraph 1 of the CSRD requires the Commission to adopt:

- a first set of sustainability standards covering the information required by article 19a and at least specifying information needed by financial market participants subject to the SFDR reporting obligations
- a second set of standards covering information that is specific to the sector in which undertakings operate.

Also, article 19c of the CSRD proposal on sustainability reporting standards for SMEs requires the Commission to adopt SME-proportionate standards in a second set.
As a consequence, as per article 19b paragraph 1, are only included in this first set of ESRS Exposure Drafts:

1. the two cross-cutting standards on General principles (ESRS 1) and on General, strategy, governance and materiality assessment (ESRS 2);
2. the eleven topical (sector-agnostic) standards covering environment- (ESRS E1 to E5), social- (ESRS S1 to S4) and governance-related (ESRS G1 and G2) sustainability topics.

A detailed list of ESRS EDs can be found in Appendix I. And the detailed provisions of the CSRD and how they are covered by the ESRS EDs can be found in Appendix II.

Q6: in your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have.

First, we would like to stress the importance that the scope of the reporting requirements remains as defined only by the CSRD. It should be ensured that the standards do not extend the scope of entities subject to reporting, nor add additional disclosures which are not set out in the CSRD text.

Regarding the proposed coverage of the first set of draft ESRS, there seems to be an over implementation on certain areas, e.g., in the required description of business strategy (please see our answer to Q1) and in relation to ESRS S3 and ESRS S4 on affected communities and consumers/end-users which are not specified in CSRD article 19b. Similarly, it should be ensured that the required description of and disclosures related to the value-chain as set out throughout all the standards does not exceed the requirement in the CSRD. We also believe that a number of disclosures in the topical standards would sit more naturally in the sector-specific standards.

In addition, we support the development of the simplified standards for SMEs, and for this to apply to listed SMEs for mandatory reporting and for voluntary reporting from other SMEs.

Q7: in your opinion, to what extent does the proposed coverage of set 1 (see Appendix I) adequately address SFDR reporting obligations?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

If you think this coverage and its implementation could be improved in any way, please specify how and to what specific SFDR indicator your comment relates

Some of the proposed requirements in ESRS that relate to SFDR indicators are overly granular and demand more details than required to fulfil the SFDR. For example, many SDR Principal Adverse Impacts (PAI) are binary in nature while the ESRS disclosure require a detailed description of a policy, how it was developed, considerations behind etc.

Narratives of this sort cannot be used by financial institutions to calculate aggregated figures. It is important to bear in mind that the SFDR disclosures provided by entities within the financial sector will be based on very wide populations of investments/exposures. To be able to provide those disclosures, financial companies will need well defined, simple and comparable quantitative indicators. We understand that the binary nature of certain PAI's are not easily reflected in the reporting standards and encourage EFRAG to find appropriate solutions on this together with ESMA and the EU-Commission.

The linkages between SFDR-disclosures (tables) and the reporting on the different E-standards would benefit of joint explanations on how the 5 different environmental standards/topics are dealt with. The SFDR requires allocation to one of the 6 environmental goals and this horizontal allocation should also be reflected or addressed in the standards – maybe in terms of an overarching approach across the 5 environmental standards. In addition, all SFDR required disclosures should be included directly in the standards, and not only dealt with in the application guidance.

As businesses will be required (by their corporation banks and insurance companies) to report on the 14 mandatory SFDR PAIs, business should therefore report on these items under all circumstances.

Furthermore, we note that even mandatory reporting on the 14 mandatory PAI's for a number of preparers will imply that they are required to report on immaterial information and thus the reporting entity will have costs associated with this without necessary bringing the average user any additional information – except for ensuring the availability of the mandatory (immaterial) reporting data for financial users.

It could be considered whether the 14 mandatory PAI's could be subject to materiality assessment for the preparers without external financing and external investors (for instance unlisted, family owned).

We would also encourage EFRAG to provide illustrative examples on how the PAI's could be reported together with the other reporting obligations.

Sustainability statements and the links with other parts of corporate reporting

For clarity and ease of use, standardised sustainability reporting shall be easily identifiable within the management report (MR). To that effect, ESRS 1 – General principles (paragraphs 145 to 152) prescribes how to organise the information required by ESRS. It offers three options (paragraphs 148 and 149) for undertakings to consider when preparing their sustainability reporting:

- a single separately identifiable section of the MR;
- four separately identifiable parts of the MR:

1. General information;
2. Environment;
3. Social;
4. Governance

- one separately identifiable part per ESRS in the MR.

The first option is the preferred option. When applying the other two options the entity shall report a location table to identify where disclosures are presented in the MR.
In order to foster linkage throughout the undertaking's corporate reporting, ESRS 1 also:

- prescribes that the undertaking adopts presentation practices that promote cohesiveness between its sustainability reporting and: (a) the information provided in the other parts of the management report,

(b) its financial statements (FS), and (c) other sustainability-related regulated information (paragraphs 131 to 134)
- promotes the incorporation of information by reference to other parts of the corporate reporting in order to avoid redundancy (paragraphs 135 and 136)
- organises connectivity with the financial statements by prescribing how to include monetary amounts or other quantitative data points directly presented in the financial statements (paragraphs 137 to 143).

Q8: Do you agree with the proposed three options?

- ◯ Yes
- ◉ No
- ◯ No opinion

Q9: would you recommend any other option(s)?

If so, please describe the proposed alternative option(s)

As a matter of principle, we are not in favor of the obligation to integrate the sustainability reporting into the management report due to the different user audiences of the reports, although we respect the requirement in the CSRD. Where to report should be a choice for companies, depending on their existing practices and bearing in mind that not all companies are used to integrated reporting yet. The ESRS must allow flexibility.

We suggest that the three options are deleted from the ESRS and thereby provide full flexibility, within the revised CSRD requirements, for the reporting entities to design their annual reports in a way that best communicate both the sustainability and financial reporting to the users.

Even though we appreciate the flexibility incorporated under the three options, we would suggest the following if full flexibility is not chosen:
1) Allow - or even encourage – certain descriptions to be provided in one section across all areas – the cross-cutting, E, S and G areas – for the descriptive disclosures of a) strategy, b) value chain, c) policies and d) processes. We believe this would – for many companies – allow a better communication to users as well as this is better aligned with the requirement in the CSRD.
2) allow for certain information to be included in a notes-section within the sustainability report (for instance tables with CO2-emissions etc). It would still be digital available due to XBRL-tagging.
3) Allow for more flexibility in terms of location of information in and referencing to other sections in the management report as much a possible within the CSRD. Since all data is individually marked under XBRL, the user wishing to read the sustainability will be able to extract this using the XBRL-data
4) Allow for full or partial reporting on the website as is currently good practice in Denmark. It should be noted, that the reporting in Denmark on the website is still considered to be part of the mandatory annual reporting and is therefore also covered by the quality requirements in the accounting legislation as well as the quality controls of the supervisory authorities.

In any case, the standards should not be overly prescriptive, and companies should retain enough flexibility to define how best to address the needs of their stakeholders.

The CSRD requires a single electronic reporting format for sustainability reports. EFRAG sustainability reporting standards should take into account this electronic reporting format, avoiding confusion for preparers when identifying the information, they need to report on. Adding up strict presentation requirements in EFRAG standards on top of, or inconsistently with electronic reporting requirements should be avoided.

Q10: in your opinion, to what extent do you believe that connectivity between the sustainability reporting and other parts of the management report has been appropriately addressed?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> We believe the lack of flexibility encourage separation of sustainability reporting and financial reporting and thus encourages separation of the information instead of connecting the information with the financial elements. The current framework will undermine current, Danish reporting practice and will be considered as a set-back from a readability perspective. As mentioned above, connectivity could be further enhanced by allowing a full integration of disclosures required by the ED into the MR in combination with a location table.
>
> Even if referencing is allowed, this will lead to fragmented information. Connectivity is not only a matter of how to solve the problem of redundant information in ESRS by allowing referencing, but as well a matter of what degree of connectivity there is content-wise between disclosures required by all ESRS standards vs. other disclosure requirements. For example, the assessments and judgements underlying future oriented information, description of principle risks or description of business models
>
> Given the revised CSRD, more emphasis needs to be given to flexibility within the sustainability reporting section to allow the reporting entities to structure their reporting most appropriately given their other reporting obligations. EFRAG could provide illustrative examples, but should not prescribe a format.

Q11: in your opinion, to what extent does the incorporation of information in the Sustainability section by reference to other parts of the management report support cohesiveness throughout corporate reporting?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> We agree that information should not be duplicated, and thus it is important to allow incorporation by reference. It should be noted that the XBRL-tagging will always allow user to identify sustainability data independently of where its disclosed in the report.
>
> We therefore believe that only allowing incorporating through reference to other elements in the management report and thus not allowing referencing to (for instance) the financial statements is too restrictive.
>
> We recommend to allow undertakings to decide where in the management report they decide to disclose this

information, as those are usually covered in section outside the Sustainability section (such as the governance report).

Q12: in your opinion, to what extent do the requirements and provisions on how to include monetary amounts and other financial statement-related quantitative data into sustainability reporting support connectivity with the financial statements?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The proposed requirements under paragraphs 137 to 143 are mostly inapplicable as financial information required in sustainability disclosures usually cover a broader temporal (prospective) and organizational (upstream and downstream value chain) scopes than financial statements. It is therefore not possible for companies to precise for each single datapoint the references and consistency with financial statements. In addition, we believe the amount of additional information required to comply would go against CSRD characteristics of information quality ie paragraph 38 when information is “clear and concise”.

We have also noted that the ESRS’s requires different approaches to specify for instance turnover than those used elsewhere in the financial reporting and does not for instance encourage or build on the segment reporting making it difficult to understand and connect the data.

1B. Overall ESRS Exposure Drafts relevance – Implementation of CSRD principles

Characteristics of information quality

Article 19a paragraph 2 of the CSRD proposal states that “the sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner.”
As a consequence, ESRS 1 - *General principles* defines how such qualities of information shall be met:

- Relevance is defined in paragraphs 26 to 28
- Faithful representation is defined in paragraphs 29 to 32
- Comparability is defined in paragraphs 33 and 34
- Verifiability is defined in paragraphs 35 to 37
- Understandability is defined in paragraphs 38 to 41

Q13: to what extent do you think that the principle of relevance of sustainability information is adequately defined and prescribed?

- ( ) Not at all
- (x)

To a limited extent with strong reservations
- To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The reporting framework needs to be outlined in such a way that a reporting entity (at least under normal circumstances) can be expected to provide reports that fulfill the principles of information quality. In particular, the methodology which should be used to define the scale of positive or negative impact should be clarified. There is, moreover, a lack of clarity concerning the scope of “actual or potential significant impacts by the undertaking on people or the environment”. Without a clear definition, the impact analysis will potentially be extremely broad – especially in the case of large companies, the actual or potential impact is considerably extensive when considering the entire value chain.

Ideally, materiality and disclosure should be aligned between financial reporting and sustainability reporting. As reporting based on the draft ESRS implies a large element of estimations and assessments as well as highly uncertain assumptions about future events. This will make it uncertain for reporting entities and assurance providers to determine whether they meet for example the reliability, completeness, and verifiability criteria.

Moreover, the materiality assessment and rebuttable presumption should be aligned with the definitions in financial reporting to avoid disclosing immaterial information. The Boards responsibility for the identification of all material sustainability risks is sufficient in combination with the audit requirement securing the reporting of material risks and opportunities.

Q14: to what extent do you think that the principle of faithful representation of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- [x] To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Q15: to what extent do you think that the principle of comparability of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- [x] To a large extent with some reservations
- Fully

- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> Sector specific guidance on how to carry out materiality assessment is needed to ensure comparability between undertakings in the same sectors. Further, we refer to the above mentioned regarding the 14 mandatory PAIs that shall be disclosed under all circumstances.
>
> Furthermore, we suggest adding additional application guidance to the standards on how to define the value chains and apply this to materiality.

Q16: to what extent do you think that the principle of verifiability of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- (selected) To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The definition seems to be strict, in particular regarding forward-looking information which are inherently uncertain and are potentially subject to changing circumstances, hence it might not be sure that independent observers would reach similar conclusions for this kind of information. It is important that the definition of verifiability does not imply that entities need a full audit of future-looking statements, including the required descriptions of opportunities. If at all, such information should only be checked for consistency by the auditors.
>
> We encourage EFRAG to appropriately reflect and define the principle of verifiability differently for historic and forward-looking statements and information.
>
> Furthermore, it will be difficult to apply for many of the disclosure requirements, especially regarding less mature sustainability matters (e.g., ESRS E4 on biodiversity and ecosystems) and information from undertakings in the value chain that the entity does not have a contractual relationship with and/or are not in scope of CSRD (e.g. unlisted SMEs).

Q17: to what extent do you think that the principle of understandability of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- (selected) To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Double materiality

Double materiality is a principle that is central to the CSRD proposal and is represented accordingly in the ESRS materiality assessment approach that sustains the definition of mandatory requirements by the cross-cutting and topical standards. This is also true of the materiality assessment any undertaking is expected to perform, per ESRS 2 – *General, strategy, governance and materiality assessment*, to identify its principal sustainability risks, impacts and opportunities. This in turn, defines what sustainability information must be reported by the undertaking.

Double materiality assessment supports the determination of whether information on a sustainability matter has to be included in the undertaking's sustainability report. ESRS 1 paragraph 46 states that "a sustainability matter meets the criteria of double materiality if it is material from an impact perspective or from a financial perspective or from both." Further indications as to how to implement double materiality is given by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii) and AG 68.

While recognising that both perspectives are intertwined the Exposure Drafts contain provisions about how to implement the two perspectives in their own rights.

Q18: in your opinion, to what extent does the definition of double materiality (as per ESRS 1 paragraph 46) foster the identification of sustainability information that would meet the needs of all stakeholders?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We fully support the principle of double materiality but have significant concerns with the implementation into the ESRS.

Read in isolation the definition of double materiality in the ESRS seems clear. However, it becomes unclear when it is read in the context with

- other descriptions in ESRS 1 and ESRS 2, e.g., the value chain boundaries,
- the definition and use of the terms "affected stakeholder groups"," stakeholders" and "users",
- the use of the term "all", and
- the mandatory information that is predefined as material.

making it very confusing for the preparers, assurance providers, users and regulators to actually understand and apply the definition.

The impact materiality and financial materiality, respectively, are too vaguely defined and therefore potentially too all-encompassing. It is important that the definitions clearly define the materiality covering both impacts on the business and on society. The current definition and principles for determining double materiality are vague and inclusive in nature as they cover all affected or potentially affected stakeholders (paragraph 44 and 45) within any tier of business relationship in the upstream and downstream value chain (paragraphs 50, 63, 65) and over the short-, medium- or long-term (paragraph 49).

In combination, the definition (paragraph 44) thereby includes every kind of interest of every single individual that could be affected in any way by the undertaking's activities, including though its value chain. For most entities this would be an extremely large group of stakeholders, of which many might have several different interests (e.g., living close to a factory and being a consumer and/or end-user) which would be impracticable – if not impossible – to address in a meaningful way. To ensure the sustainability report addresses a meaningful group of users with meaningful information, this definition should be ringfenced to avoid undue inclusion of stakeholders. Furthermore, as described in the answer to Q1, the use of the terms "stakeholders" and "users" need to be clear.

The rebuttable presumption seems to make an upside/down approach to what is material: If it isn't rebutted (reasonable and supportable counterevidence are presented, paragraphs 57-59), it is material. This will increase the reporting burden and possibly result in immaterial information being included in the report as this is easier (and might seem safer) than rebutting it. In addition, In addition, it might result in less management understanding and ownership in what is really material to the reporting organization.

The draft is silent on what facts or circumstances that would qualify as counterevidence - this is left to the reporting entity to determine. Thus, as the principles in ESRS fail to provide adequate tools and guidance for the assessment of what information to report, it is left to the undertaking to develop its own criteria and thresholds for determining materiality, leading to questions on comparability. This puts a heavy burden on reporting entities. Further, such criteria must also be agreed upon by assurance providers and (preferably) users of sustainability reports, leading many entities to conclude that they should comply with the full set of ESRS. This risk turning the reporting process into a compliance exercise and creating an overflow of less relevant information in the sustainability reports. Therefore, there is a need for a clear and common ground that will enable users, preparers and assurance providers to agree on scope, boundaries and the relevant content of the disclosures. In the considerations ahead, the difference in information needs and interests between investors, loan-providers (including financial institutions) and other stakeholders should not be exaggerated. Thus, disclosures meeting investors and lenders' needs should in most cases be sufficient for other stakeholders as well.

Furthermore, we believe that definition of materiality needs to put a larger emphasis on the entity itself and its immediate up-/downstream value chain than to those further out in the value-chain.

We believe that it is important to learn from the reporting of financial information, which has gone through a process of cutting clutter by being more stringent on the actual use and materiality of information in recent years to improve quality, readability, and usefulness. The experience was clearly that overloading reports with less material information decreased the overall value and usefulness of the reporting. We therefore encourage EFRAG to reconsider the need for the rebuttable presumption and change the required documentation for the materiality assessment in line with what is known from the financial reporting in order to foster good reporting that will drive change rather than fostering a compliance reporting.

Q19: to what extent do you think that the proposed implementation of double materiality (as per ESRS 2-IRO 1, paragraph 74b(iii) and AG 61) is practically feasible?

- ○ Not at all
- ◉ To a limited extent with strong reservations

- To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In general, we have severe concerns about the practical applicability and do not support the proposed rebuttable presumption approach.

The inclusive nature of the proposed principles for double materiality, including both actual and potential future impacts on a wide and undefined group of stakeholders in the upstream and downstream value chain, will make it very challenging for reporting entities to perform a materiality assessment. It will be even more difficult to rank the likelihood and severity of impacts. Many entities will not be able to perform an adequate analysis based on these principles and may therefore choose to report according to the full set of disclosure requirements.

With a rebuttable presumption prepares needs to document even minor areas “just to be sure” that they are immaterial. This typically requires separate memos and collection of numbers from all subsidiaries to prove the immateriality (and to be updated every year).

It is a risk, that the rebuttable presumption and the wide definition of “affected stakeholders” and value-chain will increase the fear of overlooking something and increase risk of being “unnecessarily” challenged in a review by auditor or by enforcers. This will increase the need for documentation of immaterial items, including supporting documentation on the (immaterial) numbers, for the entity – as well as the auditors – to point at a specific document/calculation rather than a “n/a”-answer in a checklist.

Documenting the immaterial numbers/disclosures and writing the supporting memo is just as time-consuming as documenting a material number as the process will typically have to be same.

The requirement to document and disclose the reason for the rebutted immaterial numbers/items will be a significant burden on the preparers without providing relevant information to users or facilitate meaningful discussions within the entity or with the auditors. Besides being a meaningless burden, it might also move focus from driving a sustainable development of the business to more of a compliance exercise.

Introducing a materiality assessment in line with that of other standard-setters (e.g., IFRS and GRI) would still require that “gray-areas” are properly described/documented for the entity and the auditors to make the right decision on whether do disclose or not and would support meaningful discussion on how to best provide meaningful sustainability reports.

Independently of the materiality assessment, entities should still provide the information required by the 14 mandatory PAI indicators (and any business-relevant of the additional 41 items) in the SFDR (please see our answer to Q7) and other disclosures directly attributable to requirements to the financial sector.

Impact materiality

- A definition of impact materiality is given by ESRS 1 paragraph 49: “a sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain."

- A description of how to determine impact materiality and implement impact materiality assessment can be found in ESRS 1 *paragraph 51* and is complemented by ESRS 2 *Disclosure Requirement* 2-IRO 1, paragraph 74b(iii), AG 64 and AG 68.

Q20: in your opinion, to what extent is the definition of impact materiality (as per ESRS 1 paragraph 49) aligned with that of international standards?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The draft ESRS is intended to be aligned with the definition in the GRI Standards but have chosen to use a different language. We suggest, fully aligning the ESRS definition with the language used by GRI, which is clear and precise.

Q21: to what extent do your think that the determination and implementation of impact materiality (as proposed by ESRS 1 paragraph 51) is practically feasible?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The definition of Impact materiality (paragraphs 49 to 51) would lead any company to qualify all topics as potentially material given the wide scope of application through direct or indirect relationships in its entire value chain and short to long term.

We challenge the definition of "directly linked" (paragraphs 49-50) impacts that considers at the same level impacts between a company and its direct stakeholders, in particular through contractual relationship, and with stakeholders far in the value chain where the company has little leverage.

We suggest adding wording to the definition of materiality which specify how to apply this to the value chain; and how to exclude parts of the value chain from disclosure if these are not in themselves material (relatively material) to the business ensuring that focus on areas where the entity can actually make a difference. The entity would thereby in most cases only disclose information on selected parts of the value chain for each of the identified areas that are material to the core business of the entity.

Further, the definition of 'directly linked to' is not consistent with the definition in authoritative intergovernmental instruments where this concept comes from. The phrase 'if it occurs at any tier of business relationships' is incorrect, as an organization can 'contribute' to an impact in the first tier of its supply chain, for example.

We call for EFRAG to provide simple assessment tools for companies to perform their materiality assessments in order to facilitate adoption of reporting requirements for all businesses, including smaller ones.

Furthermore, we suggest that specific consideration is given, and that the definition should be adjusted to look on broader issues across sectors when determining the materiality for businesses, e.g., IT service providers, with very extensive value chains downstream and/or upstream.

Lastly, we would add, that paragraph 50 (b) is difficult to read and understand.

Financial materiality

- A definition of financial materiality is given by ESRS 1 paragraph 53: "a matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking, i.e., it generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short, medium or long term, but it is not captured or not yet fully captured by financial reporting at the reporting date."
- A description of how to determine financial materiality and implement financial materiality assessment can be found in ESRS 1 paragraphs 54 to 56 and is complemented by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 65 and AG 69.

Q22: in your opinion, to what extent is the definition of financial materiality (as per ESRS 1 paragraph 53) aligned with that of international standards?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The ESRS defines materiality based on impact and financial materiality; while the CSRD (and NFRD) requires entities to report on matters that are necessary to understand "the development, performance and position". The ESRS should make it clear what it takes to fulfill this and how it links to the determination of materiality to determine which information to include.

The IFRS Sustainability Disclosure Standards Exposure Drafts refer to financial materiality as "if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting" and describe materiality as "an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's general purpose financial reporting".

The ESRS reference to assess the impact on a short, medium, long term is not very consistent with general financial materiality standards or the opportunities. This definition seems to be much more forward looking, while financial materiality is generally focused on current activity.

We consider that further alignment with the ISSB draft standard is possible and suggest that financial materiality is defined only in relation to creating/eroding enterprise value and not in relation to value creation generally and capitals. ISSB in its draft sustainability standards focus on enterprise value.

We also find it very important that the ESRSs clearly explains the difference between the materiality definition in the Accounting Directive (in which the CSRD is embedded) and the financial materiality concept used in the sustainability reporting standards as both preparers, assurance providers, users and regulators will otherwise not understand the difference in reporting of assets, positions and other financial terms within the sustainability reporting section.

Q23: to what extent do you think that the determination and implementation of financial materiality (as proposed by ESRS 1 paragraphs 54 to 56) is practically feasible?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The definition of financial materiality in the draft ESRS is too all-inclusive and the concept is difficult apply in practice, especially around the definitions of enterprise value.

(Materiality) Rebuttable presumption

Central to the ESRS is the critical combination of two key elements:

- the mandatory nature of disclosure requirements prescribed by ESRS, and
- the pivotal importance of the assessment by the undertaking of its material impacts, risks and opportunities.

The combination of the two is designed to make sure that the entity will report on its material impacts, risks and opportunities, but on all of them.
The assessment of materiality applies not just to a given sustainability matter covered by a given ESRS (like ESRS E3 on biodiversity for example), but also to each one of the specific disclosure requirements included in that ESRS. However, this excludes the cross-cutting standards and related disclosure requirements, which are always material and must be reported in all cases.
When a sustainability matter is deemed material as a result of its materiality assessment, the undertaking must apply the requirements in ESRS related to these material matters (except for the few optional requirements identified as such in ESRS). Conversely, disclosure requirements in ESRS that relate to matters that are not material for the undertaking are not to be reported.

The (materiality) rebuttable presumption mechanism described in ESRS 1 paragraphs 57 to 62 aims at supporting the implementation and documentation of the materiality assessment of the undertaking at a granular level.
ESRS 1 paragraphs 58 to 62 describe how to implement the rebuttable presumption principles. In particular, “The undertaking shall therefore assess for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for:

1. all of the mandatory disclosures of an entire ESRS or
2. a group of DR related to a specific aspect covered by an ESRS,

Based on reasonable and supportable evidence, in which case it is deemed to be complied with through a statement that:

1. the ESRS or
2. the group of DR is “not material for the undertaking”.

Q24: to what extent do you think that the (materiality) rebuttable presumption and its proposed implementation will support relevant, accurate and efficient documentation of the results of the materiality assessment?

- (•) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We disagree that all mandatory disclosure requirements established by the ESRS shall be presumed to be material and recommends reviewing this approach against existing proven approaches, such as GRI’s. Such an approach risks undermining organizations’ own materiality assessments, considerably increases the reporting burden, and has the potential to give rise to obstruction of information.

Current requirements to apply rebuttable presumption requires companies to explain in detail the reasons why each of the ESRS DR are not material (in order to meet the requirements to rebut a group of DR’s or even an entire ESRS), using materiality thresholds and qualitative explanations, which goes against the principles of Understandable information (paragraphs 38, 40).

This will contribute significantly to increasing the reporting burden and to information overload, hence losing the relevance of reporting. With a rebuttable resumption it is as complex and cumbersome to document any rebutted information as it is to disclose it. Altogether with the unclear materiality definitions it might be safer to include the information rather than rebutting it which would lead to clotted and unfocused reporting.

Instead of imposing on all companies a heavy reporting burden, companies should be able to use a common materiality assessment to determine what is material for them in terms of sustainability reporting.

Data comparability is also a relevant consideration and will be improved thanks to the use by companies of a common electronic format for sustainability reporting.

If EFRAG decides to keep the rebuttable presumption, further guidance on reasonable and supportable evidence would be helpful

Q25: what would you say are the advantages of the (materiality) rebuttable presumption and its proposed implementation?

The use of rebuttable presumptions is not advantageous. Please refer to the answer of Q24

Q26: what would you say are the disadvantages of the (materiality) rebuttable presumption and its proposed implementation?

The main disadvantage is the requirement to provide proof for those disclosure requirements which are considered non-material and the counter-intuitive approach to identifying material areas that derails the discussions with those charged with governance. We fear that the rebuttable presumption and the unclear and inclusive definition of materiality will lead many entities to conclude that they will have to comply with all ESRS or require extensive reports and demonstrations that certain topics are not material, which goes against the understandability principle for information quality. This would lead to the accumulation of additional information that would hamper the readability of the report as well as its understandability. To avoid such a circumstance, limiting disclosures to material information would be a preferable approach.

We suggest that the rebuttable presumption is deleted. It is important that time is spend on the material topics and the grey zone around the materiality discussions rather than focus on the discussion on what is immaterial.

Entities should report on the matters that they assess are material unless the opposite is proven. The assurance requirement will ensure that there is adequate evidence for this assessment. For particularly smaller entities, the rebuttable presumption is an unreasonable administrative burden.

Q27: how would you suggest it can be improved?

We suggest deleting paragraphs 57 to 62. Disclosure requirements under ESRS 2 (IRO 1 and 2) combined with the assurance requirement will ensure the quality and relevance of the assessment without requiring to explain further why some matters are not material. When this is the case, the entity should simply state it is not material. The considerations made by management and defense file behind this materiality assessment is a matter for the undertaking’s management and the auditors and not the users of the reporting.

Reporting boundary and value chain

ESRS 1 paragraphs 63 to 65 define the reporting boundary of the undertaking and how and when it is expanded when relevant for the identification and assessment of principal impacts, risks and opportunities upstream and downstream its value chain – as the financial and/or impact materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking.

Paragraphs 67 and 68 address the situation when collecting the information about the upstream and downstream value chain may be impracticable, i.e. the undertaking cannot collect the necessary information after making every reasonable effort, and allows approximation based on the use of all reasonable and supportable information, including peer group or sector data.

Due to the dynamics and causal connections between levels within the undertaking's reporting boundary, material information is not constrained to one particular level. Paragraphs 72 to 77 prescribe how the undertaking shall consider the appropriate level of disaggregation of information to ensure it represents the undertaking's principal impacts, risks and opportunities in a relevant and faithful manner.

Q28: in your opinion, to what extent would approximation of information on the value chain that cannot (practically) be collected contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented sustainability information?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> Proxies provide an alternative to not reporting and is therefore a welcomed proposal when it relates to data within the reporting entity's own operation and to the entity's primary or direct up- and downstream cooperation parties. Asking entities to approximate missing information for the up- ad downstream value chain further out would go against the objective of faithful representation. As an example, an entity should not estimate the impact of transportation of a component acquired from a European supplier but produced by third party in and shipped from Asia to Europe if the reporting entity cannot impact the means of transportation.
>
> If an entity should make such approximation in an objective and faithful way, it should possess strong knowledge of many industries outside their own, which would usually not be case. The risk of such approximations being wrong, and misleading would therefore be too high. We would support a European initiative to collect and make industry specific information available for entities in other industries to understand the impact and consider those in relation their own value chain. When such databases mature, it could be considered to broaden the requirement of what should be included in the approximations.
>
> When approximations are used, it would be useful to separate the disclosures based on approximations from other disclosures based on data to avoid the merging of the two.

Q29: what other alternative to approximation would you recommend in cases where collecting information is impracticable?

> Too uncertain information doesn't benefit neither preparers nor users and might provide a lack of comparability and relevance. There shall be no requirement to communicate information externally that the reporting entity wouldn't use for making decisions due to lack of quality. This exemption shall be clearly stated in the ESRS.
>
> To ensure that approximation is useful and applicable, and to ensure a focused sustainability reporting, the definition of value chain and boundaries in paragraph 65(a)I should be clarified. We will have to accept certain approximations where the materiality assessment becomes even more important to identify the areas

needed to be reported for the value chain. The topical standards should provide guidance on how to prioritize and where approximation may be relevant. The sector specific standards should provide more specific guidance, e.g., dependent on the business models.

Given the current definition of the value chain there will be instances where neither data nor approximation provides reliable information. This should be accepted by the standards and guidance should be included on how to apply this.

Q30: in your opinion, to what extent will the choice of disaggregation level by the undertaking as per ESRS 1 paragraphs 72 to 77 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented sustainability information?

- ( ) Not at all
- (•) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In general, we support that the reporting entities themselves decide on the level of granularity in the disclosures. While disaggregation is important to allow proper understanding of dynamics and support the relevance of specific actions launched in certain geographies, sites, or business units, it is not realistic to require full disaggregation of a data point. This would lead to an overload of data and lengthy reports, contradicting the need for concise information.

We recommend that, when relevant for the better understanding of dynamics in an aggregated performance, undertakings may disclose disaggregated information in a Pareto approach (i.e., disaggregating information for the few countries or assets having the most impact).

Disaggregation in accordance with the segment reporting could also be a valid choice, for instance to ensure connectivity to the financial reporting as well as reflecting on the fact that for instance the carbon footprint may depend on the business segment as well as the relevant value chains

However, as banks typically finance specific entities, including subsidiaries, rather than the Group, they need certain quantitative data from the financed entities to fulfil their reporting obligations, e.g., financed GHG emissions, Green Asset Ratio etc. On this basis we encourage EFRAG to specify which essential industry defining KPIs a parent undertaking should always consider disclosing at entity level in the group reporting (unless separate reports are provided for the subsidiaries that have obtained separate funding). Without such a standardized approach, the companies will face numerous inquiries for data at entity level from the financial sector causing significant burdens for both entities and banks.

In addition, we encourage EFRAG to reconsider the requirement in paragraph 71 requiring entities to restate comparative information when there are changes in the reporting boundaries, e.g., a change in operational structure, product services and supply chain. The requirements go significantly beyond the requirements for restatement of reported numbers in the financial reporting and would potentially be misleading rather than provide relevant information to adjust number to reflect a structure which did not exist. We suggest aligning with the requirement for financial reporting and to provide guidance on this in the application guidance.

Time horizon

ESRS 1 paragraph 83 defines short-, medium- and long-term for reporting purposes, as

- One year for short term
- Two to five years for medium term
- More than five years for long-term.

Q31: do you think it is relevant to define short-, medium- and long-term horizon for sustainability reporting purposes?

- (x) Yes
- ( ) No
- ( ) I do not know

Please explain why

Yes, it is relevant to define short-, medium- and long-term horizon for sustainability reporting purposes to allow for a differentiated reporting which gives stakeholders the opportunity to assess the undertaking accordingly.

Q32: if yes, do you agree with the proposed time horizons?

- ( ) Yes
- (x) No
- ( ) I do not know

Please explain why

For some disclosures, the suggested time horizons will not be relevant. We need longer time horizons for the definitions due to the nature of the reporting topics. We suggest:
Short: 1-3 years
Medium: 4-9 years
Long term: 10+ years

Q33: if you disagree with the proposed time horizons, what other suggestion would you make? And why?

We suggest:
Short: 1-3 years
Medium: 4-9 years
Long term: 10+ years

Disclosure principles for implementation of Policies, targets, action and action plans, and resources

In order to harmonise disclosures prescribed by topical standards, ESRS 1 provides disclosure principles (DP) to specify, from a generic perspective, the key aspects to disclose:

1. when the undertaking is required to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and
2. when the undertaking decides to describe policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters.

DP 1-1 on policies adopted to manage material sustainability matters describes (paragraphs 96 to 98) the aspects that are to be reported for the relevant policies related to sustainability matters identified as material following the materiality assessment performed by the undertaking.
DP 1-2 on targets, progress and tracking effectiveness defines (paragraphs 99 to 102) how the undertaking is to report measurable outcome-oriented targets set to meet the objectives of policies, progress against these targets and if non-measurable outcome-oriented targets have been set, how effectiveness is monitored.
DP 1-3 on actions, action plans and resources in relation to policies and targets defines (paragraphs 103 to 106) the aspects that are to be reported by the undertaking relating to actions, action plans and resources in relation to policies and targets adopted to address material impacts, risks and opportunities.

Q34: in your opinion, to what extent will DP 1-1 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented information on sustainability related policies?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

While we concur with the requirement to disclose policies, targets, actions etc. we would like to point out that the requirements in DP1-1 to DP 1-3 seem to be very detailed and go beyond what is required by the CSRD text. These are basic principles, and the reporting will multiply for each sustainability matter's policy, target and action plan.

We recommend, to align all requirements in regards to the decription of polices across all standards as these are currently not aligned. The primary description should be included in ESRS 1 and 2; and only additional requirements included in the topical standards. This have already been adopted in S2-4 and works well.

Questions regarding principles vs what should be presented on policies, targets etc and actions etc seem somewhat relevant/meaningless since DP 1-1 to DP 1-3 take precedence over principles. This will influence the relevance of the information.

The reporting obligations may be adequate in year one (but with a very high level of detail) but does not address the relevance of information in the following years as the focus needs to be on the relevant changes and with limited description of permanent policies.

Reporting should focus on material changes and not full reporting every year.

In addition, the requirements to describe the outcome of actions should be considered, as these often form part of a number of levers that are aimed at achieving an objective. It would potentially be misrepresentative or misleading to describe the expected outcome of one action in isolation. It should suffice that a company has described the expected/ desired end-goal and the actions that it plans to take to achieve that outcome.

Q35: in your opinion, to what extent will DP 1-2 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related targets and their monitoring?

- ( ) Not at all
- ( ) To a limited extent with strong reservations
- (x) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

While we concur with the requirement to disclose policies, targets, actions etc. we would like to point out that the requirements in DP1-1 to DP 1-3 seem to be very detailed and go beyond what is required by the CSRD text. These are basic principles, and the reporting will multiply for each sustainability matter's policy, target and action plan.

Questions regarding principles vs what should be presented on policies, targets and actions etc. seem not relevant/meaningless since DP 1-1 to DP 1-3 take precedence over principles.

Further, according to the principle, information on targets shall be disclosed when applicable. However, some of the disclosures in for example E1 implies that the reporting entities actually set targets. This is not compatible with the overall principle.

Q36: in your opinion, to what extent will DP 1-3 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related action plans and allocated resources?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

While we concur with the requirement to disclose policies, targets, actions etc. we would like to point out that the requirements in DP1-1 to DP 1-3 seem to be very detailed and go beyond what is required by the CSRD text. These are basic principles, and the reporting will multiply for each sustainability matter's policy, target and action plan.

Questions regarding principles vs what should be presented on policies, targets and actions etc. seem not relevant/meaningless since DP 1-1 to DP 1-3 take precedence over principles. Noting the use of “key” (paragraph 104) in relation to “key policies”, “key actions”, which is not clearly defined.

The principle needs to better reflect how business is conducted and companies are managed in order for reporting entities to provide meaningful information. As suggested in our cover letter, entities should have the flexibility to provide the sustainability information in a useful way considering the users of its report and focus should be on developments within the reporting year, including for instance changes in risk environments, changes in value chains etc as well as progress made.

Bases for preparation

Chapter 4 of ESRS 1 provides for principles to be applied when preparing and presenting sustainability information covering general situations and specific circumstances. Aspects covered include:

- general presentation principles (paragraphs 108 and 109);
- presenting comparative information (paragraphs 110 and 111);
- estimating under conditions of uncertainty (paragraphs 112 and 113);
- updating disclosures about events after the end of the reporting period (paragraphs 114 to 116);
- changes in preparing or presenting sustainability information (paragraphs 117 and 118);
- reporting errors in prior periods (paragraphs 119 to 124);
- adverse impacts and financial risks (paragraphs 125 and 126);
- optional disclosures (paragraph 127);
- consolidated reporting and subsidiary exemption (paragraphs 128 and 129);
- stating relationship and compatibility with other sustainability reporting frameworks (paragraph 130).

Q37: is anything important missing in the aspects covered by the bases for preparation?

- (x) Yes
- ( ) No
- ( ) I do not know

If yes, please indicate which one(s).
Please share any comment you might have on the aspects already covered (make sure to indicate which one you are referring to)

Further clarity would be appreciated on:
• What is meant by machine-readable format when it comes to reading sustainability information (e.g., a lot of sustainability information is of qualitative nature and could therefore be more difficult to tag)
• what is meant by “a clear distinction between information resulting from the implementation and ESRS and other information in the management report“ (e.g., a lot of sustainability information is tightly linked to rest of the financial report)
• what is meant by “the likelihood of the possible outcomes within that range including low-probability and high-impact outcomes” (e.g., what is required and how many uncertainties and estimates needs to be provided; this could be very broad and possibly more misleading than useful)
• some unclear wording, such as what is meant by “impracticable”, “practicable” and “appropriate manner” as these are subjective
• paragraph 113: future events that have sustainability impacts is very broad. A definition of “full range of possible outcomes” is needed. In addition, it is unclear what the scope is. A list of possible outcomes for all future events that have sustainability impacts could be extremely extensive. Clearly defined methods for the analysis of future sustainability impacts and their probability would be beneficial. Without guidance, to comply with said paragraph many estimates with no underlying scientific methods would be needed
• paragraph 115, which is difficult to apply in practice. It would be extremely difficult to include further

sustainability data received after year end.
• Requirements for restatement of any information provided in prior periods should be reconsidered and better guided.

1C. Overall ESRS Exposure Drafts relevance – Exposure Drafts content

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given ESRS Exposure Draft, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the questions asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

ESRS 1 – General Principles

This [draft] Standard prescribes the mandatory concepts and principles to apply for preparation of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) proposal.
It covers the applicable general principles:

1. when reporting under European Sustainability Reporting Standards;
2. on how to apply CSRD concepts;
3. when disclosing policies, targets, actions and action plans, and resources;
4. when preparing and presenting sustainability information;
5. on how sustainability reporting is linked to other parts of corporate reporting; and
6. specifying the structure of the sustainability statements building upon the disclosure requirements of all ESRS.

Most questions relevant for ESRS 1 are covered in the previous sections of the survey (section 1 Overall ESRS Exposure Drafts relevance – architecture and section 2 Overall ESRS Exposure Drafts relevance – implementation of CSRD principles).

Q38: in your opinion, to what extent can ESRS 1 – *General principles* foster alignment with international sustainability reporting standards (in particular IFRS Sustainability Reporting S1 Exposure draft)?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> ESRS seem to be more rules based than principle based, which is not in line with the typical approach by other standard setters.
>
> We have noted that ESRS is not fully aligned with ISSB S1 or GRI and suggest EFRAG to fully align with these on definitions (among other of the value chain and boundaries), concepts, disclosure and guidance. We encourage a strong alignment of sustainability standards globally to avoid a fragmentation of reporting requirements around the world. EFRAG should closely follow and take into account the ongoing work of the IFRS and International Sustainability Standards Board (ISSB) and GRI/GSSB on global sustainability reporting standards.
>
> In addition, we strongly believe that it is important to understand where EFRAG ESRS standards align to the SEC disclosure requirements and to the TCFD principles.
>
> The ESRS defines materiality based on impact and financial materiality; while the CSRD (and NFRD) requires entities to report on matters that are necessary to understand “the development, performance and position”. The ESRS should make it clear what it takes to fulfill this and how it links to the determination of materiality to determine which information to include.
>
> We challenge the definition of “directly linked” (paragraphs 49-50) impacts that considers at the same level impacts between a company and its direct stakeholders, in particular through contractual relationship, and with stakeholders far in the value chain where the company has little leverage. We suggest narrowing the definition of the value chain to include only the own operation and to the entity’s primary or direct up- and downstream cooperation parties, please see our answer to Q28 and Q29 in relation to Reporting Boundary and Value Chain.

ESRS 2 – General, strategy, governance and materiality assessment

This [draft] standard sets out the disclosure requirements of the undertaking’s sustainability report that are of a cross-cutting nature. Those disclosures can be grouped into those that are:

1. of a general nature;
2. on the strategy and business model of the undertaking;
3. on its governance in relation to sustainability; and
4. on its materiality assessment of sustainability impacts, risks and opportunities.

Q39: Please, rate to what extent do you think ESRS 2 – General, strategy, governance and materiality assessment

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○

B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	○	●	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	●	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS 2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

For part H:
While the intentions are understandable, it is challenging to fully use the same consolidation principles for financial reporting also for ESG reporting. In particular, inclusion of entities under the proportional consolidation method is complex and complicated, in particular for entities outside of the EU/EEA. It requires that the entity in question follows the same reporting methodology as the reporting organization. In addition, several quantitative reporting indicators are not well suited for “proportional inclusion” e.g., compliance and ethical indicators. To include qualitative information proportionally is also complicated. While in some cases the materiality concept can be used, this is more unclear on policy, strategy, and target side. There is a significant risk that such reporting will increase the length of a report significantly while reducing its readability. In addition, it may require significantly more reporting resources in the “proportional entities” as well as the reporting entity. It will also add to the uncertainty in the reporting.

Furthermore, the materiality principles in combination with the rebuttable presumption will create a disproportionate administrative burden on reporting entities. The ESRS 2 disclosures together with the application guidance are overly detailed and granular, which will add to the reporting burden.

The ESRS 2 requires standardized sector-agnostic and sector-specific disclosures which seem, in some cases, too stringent and burdensome to comply with for SMEs and unlisted undertakings. Such companies have a corporate organization that is less articulated than that of a listed or large size company, and this implies a lower capacity to collect the relevant information.

For part I
The EU Better Regulation Agenda has not been considered. Further, the draft standard introduces certain stringent and burdensome requirements which are not consistent with the proportionality principle on which the CSRD proposal and other EU initiatives are grounded (see section 3A for further details). Also, the draft standard does not take into account the differences in disclosure requirements provided at national level, thus introducing – by way of a non-legislative provision – additional obligations binding upon the companies concerned

For part J
Close cooperation between the ISSB and EFRAG is needed to avoid substantial differences between the ESRS and IFRS Sustainability Reporting. One example where this is apparent are differences in the approach to materiality.
Deleting the rebuttable presumption, making the principles for assessing materiality clearer, and by reconsidering the level of detail in individual disclosure requirements would be needed to align ESRS better with the international standards.. From a user perspective, we understand that the sustainability information required bears the risk of becoming repetitive, boilerplate disclosures with low information value and relevance.

Other comments:
Part B: We believe that ESRS 2 needs a thorough revision as indicated in our detailed comments. Most importantly, the split between ESRS 1 and ESRS 2 is confusing and significant parts of ESRS 1 needs to be incorporated in ESRS 2 ensuring that topics are only dealt with once – and under the appropriate reporting requirements. Further, application guidance from the topical standards, like ESRS E1, needs to be relocated to ESRS 1 or other relevant DR's. The current placement is confusing and undermines the purpose of holistic thinking – seeing all the topics in combination at the strategic level.

To foster a general and uniform application of the disclosure requirements at hand, we suggest adopting a phased approach in the introduction of reporting requirements in order to assess the degree of compliance which are required from recipient companies, depending on their size, organisation, national disclosure duties and current market practices. This would allow to effectively test the possibility for the recipient companies to comply with the standard and to align the initiatives adopted by European regulators to the proportionality principle.

In line with the CSRD, the ESRS should not, by design or in application, force undertakings to implement new policies or adopt new targets etc. Undertakings must remain free to voluntarily do so if they find it relevant and meaningful. The ESRS should not, by design or in application, put undertakings at risk of legal liability when reporting in good faith on implemented policies and adopted targets (and progress towards achieving such targets).

In addition, we suggest to further bring proportionality in the disclosure requirements by making a distinction between listed/large size companies and unlisted and SMEs when considering reporting obligations.

ESRS E1 – Climate change

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of sustainability reporting to understand:

1. how the undertaking affects climate change, in terms of positive and negative material actual or potential adverse impact;
2. its past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5°C;
3. the plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;
4. any other actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
5. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on climate change, and how the undertaking manages them; and
6. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on climate change, on the undertaking's development, performance and position over the short-, medium- and long- term and therefore on its ability to create enterprise value .

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify which information to disclose about climate change mitigation and climate change adaptation.
This [draft] standard covers Disclosure Requirements related to 'Climate change mitigation', 'Climate change adaptation' and 'Energy'.

Q40: Please, rate to what extent do you think ESRS E1 – Climate change

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	○	●	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	○	●	○
F. Prescribes information that can be verified / assured	○	○	○	●	○

G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H: The materiality principles in combination with the number of disclosure requirements will create a disproportionate administrative burden on reporting entities. The disclosures together with the application guidance are overly detailed and granular, which will add to the reporting burden and cost of reporting.

We suggest to limit the requirements to the minimum requirements in CSRD and requirements stemming from requirements to the financial sector in SFDR, CRR etc.

Part I: The incorporation of the sustainable finance disclosure, currently embedded as an unnumbered DR in paragraph 62-64 and without any application guidance is insufficient and does not foster connectivity between this reporting and the reporting under E1-E5. We strongly suggest considering how to improve this and to ensure that the DR is numbered as it is a formal reporting requirement even though the details originate from a different set of legislation. Further, it should be noted that Sustainable Finance Art 8 requires the table to be reported as one – and not to be separated out. Thus, the E-suite of standards needs to address how to embed and align this.

We believe, it is important that the ESRS standards fully incorporate and reflects the requirements in European Law for preparers to have a full set of requirements in the standards. We have not noted other differences; but suggest EFRAG to be considerate of this when amending the draft standards.

Part J: The references to 5-year roll-up are not aligned with the most commonly used 10-year span.

Close cooperation between the ISSB and EFRAG is needed to avoid substantial differences between the ESRS and IFRS Sustainability Reporting. EFRAG should therefore seek to align the final standard with the ISSB IFRS S2.

Other:
The final text of the CSRD requires that companies disclose their plans to ensure business model and strategy are “compatible” with the Paris goal of pursuing efforts to limit warming to 1.5 degrees. ESRS E1 in several places calls for a disclosure of “alignment” with 1.5. Compatibility can be achieved indifferent ways and allows greater flexibility for companies in the descriptions of their plans. The standards should stick with

the language of the directive.

The rules and criteria to be applied when deciding upon the “compatibility” of the transition plan with the “1.5° C” target should be specified. In particular, which experts may decide upon this compatibility, level of assurance, given which criteria and applying which accreditation procedure. Indeed, the current private initiatives to assess companies’ targets are valuable initiatives, but unless they are enshrined into EU or international legislation they might not provide any legal arguments if the undertakings responsibility using these methods can be challenged based on the CSRD text. In this regard, prospective scenario analysis should be key and left to the initiative of each company.

It will be difficult to assure and verify data, regarding speculative quantitative information on the financial impact of future physical and transition risks as well as the breakdown of scope 3 data across the value chain. Furthermore, there can be significant variability and low comparability across companies for metrics derived by estimates. Therefore, safe harbor language is required to recognize the uncertainty and estimated nature of the disclosure and to protect reporting companies (that used good faith efforts) against sanctions in the event that the estimates turn out to be inaccurate. The standard should also allow companies to communicate the process they used to derive inputs and any uncertainties that exist due to data constraints.

The standards require a level of granularity which would be unduly burdensome for preparers; would not be decision useful for investors; risks obscuring material information; and is not in-step with other comparable international standards. Examples include: requirement to disclose quantitative GHG reduction contributions broken down by individual decarbonization levers rather than at overall GHG reduction level; granular breakdown of energy consumption; GHG intensity per net turnover disclosures; prescriptive requirements for the breakdown of scope 3 emissions, without sufficient regard to materiality.

Furthermore, we noted that the measure of energy intensity is based on turnover and not industry relevant statistics. For instance, amounts of iron ore extracted or amount of steel or milk produced. The energy intensity would thereby be unintended impacted by currency exposures (FX rates) and on price fluctuations.

The definition of climate adaptation should be reconsidered: instead of only addressing physical risks, it is supposed to address also transition risks

ESRS E2 – Pollution

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects pollution of air (both indoor and outdoor), water (including groundwater) and soil, living organisms and food resources (referred to in this [draft] Standard as “pollution”), in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the plans and capacity of the undertaking to adapt its strategy, business model(s) and operations in line with the transition to a sustainable economy concurring with the needs for prevention, control and elimination of pollution across air (both indoor and outdoor), water (including groundwater), soil, living organisms and food resources, thereby creating a toxic-free environment with zero pollution also in support of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’;

4. the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s impacts and dependencies arising from pollution, as well as from the prevention, control, elimination or reduction of pollution (including from regulations) and how the undertaking manages them; and
5. the effects of risks and opportunities, related to the undertaking’s impacts and dependencies on pollution, on the undertaking’s development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

This standard derives from the (Draft) Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose about environmental factors, including information about ’pollution’.
This standard sets out Disclosure Requirements related to pollution of air (both indoor and outdoor), water (including groundwater), soil, substances of concerns, most harmful substances and enabling activities in support of prevention, control and elimination of pollution.

Q41: Please, rate to what extent do you think ESRS E2 - Pollution

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	●	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	●	○	○	○
C. Fosters comparability across sectors	○	●	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	●	○	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○

J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	●	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H: Measuring and tracking all pollutants listed in AG15 (DR4) will require enormous resources whereas quantities will be immaterial for majority of pollutants. Companies for which these pollutants are relevant are already operating in highly regulated environments, e.g., a local reporting of emissions is already available in compliance with EU legislation (e.g. E-PRTR). Duplicating such a reporting at group level would be very costly without bringing to any added value. An indication at group level on where this local data is accessible seems much more preferable.
Part I: The EU legislation is well considered but not respected: the application of BREFs and the emission limit values set by local authorities reflects the environment of each installation (at local level). On the contrary, the standard requires data that is not comparable across the EU due to different definitions. Considering the lack of / immature standards to measure pollution at global level, we suggest that the general qualitative disclosures are supplemented by sector specific disclosures / guidance and phasing in as metrics mature.
The standard should be aligned with the Green Deal's agenda. Regulations or requirements that only consider the hazardous properties of chemicals unnecessarily limit the variety of chemicals needed. This has a direct critical impact on the innovation and competitiveness of sustainable products, which are needed, among other things, for a successful implementation of the Green Deal.
Lastly, to ensure better consistency with European legislation, the ESRS should not define which hazardous characteristics to be included in the reporting in anticipation of decisions yet to be made in the CLP, REACH regulations or the Eco-design Regulation.
The incorporation of the sustainable finance disclosure, currently embedded as unnumbered DR in paragraph 42-44 and without any application guidance is insufficient and does not foster the needed connectivity between this reporting and the reporting under E1-E5. We strongly suggest considering how to improve this and to ensure that the DR is numbered as it is a formal reporting requirement even though the details originate from a different set of legislation. Further, it should be noted that Sustainable Finance Art 8 requires the table to be reported as one – and not to be separated out. Thus, the E-suite of standards needs address how to embed and align this.
We believe, it is important that the ESRS standards fully incorporate and reflects the requirements from the European Law for preparers to have a full set of requirements in the standards. We suggest EFRAG to be considerate of this when amending the draft standards.

B. and F. Local impacts do not correspond to a sum of authorized emissions for all installations. Reporting the total emissions at group level cannot provide any relevant information about the potential impacts as those can only be analysed at local level given the specific risks for the environment and the human health. At the same time, reporting and monitoring of pollutants should not be too granular with low environmental benefits associated. It is also challenging to track and trace value chain metrics, and have that information assured.
Specifically on B - it shall be noted that measurable targets might not be material for a company for pollution in air/water/soil, substances of concern and harmful substances. We suggest adding the wording "whatever

is material for reporting organization".
Specifically on F - Paragraph 6 under Objective describes the pollution of soil. The description indicates that this include the emissions into soil through the use of the undertaking's products and/or services. However, it will be impossible to get verifiable information of pollution occurring downstream in the value chain through the use of the undertaking's products and/or services. The information seems to be a more relevant (and verifiable) reporting requirement for the downstream user.
C. It is not possible to provide simple indicators to enable comparisons across sectors as risks are directly linked to the specific local context of each installation.
D. The draft is not suitable for a faithful representation from an impact perspective, as impacts cannot be assessed by the volume of authorized emissions.
E. Financial information may raise confidentiality issues when referring to actions associated to incidents / accidents.
G. The ESRS E2 should not, by design or in application, force undertakings to implement new policies. Undertakings must remain free to do so. In other words, the ESRS should not put undertakings at risk of legal liability when reporting in good faith on implemented policies and adopted targets (and progress towards these targets).

ESRS E3 – Water and marine resources

The objective of this [draft] standard is to specify disclosure requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects water and marine resources, in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to protect water and marine resources, also with reference to reduction of water withdrawals, water consumption, water use, water discharges in water bodies and in the oceans, habitat degradation and the intensity of pressure on marine resources;
3. to what extent the undertaking is contributing to the European Green Deal's ambitions for fresh air, clean water, a healthy soil and biodiversity as well as to ensuring the sustainability of the blue economy and fisheries sectors, to the EU water framework directive, to the EU marine strategy framework, to the EU maritime spatial planning directive, the SDGs 6 Clean water and sanitation and 14 Life below water, and respect of global environmental limits (e.g. the biosphere integrity, ocean acidification, freshwater use, and biogeochemical flows planetary boundaries) in line with the vision for 2050 of 'living well within the ecological limits of our planet' set out in in the 7th Environmental Action Programme, and in the proposal for a decision of the European Parliament and the Council on the 8th Environmental Action Programme;
4. the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a sustainable economy as well as with the preservation and restoration of water and marine resources globally;
5. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on water and marine resources, and how the undertaking manages them; and
6. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on water and marine resources, on the undertaking's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

This standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about two sub-subtopics: ‘water’ and ‘marine resources’.

Q42: Please, rate to what extent do you think ESRS E3 – Water and marine resources

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	◉	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	◉	○	○
C. Fosters comparability across sectors	○	○	◉	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	◉	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	◉	○	○
F. Prescribes information that can be verified / assured	○	○	◉	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	◉	○	○
H. Reaches a reasonable cost / benefit balance	○	○	◉	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	◉	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	◉	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E3 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H:
First of all we believe it is important to separate “water” from “marine”. Secondly, we believe a number of the specific metrics needs to be moved to the sector specific standards. Thirdly, clarity is needed on the applicability of disclosure in terms of whether and how they apply to

- businesses operating on or near oceans
- business consuming water as a primary element/factor in production
- emissions to water (for instance emissions/waste to rivers etc)

Part I:
The incorporation of the sustainable finance disclosure, currently embedded as an unnumbered DR in paragraph 36-38 and without any application guidance is insufficient and does not foster the needed connectivity between this reporting and the reporting under E1-E5. We strongly suggest considering how to improve this and to ensure that the DR is numbered as it is a formal reporting requirement even though the details originate from a different set of legislation. Further, it should be noted that Art 8 of sustainable finance requires the table to be reported as one – and not to be separated out. Thus, the E-suite of standards needs to reflect on how to embed and align this and support this thinking.

We believe, it is important that the ESRS standards fully incorporate and reflects the requirements from the European Law for preparers to have a full set of requirements in the standards. We suggest EFRAG to be considerate of this when amending the draft standards.

Part J:
A suggestion is to refer to ISO standards in order to enhance the alignment with international standards.

Another suggestion is to separate “water” from “marine”, and that a number of the specific metrics need to be moved to the specific standards. Furthermore, clarity is needed on the applicability of disclosure in terms of whether and how they apply to: (a) businesses operating on or near to oceans, (b) business consuming water as a primary element/factor in production and (c) emissions to water (e.g. emissions/waste to rivers).

Other:
Part A – It is very difficult to assess the information required on an overall level as the extent to which entities are covered / impacted is very different. Especially metrics on marine and certain water metrics should be more sector specific. There are many different types of water, and the standard does not provide the relevant guidance and differentiation between the relevant water sources.

Parts C, D and H: comparability across sectors will be difficult to ensure as the assessment of materiality will result in very different situations in terms of high-water stress settlements. Furthermore, the access to information across the value chain will be difficult to obtain.

Part. E: some information shall remain confidential (e.g. potential financial effects, risks and opportunities).

The application guidance for ESRS 2 (paragraphs 1-13) is very detailed and should be reworked. Part of the AG’s should be moved directly to ESRS 2, where the appropriate application guidance for those standards should be consolidated. AG 12 refers more to the DR 2 – SBM 1+4 of ESRS 2 than the IRO-sections. AG 5 is in effect a disclosure requirement and not application guidance. If retained, it should be incorporated in ESRS E3 as a separate DR or integrated into one of the existing DR’s in E3 as the information is going to be too detailed for the strategic sections.

ESRS E4 – Biodiversity and ecosystems

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of sustainability reporting to understand:

1. how the undertaking affects biodiversity and ecosystems, in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate, actual or potential adverse impacts and to protect and restore biodiversity and ecosystems;
3. to what extent the undertaking contributes to (i) the European Green Deal's ambitions for protecting the biodiversity and ecosystems, the EU Biodiversity Strategy for 2030, the SDGs 2 Zero Hunger, 6 Clean water and sanitation, 12 Responsible consumption, 14 Life below water and 15 Life on land, the Post-2020 Global Biodiversity Framework and (ii) the respect of global environmental limits (e.g. the biosphere integrity and land-system change planetary boundaries);
4. and the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a sustainable economy and with the preservation and restoration of biodiversity and ecosystems globally in general; and in particular in line with the objective of (i) ensuring that by 2050 all of the world's ecosystems and their services are restored to a good ecological condition, resilient, and adequately protected and (ii) contributing to achieving the objectives of the EU Biodiversity Strategy at latest by 2030;
5. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on biodiversity and ecosystems, and how the undertaking manages them;
6. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on biodiversity and ecosystems, on the undertaking's development, performance and position over the short, medium and ling term and therefore on its ability to create enterprise value.

This standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about 'biodiversity and ecosystems'. This standard sets out Disclosure Requirements related to the undertaking's relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with many indigenous and local communities.

Q43: Please, rate to what extent do you think ESRS E4 – Biodiversity and ecosystems

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	◉	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	◉	○	○
C. Fosters comparability across sectors	◉	○	○	○	○

D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	●	○	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	●	○	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	●	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E4 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part I: The incorporation of the sustainable finance disclosure, currently embedded as unnumbered DR in paragraph 61-63 and without any application guidance is insufficient and does not foster the needed connectivity between this reporting and the reporting under E1-E5. We strongly suggest considering how to improve this and to ensure that the DR is numbered as it is a formal reporting requirement even though the details originate from a different set of legislation. Further, it should be noted that Sustainable Finance Art 8 requires the table to be reported as one – and not to be separated out. Thus, the E-suite of standards needs to address how to embed and align this.
Part D, F, H, I+J: Different definitions and sustainability criteria must be in line with existing legislation and with global international definitions.
Should be in line with Global compact, which is generally accepted framework for reporting. Furthermore, Deforestation regulation, RED II, Climate change taxonomy, EU Timber regulation (Birds and habitats directive? Natura 2000?) should be considered. In some cases, E4 seems to mandate TNFD approach, although this is only in early stages of development.
The definition of relevant indicators for biodiversity is still not stabilized as this depends on very complex notions (intraspecies diversity, interspecies diversity and diversity between species and their sites). Efforts from the scientific and the business community to identify pragmatic indicators are acknowledged but there is still a very long way to reach a science-based approach.
With the limited international guidance, it is important that the ESRS does not include specific guidance which will not be aligned with future standards issued by GRI and ISSB. The current draft seems to include too many details, e-g- in the application guidance. We suggest limiting this as much as possible to avoid misalignment with other international standards, e.g,. by moving some of the details to the Basis for

Conclusion.
We strongly recommend to align with the wording of IPBES to avoid duplication of reporting going forward

Other: The difficulty to collect data for the whole value chain has to be taken into account. At this stage, it seems important to let companies report on biodiversity following their own maturity and to follow a staggered approach, as mentioned above.
It will take years to develop a policy, strategy, and targets and even longer to create and collect quality data, especially related to chapters 3,5,6 and 7 and value chain reporting as. it is hard to assess cross-over impacts. We suggest focusing on the basics first, i.e., prioritising strategy and policies while developing standards and metrics (to be disclosed at a later stage as we would otherwise see a very immature reporting and not recognize that principles are still being developed. To ease this, we recommend focusing on sector specific standards and metrics.
Part A is very extensive, increases the reporting burden significantly and may blur which topics are material. The objectives mentioned, and DR4-1 (in particular) are so detailed that meeting the requirements is challenging even to frontrunner companies.
Part B: Biodiversity-friendly consumption and production metrics are optional, but important, as they are well-established and quantitative (e.g., % of certified production and % of traceable raw materials)
Part C contains requirements that are not relevant for all sectors/companies
Part E and F contain requirements that are not directly comparable (qualitative information or metrics without definition of accurate methodology)
AG7-AG30 is very extensive and needs to be reworked. In doing this, application guidance relevant for ESRS 2 should be relocated thereto, while other elements should be incorporated in the relevant DR's of E4.
We also note:
- AG7 should only be triggered if material
- AG 11.C – As biodiversity is local it should be possible to use national databases which in many cases are more relevant than global databases
- AG.19 The risks mentioned (physical and transition) are extremely wide and would be difficult or even impossible to disclose
- AG 26. is too detailed and location/content should be reconsidered in order to focus on material issues. Further, the timescale is too short . In order to notice effect change in biodiversity the reasonable scale is 10 years.

AG10-18 provides good, but very detailed guidance on what to consider in terms of materiality.vIt should be considered whether this should be included in the application guidance or would sit better in another supporting document, e.g., the basis for conclusions or alternatively as implementation guidance.

Appendix A: defined terms
Deforestation – we suggest to use FAO definition for deforestation https://www.fao.org/3/I8661EN/i8661en.pdf page 6.
Key Biodiversity Areas –should be defined by national legislation not by NGO

ESRS E5 – Resource use and circular economy

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. the impact of the undertaking on resource use considering the depletion of non-renewable resources and the regeneration of renewable resources and its past, current and future measures to decouple its growth from extraction of natural resources;

2. the nature, type and extent of risks and opportunities arising from the resource use and the transition to a circular economy including potential negative externalities;
3. the effects of circular economy-related risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value in;
4. the plans and capacity of the undertaking to adapt its business model and operations in line with circular economy principles including the elimination of waste, the circulation of products and materials at their highest value, and the nature's regeneration.

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify information to disclose about 'resource use and circular economy'.

Q44: Please, rate to what extent do you think ESRS E5 – Resource use and circular economy

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	●	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	●	○	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	●	○	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E5 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H: The proposed requirements will trigger a huge need to update data availability to measure baseline, plan, manage and verify the progress. Such granular requirements will require updates on people, technologies and processes. We do not see the benefits outweighing the reporting costs of establishing data on too many details across the value chain.
Except for entities operating in industries where reuse and recycling is an industry standard, this disclosure is very difficult. We suggest that the specific disclosure requirements are moved to the sector specific standards addressing the recycling common or possible within the industry.

Part I: National legislation is the point of measurement but are not covered. Also, there are nuances within Europe and sometimes even differences in the way of implementation. It is further that transposition within EU law is lagging behind and MS are in delay with the deliverables.
The incorporation of the sustainable finance disclosure, currently embedded as unnumbered DR in paragraph 50-52 and without any application guidance is insufficient and does not foster the needed connectivity. We strongly suggest considering how to improve this and to ensure that the DR is numbered as it is a formal reporting requirement even though the details originate from a different set of legislation.
Further, it should be noted that Sustainable Finance Art 8 requires the table to be reported as one – and not to be separated out. Thus, the E-suite of standards needs to address how to embed and align this.
We believe, it is important that the ESRS standards fully incorporate and reflects the requirements from the European Law for preparers to have a full set of requirements in the standards. We suggest EFRAG to be considerate of this and aligning with relevant EN/ISO standards when amending the draft standards.

Part J: There is currently a lack of references to the forthcoming ISO TC 323 work on circular economy. This international standard seems better suited than private approaches to create a relevant level playing field and enable comparison. We encourage an assessment of the current availability of data of the already involved companies and a representative sample of companies now required to report.

Other: It is suggested to avoid wordings like “elimination of waste”. Instead, waste prevention or waste minimization shall be preferred, as already used in existing legislation.
Specifically, for parts B, C, D and F, please consider our comments below:
Parts B / C – for some activities (e.g. food, medical, health), products need to comply with very high security standards. This means that circular economy cannot systematically be addressed.
Part D / F – it will be difficult to obtain and verify all characteristics of products from suppliers for which industrial secrets have to be respected, and therefore, difficult to assess the impact of those products. Our recommendation is to preserve business secrets and confidential information.
Part G - in line with the CSRD objectives, E5 should not, by design or in application, force undertakings to implement new policies. Undertakings must remain free to do so. In other words, the ESRS should not put undertakings at risk of legal liability when reporting in good faith on implemented policies and adopted targets (and progress towards these targets).
Many reporting requirements are very comprehensive, and the questions are written in a broad and abstract way and in an academic language (high lix number).
It will be difficult for the companies to know exactly how to respond, and it will be difficult to compare answers across companies and sectors since there is no common understanding of how to answer and no

format/standard for the specific disclosure requirements.
Some questions go beyond what can be expected from individual companies to evaluate – e.g., evaluation of the remaining resources and the negative externalities resulting from the use of resources.
It is important that the reporting requirements are easy to understand and act on. This will help minimize administrative cost and increase the possibility of comparison across companies and sectors. In this context it is important that the vocabulary used is the same as in EU legislation on waste and the circular economy.
Application guidance referring to ESRS 2 (AG 1-9): We believe the application guidance needs to be relocated either to ESRS 2 or as a separate disclosure requirement in ESRS E5, as the level of detail and general description would probably sit better together with other elements in E5. Therefore, flexibility in location of the disclosures is needed. Further, the application guidance seems to indicate a very detailed reporting for a strategic level-
The five subtopics in AG5 could be put to more use in the standard or application guidance in order to help /guide the reporting on the relevant aspects.

ESRS S1 – Own workforce

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how they affect the undertaking affects own workforce, in terms of positive and negative material impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking’s material risks and opportunities related to its impacts and dependencies on own workforce, and how the undertaking manages them and,
4. the effects of risks and opportunities, related to the undertaking’s impacts and dependencies on own workforce, on the undertaking’s development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

In order to meet the objective, this [draft] Standard also requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on its own workforce in relation to:

1. working conditions (impacts related to e.g. living wage, health and safety, social security, working hours, water and sanitation);
2. access to equal opportunities (impacts related to e.g. discrimination, including on the rights of workers with disabilities or on women workers, as well as impacts related to issues of equality in pay and work-life balance, precarious work);
3. other work-related rights, (impacts related to e.g. trade union rights, freedom of association and collective bargaining, child labour, forced labour, privacy, adequate housing).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.
This [draft] Standard covers an undertaking’s “own workforce”, which is understood to include both workers who are in an employment relationship with the undertaking (“employees”) and non-employee workers who are either individuals with contracts with the undertaking to supply labour (‘self-employed workers’) or workers provided by undertakings primarily engaged in ‘employment activities’ (NACE Code N78). This

[draft] Standard does not cover (i) workers in the upstream or downstream undertaking's value chain for whom neither work nor workplace are controlled by the undertaking; or (ii) workers whose work and/or workplace is controlled by the undertaking but are neither employees, nor individual contractors ("self-employed workers"), nor workers provided by undertakings primarily ,engaged in "employment activities" (NACE Code N78); these categories of workers are covered in ESRS S2 Workers in the Value Chain.

Q45: Please, rate to what extent do you think ESRS S1 – *Own workforce*

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	●	○	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	●	○	○	○
C. Fosters comparability across sectors	○	●	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	●	○	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	●	○	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H:
From reporting perspective, especially those topics require high effort that ask for 1) individual employee figures (e.g., salary below fair wages, parental leave) and 2) information which needs to be adapted to diverse national policies/regulations/practices. The first one needs an enormous expansion of HR Controlling, the second one causes a very high administration and new tools.

Overarching comment: Reporting on the undertaking's Own Workforce shall include disclosures on employees and non-employees. However, this bears the risk of leading to an interpretation according to which non-employees, including self-employed or externally arranged solutions such as agency workers would be treated like own employees which could represent a co-employment risk to the undertaking. Non-employees should therefore be excluded here and instead be reported under ESRS S2 Workers in the Value Chain.

Unfortunately, the proposed EFRAG's own workforce indicators are too far reaching and go far beyond the CSRD requirements. Should such indicators be put into standards, their legal force in view of the link with CSRD would lead to significant additional and disproportionate administrative burdens for the covered companies' HR departments. These additional burdens for HR departments, compared to the current reality, needs to be analysed by the Commission and EFRAG, in line with better regulation and impact assessment tools.

Moreover, EFRAG's work on own workforce standards should better acknowledge the benefits companies bring to their workers in view of the nature of the employment relationship (wages, social contributions). It should also fully respect and better take into account the need for companies to comply with working conditions that are set in the law at EU and national level, as well as in accordance with diverse collective bargaining practices in the Member States. It should furthermore respect the national required/established systems to comply with work environment, including the assessment thereof, rather than encourage the establishment of new/additional fora.

Indicators should also include the space for companies to report on possible difficulties to comply with certain rules, and how the regulatory expectations or obligations they are confronted with may in fact be disconnected from the real actions that companies would rather prioritise to benefit their workforce.

The application guidance contains extensive additional reporting requirements. This is not in line with the purpose of standards. Some of the proposed disclosures are also not possible to report due to national legislation that prohibits data collection and most likely du to GDPR.

We also believe that the application guidance in AG 2-10 should be moved to the relevant sections in ESRS 2 or to relevant Disclosure requirements under S1 (if needed under a specific disclosure requirement) in order to avoid overly detailed reporting in the strategic section.

ESRS S2 – Workers in the value chain

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects workers in its value chain through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on workers in the value chain, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on value chain workers in relation to impacts on those workers':

1. working conditions (impacts related to e.g. living wage, health and safety, social security, working hours, water and sanitation);
2. access to equal opportunities (impacts related to e.g. discrimination, including on the rights of workers with disabilities or on women workers, as well as impacts related to issues of equality in pay and work-life balance, precarious work);
3. other work-related rights, (impacts related to e.g. trade union rights, freedom of association and collective bargaining, child labour, forced labour, privacy, adequate housing).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.
This [draft] standard covers all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "own workforce" ("own workforce" includes: employees, individual contractors, i.e., self-employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities'). Own workforce is covered in ESRS S1 Own workforce.

Q46: Please, rate to what extent do you think ESRS S2 – Workers in the value chain

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	○	○	●	○	○

D. Covers information necessary for a faithful representation from an impact perspective	○	○	○	●	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H:
The current definition of the value chain requires a widespread view on value chain workers which might result in an unfocused reporting unless the materiality definition and application provides guidance to ensure a focused reporting. We suggest adding guidance on how to apply materiality regarding human rights; including how to assess this for own activities vs. activities provided far out in the value chain.

Part J:
The ESRS is generally aligned with the GRI, UN guiding Principles on Business and Human rights, the OECD Guidelines for Multinational Enterprises and due diligence guidance. There is, however, still room for further alignment and convergence on key concepts, definitions, and disclosure requirement. We encourage EFRAG to fully align with GRI.

Other:
The wording in the disclosure requirements imply, that the reporting entity can take actions which would have a direct impact on the workers in the value chain. It should be noted that workers in the value chain are employed by other companies and work according to contracts, terms etc. with these other entities. Thereby, the reporting entity has no direct relationship with the value chain workers and cannot directly make any decisions in relation to their employment, working condition etc. The impact made by the reporting entity will therefore usually be indirect. The disclosure requirements should reflect this.

The proposed requirements on value-chain information are mostly inapplicable as information required in sustainability disclosures usually cover a broader temporal (prospective) and organizational (upstream and downstream value chain) scopes than financial statements. We believe the amount of additional information required to comply would go against CSRD characteristics of information quality and would difficult – probably almost impossible – to verify.

Without ignoring the link with the ongoing debates on the Corporate Sustainability Due Diligence (CSDD) draft directive, we note that the draft standard requires disclosure at "value chain" level, i.e. wider than supply chain and including customer-side. Disclosure obligations in this area should be grounded in relevant international standards (UNGPs and OECD guidelines).

Companies should be enabled to risk prioritise activities and the ESRS should show greater consideration of the level of leverage that companies have (there is generally much less with customers than suppliers).

A remaining concern is obtaining reliable and verifiable information underpinning the disclosures. The ability to verify the correctness of the information in the value chain is often limited. Typically, the companies that are the employer of these workers have no interest in transparency of inappropriate working conditions. It seems important that the standard focuses on publication of policies and procedures and above all acknowledges that information about workers in the value chain may come to light that was not known by the reporting company at the time of disclosure.

Lastly, paragraph 15 (a) and (c) covers all stakeholder (and not only value chain workers) which should be moved from ESRS S2 to the cross-cutting standards.

ESRS S3 – Affected communities

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects its local communities through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on affected communities, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to their impacts and dependencies on local communities, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [Draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on affected communities in relation to:

1. impacts on communities' economic, social and cultural rights (e.g. adequate housing, adequate food, water and sanitation, land-related and security-related impacts);
2. impacts on communities' civil and political rights (e.g. freedom of expression, freedom of assembly, impacts on human rights defenders); and

3. impacts on particular rights of Indigenous communities (e.g. free, prior and informed consent, self-determination, cultural rights).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.

Q47: Please, rate to what extent do you think ESRS S3 – Affected communities

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	●	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	○	●	○
C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	○	●	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	○	●	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S3 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H:
The current definition of the value chain requires a widespread view on affected communities which might result in an unfocused reporting unless the materiality definition and application provides guidance to ensure a focused reporting. We suggest adding guidance on how to apply materiality regarding human rights; including how to assess this for own activities vs. activities provided far out in the value chain.

Other:
The standard defines affected communities broad and include “A group living or working in the same area that has been or may be affected… though its value chain”.

The wording in the disclosure requirements imply, that the reporting entity can and should take actions which would have a direct impact on the value chain. It should be noted that the reporting entity has no power to make decision on behalf of entities in the value chain. The impact made by the reporting entity will therefore usually be indirect. The disclosure requirements should reflect this.

A remaining concern is obtaining reliable and verifiable information underpinning the disclosures. The ability to verify the correctness of the information in the value chain is often limited. It seems important that the standard focuses on publication of policies and procedures and above all acknowledges that information about affected communities in the value chain may come to light that was not known by the reporting company at the time of disclosure.

ESRS S4 – Consumers and end-users

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects the consumers and end-users of its products and/or services (referred to in this [draft] Standard as “consumers and end-users”), in terms of material positive and negative actual or potential adverse impacts connected with the undertaking’s own operations and upstream and downstream value chain, including its business relationships and its supply chain;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking’s material risks and opportunities related to its impacts and dependencies on consumers and end-users, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to their impacts and dependencies on consumers and end-users, on the undertaking’s development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on the consumers and /or end-users related to their products and/or services in relation to:

1. information-related impacts for consumers/end-users, in particular privacy, freedom of expression and access to information; .
2. personal safety of consumers/end-users, in particular health & safety, security of a person and protection of children; and

3. social inclusion of consumers/end-users, in particular non-discrimination and access to products and services.

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.

Q48: Please, rate to what extent do you think ESRS S4 – Consumers and end-users

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	○	●	○
C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	○	●	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	○	●	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S4 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part H:
The current definition of the value chain requires a widespread view on consumers and end-users which might result in an unfocused reporting unless the materiality definition and application provides guidance to ensure a focused reporting. We suggest adding guidance on how to apply materiality regarding this topic; including how to assess this for own activities vs. activities provided far out in the value chain.

Other:
This standard does not seem relevant for all sectors. More guidance is needed.

The wording in the disclosure requirements imply, that the reporting entity can and should take actions which would have a direct impact on the customers and end-users of the products even when the reporting entities is not the producer of the final product, but only of a part thereof. This for example be a raw material, a component or packaging materials – which are all products that will potentially be used in a wide variety of finished products sold to end-users. It should be noted that the reporting entity has no power to make decision on behalf of entities in the value chain. The impact made by the reporting entity will therefore usually be indirect. The disclosure requirements should reflect this including specific guidance when the reporting entity is not the producer of the core product.

The disclosure requirement for customers and end-users should reflect the distance from the reporting entity to the customer and end-user; and thereby the difference in how to affect these.

A remaining concern is obtaining reliable and verifiable information underpinning the disclosures. The ability to verify the correctness of the information in the value chain is often limited. It seems important that the standard focuses on publication of policies and procedures and above all acknowledges that information about customers and end-users in the value chain may come to light that was not known by the reporting company at the time of disclosure.

ESRS G1 – Governance, risk management and internal control

The objective of this [draft] standard is to specify disclosure requirements which will enable users of the undertaking’s sustainability report to understand the governance structure of the undertaking, and its internal control and risk management systems.
This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose information about governance factors, including:

1. the role of the undertaking’s administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition, as well as a description of the diversity policy applied and its implementation;
2. the undertaking’s internal control and risk management systems, including in relation to the undertaking’s reporting process.

Q49: Please, rate to what extent do you think ESRS G1 – Governance, risk management and internal control

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)		X			
B. Supports the production of relevant information about the sustainability matter covered	X				
C. Fosters comparability across sectors		X			
D. Covers information necessary for a faithful representation from an impact perspective	X				
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified / assured		X			
G. Meets the other objectives of the CSRD in term of quality of information		X			
H. Reaches a reasonable cost / benefit balance	X				
I. Is sufficiently consistent with relevant EU policies and other EU legislation	X				
J. Is as aligned as possible to international sustainability standards given the CSRD requirements		X			

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part I: The disclosure requirements provided under ESRS G1 seem to go far beyond the information duties required under Article 19-bis of the CSRD
Other: The proposed disclosure requirements will bring a lot of additional work for companies, both in preparing the required reports and the implementation measures (e.g. adopting new policies and internal rules and restructuring of risk management processes). The disclosures are overly granular and disproportionate.

We have seen little evidence that the ESRS strikes the right balance between additional workload, granularity of required information, and perceived benefits of the information. Some of the disclosures overlaps with existing requirements, causing an overly complicated reporting framework and an unjustified addition to the administrative burden.

It seems inappropriate that the reporting standard pushes for certain expertise/nomination criteria in the top management of privately owned companies which could put into question the rights of board and shareholders awarded by company law systems.

Overall, the proposed disclosures go far beyond the scope of the CSRD (which requires to set standard on "the role of the undertaking's administrative, management and supervisory bodies", new art. 19b, par. 2, c, i), thus providing new mandatory disclosures applicable for both listed and unlisted companies. This is mainly due to the replicating the mandatory disclosure obligations provided in other European legislative acts (the current consolidated versions of Directive 2013/34/UE and Directive 2007/36/EC) and of relying on the full content of the internationally accepted metrics (e.g. GRI).

In particular:

- for listed companies, the application guidance seems to explicitly allow cross-referencing only to other sections of the management report that are clearly identified as addressing the specific disclosure requirement (in pair with the ESRS 1, par. 135: "incorporation by reference in the sustainability statements from reports other than the management report is not allowed"), while according to the EU legal framework listed companies are: i) allowed to disclose the relevant information in a separate report (published together with the management report) or as a document publicly available on the company's website, to which reference is made in the management report (as provided by Directive 2013/34/UE); ii) required to publish a remuneration policy and a remuneration report that shall be available on the company's website (as provided by Directive 2007/36/EC). This scenario could lead to unnecessary duplication of information and undue costs;
- for unlisted companies, most of the G1 disclosure requirements extend the informative disclosure set in Directive 2013/34/UE and in 2007/36/EC (which regulate listed companies only) to the unlisted companies subject to the sustainability reporting. This is problematic in terms of costs and burdens for such companies. Moreover, the mandatory obligation to provide information about matters that are specifically referred to the listed companies' framework (e.g. code of conduct, independence, board evaluation, remuneration policy) also for unlisted companies would introduce a high level of uncertainty of the standards' definitions.

While an alignment with international standards (I.e. GRI) is needed and beneficial, EFRAG should only duplicate the essential elements required by CSRD instead of all the GRI standards. In fact, while ESRS are mandatory and based on a (rebuttable) presumption of materiality, GRI standards are applied on the basis of a materiality assessment by the company.

Also, the introduction of such disclosure requirement would impose a mandatory obligation through a level 2 measure (EC delegated act) that is inconsistent with a level 1 measure (Directives 2013/34/UE and 2007/36 /EC that regulate listed companies only). The CSRD requirement to develop standards on governance, shall be interpreted in a stricter way, as it refers to governance information related to sustainability. The G1 disclosure requirements exceed the requirements of CSRD article 19a and 29a, thus resulting in misalignment of their scope (extension to unlisted firms) and introduction of mandatory requirements that do not have a legal basis.

Furthermore, the specific content of G1 disclosure requirement poses specific problems regarding groups. According to the CSRD, the sustainability reporting shall be provided by the parent undertaking through the consolidated sustainability reporting it should be clearly stated that the disclosure requirements in G1 only relates to the parent undertaking.

Finally, we presume that the disclosure requirements only cover the undertakings' own activities and not the activities of undertakings in the value chain.

ESRS G2 – Business conduct

The objective of this [draft] standard is to specify disclosure requirements for the undertaking to provide information about its strategy and approach, processes and procedures as well as its performance in respect of business conduct.
This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about business ethics and corporate culture, including anti-corruption and anti-bribery.
In general, business conduct covers a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders. This [draft] standard focusses on a limited number of practices as follows:

1. business conduct culture;
2. avoiding corruption, bribery and other behaviours that often have been criminalised as they benefit some in positions of power with a detrimental impact on society; and
3. transparency about anti-competitive behaviour and political engagement or lobbying.

This [draft] standard is addressing business conduct as a key element of the undertaking’s contribution to sustainable development. This [draft] standard requires the undertaking to report information about its overall policies and practices for business conduct, rather than information for specific material sustainability topics.

Q50: Please, rate to what extent do you think ESRS G2 – Business conduct

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	○	○	○	●	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○

E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	●	○	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	●	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Part I:
The disclosure requirements provided under ESRS G2 seem to go beyond the information duties required under the draft CSRD on business conduct

Other:
· Too detailed reporting requirements can be burdensome and costly with very limited additional value.
· Detailed reporting requirements with little flexibility will set binding standards that may be difficult to fulfill and even hinder innovative compliance management approaches.
· Reporting and disclosure requirements need to be balanced carefully against the company's legitimate interest to keep investigations and investigation outcomes confidential. The current draft does not sufficiently define the requirements, particularly the term "legal proceeding" needs clarification.
· Companies should not be required to externally report concerns about identified insufficiencies of their own compliance program where such insufficiency has not led to significant cases of non-compliance.
· We expect that undertakings will rely heavily on Appendix B to understand or clarify the disclosure requirements. We are afraid that Appendix B, in its current form, will not provide meaningful guidance to undertakings. Most paragraphs are brief or high-level, lacking essential information about the background of the requirements and, most importantly, the scope and specific reporting expectations

We suggest adopting a phased approach in the introduction of reporting requirements to assess the degree of compliance which can be actually required to the recipient companies, depending on their size, organization, national disclosure duties and current market practices. Also, to reduce the number of documents that the recipient companies are required to produce under the standard, we suggest clarifying the modalities by which companies may avail themselves of the incorporation by reference tool when drafting such documents

2. ESRS implementation prioritisation / phasing-in

Application provisions

In order to facilitate the first-time application of set 1, ESRS 1 includes two provisions:

- Application Provision AP1 which exempts undertaking to reports comparatives for the first reporting period, and
- Application Provision AP2 which proposes transitional measures for entity-specific disclosures which consists in allowing the undertaking to continue to use, for 2 years, disclosures it has consistently used in the past, providing certain conditions are met, as described in paragraph 154.

Q51: to what extent do you support the implementation of Application Provision AP1?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ● Fully
- ○ No opinion

Q52: to what extent do you support the implementation of Application Provision AP2?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ● To a large extent with some reservations
- ○ Fully
- ○ No opinion

Q53: what other application provision facilitating first-time application would you suggest being considered?

Please explain why

Regarding Q52: Companies should not be prevented from developing their own specific disclosures freely, on top of required disclosures as long as it does not hinder material information. Specificity is critical to develop meaningful measurements for a company to drive its own progress and transformation (for example related to a specific product of activity).

ESRS implementation prioritisation / phasing-in options

Set 1 proposes a comprehensive set of standards aimed at achieving the objectives of the CSRD proposal, with the exception of the standards to be included in Set 2.

Acknowledging the fact that the proposed vision of a comprehensive sustainability reporting might be challenging to implement in year one for the new preparers and potentially to some of the large preparers as well, EFRAG will consider using some prioritisation / phasing-in levers to smoothen out the implementation of the first set of standards.

The following questions aim at informing EFRAG's and ultimately the European Commission's decision as to what disclosure requirements should be considered for phasing-in, based on implementation feasibility / challenges and potentially other criteria, and over what period of time their implementation should be phased-in.

Q54: for which one of the current ESRS disclosure requirements (see Appendix I) do you think implementation feasibility will prove challenging? and why?

All reporting requirements related to the value chain will be challenging and impractical to implement with quality data that can be validated. Every reporting entity will have multiple (hundreds or even thousands) of up- and down-stream relationships which needs to be assessed to identify those relevant for the disclosures. Thereby entities will have multiple exchange of data-points, data collection and validations which require extensive workload to manage and validate. All disclosure requirements regarding the value-chain should be postponed with two years from the initial adoption of the standards as this would allow the entities to establish the needed systems and ensure the data-quality needed before reporting to external users.

For entities with a complex value chain, the requirement should be considered to phased-in over two to five years, with the impacts farthest away from the entity having the longest implementation time. Required reporting from value chain entities outside EU could also be considered for a longer phase-in to allow the reporting entities to incorporate the needed/required data to be reported into relevant contracts. Requiring data from an entity which is a direct customer/supplier would not always be possible unless contractually established; and would in particular be complicated for relationships outside EU.

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q55: over what period of time would you think the implementation of such "challenging" disclosure requirements should be phased-in? and why?

In line with the comment above, 2 to 5 years.

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q56: beyond feasibility of implementation, what other criteria for implementation prioritisation / phasing-in would recommend being considered? And why?

Maturity of the reporting area, including the underlying datapoints and commonly agreed measurement /evaluation methods.

Further, strong emphasis should be on the benefit/value of the actual datapoint – especially if it is not directly embedded in CSRD. Priority should be given to information needed under the SFDR as this legislation is already in place and reporting is dependent on data from reporting entities,

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q57: please share any other comments you might have regarding ESRS implementation prioritisation / phasing-in

The ESRSs needs to be accompanied by implementation guidance, including special focus on first-time adopters as the standards in totality should focus on and be written for recurring reporters

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If you have other comments in the form of a document please upload it here

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Contact

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