8 August 2022
KKO/TIAG

Dansk Industri
Confederation of Danish Industry

EFRAG Sustainability Reporting Board
35 Square de Meeüs
1000 Brussels
Belgium

EFRAG Consultation Survey on the Draft European Sustainability Reporting Standards (ESRS ED)

Dear Sir/Madame

First of all, the Confederation of Danish Industry would like to congratulate EFRAG for the amount of work done in the short timespan in order to produce a set of draft reporting standards to support the CSRD. The Project Task-Force have been working under intense time pressure, leading to the unfortunate timing of the ESRS ED consultation period during vacation time in Denmark. As a result, outreach and consultation with our members have been more limited than we would have preferred.

We fully support the objective of transforming Europe into the first climate-neutral continent in the world by 2050. We can confirm that we and our members are ready to contribute as relevant and reliable sustainability information is crucial for a sound business development. .

On this basis, we would strongly encourage EFRAG and the EU Commission to ensure that adequate resources are allocated to and sufficient time is spent by EFRAG to assess the comments received during the consultation process and make the necessary changes needed to ensure a high quality of the final standards.

In the development of the final standards, we suggest EFRAG focuses on the following areas, which – in our opinion – are the most crucial (all described in detail below):

- 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
- 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 format to allow full flexibility within the CSRD guidelines.

The reporting standards will not only impact the 50.000+ companies directly covered by the CSRD but also the vast number of companies in the value chains. This provides a unique opportunity to support the transition of the economy but can also lead to undue administrative burdens and drive a compliance reporting regime if the reporting requirements are too excessive and requires the publication of immaterial information.

Having read the complete set of exposure drafts our key concerns are the following:

- The **ESRSs are too granular** and will result in an unfocused reporting with an information overload in line with what was experienced in the financial reporting until efforts were made from the standard setter to focus on material issues. 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 to limit the general disclosure requirements and make better use of sector specific reporting requirements (as a number of disclosures are not generally comparable across sectors). Furthermore, the disclosure requirements should be limited to the minimum requirements according to the CSRD and Sustainable Finance requirements in SFDR, CRR etc. A number of disclosure requirements going beyond these requirements should be deleted.

  Consequently, we suggest that the description of strategy, risks, and opportunities are covered only – and fully – by ESRS 2, and without exceeding the CSRD requirements. This is particularly important for the description of opportunities, which should not exceed what the reporting entity has integrated in its strategy and business model as information beyond this would likely be too opportunistic and without proper ground.

- 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. With unclear definitions and the rebuttable resumption – whereby it is as complex and cumbersome to document any rebutted information as it is to disclose it – it will be safer to include the information rather than rebutting. This will not only lead to a clotted and unfocused reporting, but potentially also to a lack of management ownership and focus on key areas.

  We suggest aligning with well-known international frameworks, especially ISSB (financial materiality) and GRI (impact materiality) to foster comparability across jurisdictions.

  Furthermore, we suggest removing the rebuttable presumption and introduce a materiality assessment in line with that of other standard-setters (E.g., IFRS and GRI).

- In general, the standards seem to have **to high a focus on year-one reporting** instead of the recurring reporting. This for instance drives extensive disclosures on policies that in most instances will remain 90-95% stable over the years.

  We suggest focusing on changes in the reporting period and leave stable descriptions on the website or at the very least in a disclosure section (notes) at the end of the sustainability report. Otherwise, material information will drown in immaterial and recurring descriptions and information

- 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. Our members especially single out ESRS 1 + 2 as they overlap – and in some instances include direct duplication of language and requirements as well as indirect requirements through the use of "shall". There is for instance an almost 1 to 1 repetition of ESRS 2 DR2-GR2 to the corresponding section of ESRS 1. Further, having application guidance to ESRS 2 in the topical standards complicates the reading and understandability of the standards.

  We suggest to significantly reduce ESRS 1 to describe the principles only, avoid duplication, 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, if possible. When additional disclosures are needed, the topical standards should include these as separate disclosure requirements and not as "masked disclosure requirement" hidden as application guidance.

  Lastly, we suggest, that some of the descriptions – especially in the application guidance – are replaced by or supported by figures, graphics, or illustrative tables.

- We would like to see a stronger commitment from 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.

  Alignment with other reporting/CSR frameworks which are commonly used by companies is equally as important, such as the OECD MNE Guidelines, UN Guiding Principles on Business and Human Rights, GRI, Sustainability Accounting Standards Board, UN global compact, ILO tripartite declaration for transnational enterprises.

  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.

- 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. The lack of knowledge of what good reporting looks like will therefore at best lead to reporting of poor quality and in worst case to unfaithful disclosures and erroneous investment and finance decisions.

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 and that the 50.000+ undertakings covered by the standards have the resources and knowledge available to provide high quality reporting. This allows priority to be given to the most important areas and to support this by the targeted development of measurement and reporting methods.

Specifically, for areas that are not covered by the CSRD article 19 we suggest that these are either removed for the first 5-8 years to allow for appropriate standards and methods to be developed, or alternative to make reporting under these standards voluntary for the said period. During these years, entities could describe their maturity in the areas and incorporate/increase the reporting as they mature.

Minimum disclosure requirements needed to be reported by entities for their cooperation banks and insurance companies to comply with the SFDR should also be included, but separately "marked" and only be mandatory when required by financial institutions reporting under SFDR.

- The mandated **structure of the sustainability reporting** does not foster integration of sustainability information but supports a segregation of the information. In Denmark, we have good experience with integration of the reporting and with providing required information on the entity's webpage why the required format will be a significant set-back of good reporting practices and decrease the value of the overall reporting of both the sustainability reporting and the financial reporting.

  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. Reporting is all about addressing the target audience and provide the relevant information in the most accessible way. It is therefore important that ESRS is not more prescriptive than the restrictions set by CSRD.

- 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.

- The concept and required description of the **Value Chain and boundaries** thereof is a significant issue for large corporations. Up- and downstream value chains for these undertakings will be extensive with thousands of customers in all industries and millions of affected stakeholders. To ensure meaningful disclosures from these undertakings and avoid excessive and unproportionate burdens the value chain concept must be clarified and above all limited – focusing on the key material issues to ensure a focussed and relevant reporting. It should be made clear which ESRSs/disclosure requirements apply only for own activities, and which apply for activities of other undertakings in the value chain.

Flexibility of reporting

In Denmark we have over the years had a very strong focus on ensuring the readability and usability of the annual reports for the key users. This has led to annual reports with high readability which is recognised by users of our reports. One key element of this have been the ability to publish the sustainability information in a report published separately on the website with links to (and from) the annual report at it is a part of the annual report and therefore also filed at the same date.

With the requirement to include the entire sustainability report in the management report, a high degree of flexibility is needed to ensure that the reporting can be integrated with the other elements of the annual report. To achieve this, we would suggest that ESRS provides full flexibility to design the sustainability report as best suited to communicate with the users. For some this would include integration of certain reporting elements across all areas to avoid duplication of information. For others, separate sections by area (cross-cutting, E, S, and G) may be preferred, especially for undertakings with simpler business models.

With an integration across all areas the sustainability report could for example be structured with the following sections: a) strategy, b) value chain, c) risks and opportunities, d) description of developments in the year, e) tables with disclosure of all data points, including targets and a description of the related measurement and reporting policies, and f) policies and other more static information.

As a consequence, we suggest that the format currently required by ESRS 1 is deleted, or alternatively that the different formats are changed from required, alternative reporting structure to be illustrative examples. IF EFRAG decided to keep the illustrative examples, we suggest adding a fourth example based on the above example. Building on the structure outlined in ESRS 1 6.2 and duplicated in ESRS DR2-GR 1 6c:

> "The undertaking could for example present the sustainability report in one of the following four options, or combinations thereof:
>
> …
>
> *(d) describe the different items across all areas, e.g., strategy, value chain, risks and opportunities, and policies, in separate sections covering all sustainability*

areas. Other disclosure requirements in the topical ESRS's should be structured could be presented either by standard or groups of standards or in another logic structure that supports the understanding based of the business. Independently, information that remains almost unchanged year-on-year, e.g., polices, can be presented at the end of the report."

Rationale:
The fourth option is envisaged to support both the understandability of the annual reporting package and to foster integration and thus the connectivity between the elements of sustainability reporting and the financial reporting by allowing the undertaking to provide a more complete picture of the business model, risk descriptions etc. Allowing for information in a separate disclosure section supports the readability by ensuring that the management report is not cluttered by long data appendixes. This will support the transition to a more sustainable economy by encouraging a more integrated approach. Since information is going to be digitally tagged, professional users will be able to extract the information through ESAP and reorder as they find necessary for their data analysis purposes.

Kind regards,

The Confederation of Danish Industry

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