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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

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* First name

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Agata

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Zalewska

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* Country of origin

50 character(s) maximum

Belgium

*** 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

It is difficult to answer this question whilst the final text of the CSRD has just been finalised at EU level and will be subject to national transposition measures in the next years. Whilst major changes are not expected in terms of the overarching structure, it is important to ensure that the standards are aligned with the final text of the CSRD, without gold plating, given that the overall goal is to support companies in scope in implementing the directive. While the structure of the cross-cutting and topical standards might cover the CSRD topics, the articulation of these topics is significantly too broad and not proportional from a cost-benefit perspective.

Some more specific points: Since a key goal of the reporting is to assess how sustainability matters affect the undertaking's development, performance and position, since this is not included in the overall architecture of the standards, it is important that this is included in ESRS1 on general provisions.

We agree with the overall structure on social aspects focusing on issues related to different parts of the workforce rather than the more mixed wording in the CSRD, which would not lend itself structurally to standards. However, whilst ESRS S3 and ESRS S4 on affected communities and consumers/end-users are valid topics, this is not aligned with CSRD, as they are not specified in CSRD article 19b. This is also the case for ESRS G2 on responsible business practices. It is important not to mix up workforce with societal issues as the frameworks for company practices on these two issues are very different. It is also unclear where the aspects on human rights included in CSRD article 19b are included in the structure of the standards. Given the extended scope of the CSRD, most companies that will apply ESRS have previously not been subject to any reporting requirements at all. For these entities, the step to a full reporting according to ESRS will be excessively demanding.

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
- [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

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 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. 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.

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 to the entity for the disclosure of 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

We support in principle an approach based on the interoperability principle, to avoid duplication between disclosure requirements or reporting standards rooted in different world regions or EU legislative frameworks. In particular, we support the need for a joint effort of the SEC, EU and ISSB to develop comparable standards.

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 - **Sustainable 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

Bearing in mind that the CSRD is meant to be the authoritative EU sustainability reporting frameworks, it is important that the directive and standards are aligned with existing EU level reporting obligations in other pieces of legislation, without adding to them unnecessarily.

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

Alignment with the Better Regulation agenda and the new directive on due diligence is also necessary.

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.

See answer to question 1.

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.

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).

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
- (x) 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 favour of the obligation to integrate the sustainability reporting into the management report, but integrated reporting is needed as an option to guarantee the alignment of the CSRD /ESRS with the global baseline by the ISSB. 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.

For example, some companies may prefer reporting in line with a fourth option whereby entities can create sections across all areas – or at least within the E, S and G areas – for the descriptive disclosures of a) strategy, b) value chain, c) policies and d) processes.
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

Notwithstanding the principled position described above, our understanding is that paragraph 135 allows reporters to refer, in their sustainability report, to information located elsewhere in the management report.

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.

These are some of the reasons why we consider crucial for reporting entities to be allowed more freedom in structuring the management report (including the sustainability information) as they see fit.

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
- ● 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 reference to paragraphs 133 and 134, (133 (a) "include in its sustainability report…" and 133 (b) "refer in its sustainability report to…") we strongly advise against prescribing where listed undertakings should disclose information on specific EU regulations such as those mentioned in paragraph 134. 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?

- ● 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 data point 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".

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
- ◯ 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

A major concern with the characteristics of information quality in ESRS 1 is not how they are defined and described. The concepts are familiar and well established in accounting theory and existing financial reporting frameworks such as IFRS. However, the purpose of the qualitative characteristics is not only to provide guidance for reporting entities and assurance providers. They should also be applied by standard-setters, i.e. in this case EFRAG. The reporting framework by EFRAG 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. However, 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.

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
- ◉ 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
- 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

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
- 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. Paragraphs 35, 36 first sentence and 37 seem to be better targeted.

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
- 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

The isolated text in paragraph 46 is clear but read in context with other descriptions in ESRS 1 and ESRS 2 the concept of double materiality becomes more confusing. This includes the amount of mandatory information that is predefined as material. 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. That again is at risk of reducing readability, increasing the reporting burden and most importantly, make the reports less valuable to preparers as well as users due to the fact that it is difficult to see what topics material are really to understand the enterprise' ESG impacts and related financial risks. In addition, it might result in less management understanding and ownership in what is really material to the reporting organization.

The 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).

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. As such criteria also must be agreed upon by assurance providers and (preferably) users of sustainability reports, many entities will be led 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 and other stakeholders should not be exaggerated. There is a clear correspondence between sustainability impacts and enterprise value.

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
- (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

Please see comment to ESRS 2-IRO1, also keeping in mind that BusinessEurope does not support the proposed rebuttable presumption approach, whereby it is for the companies to demonstrate why certain sustainability related issues are not material for them (under ESRS 2-IRO2).

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. Regarding the disclosure requirements ESRS 2 IRO-1, these disclosures will run the risk of becoming boilerplate, repetitive information with little actual information value.

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 (selected)

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

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 (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 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" 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 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.

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 (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 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. This should be explored.

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
- (selected) 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. The matters that may trigger financial effects on an undertaking is wide-ranging and the connection between these matters and sustainability matters may be weak. The definition of financial materiality may imply disclosure of highly uncertain future-oriented information and information that is business sensitive.

(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?

- (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

Current requirements to apply rebuttable presumption requires companies to explain in details the reasons why each of the ESRS DR are not material, 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.

Instead of imposing on all companies a heavy reporting burden, companies should apply the double 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.

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

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

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. 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.

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
- ● 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 approximation of information in the value chain that cannot be collected goes against the principle of verifiability and faithful representation as it may lead to largely wrong estimates due to the lack of delimitation of reporting boundaries.

There should be a clearer acknowledgement that a company's ability to collect data and provide a description of SR related issues on entities outside of its operational control and across its entire value chain is going to be difficult, sometimes not possible and potentially inherently inaccurate. It will also often be impractical for a company with complex global supply and distribution chains to be able to evidence a link between the impact of an SR risk along its value chain and the undertaking's own operations. The standards should not risk providing information to stakeholders which could potentially be incomplete or misleading. Even where the standard accepts that undertakings may have to rely on approximations or external information, the current draft would require a firm to describe “the planned actions to reduce the missing data in the future”. If the data simply does not exist it may not be possible to describe such a plan.

The standards should prescribe that a reporting entity can only include information that is verifiable and faithfully represented; Information that cannot be verified or faithfully represented cannot be included. This is in line with the requirements in other internationally, generally accepted standards.

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. Lack of comparability and relevance. Information that the reporting entity wouldn't use for making decisions due to lack of quality, should not be communicated externally. High risk of sub-optimization.

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

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 (ie disaggregating information for the few countries or assets having the most impact).

The requirement in paragraph 76 to reflect "connections and dynamics" in the value chain is unclear and its linkage to disaggregation is difficult to understand. It is not likely that this disclosure will contribute to understandability and comparability.

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?

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

Please explain why

It depends on the circumstances under which the definition is used. For some disclosures, these time horizons will not be relevant. Reporting entities should be allowed to define time horizons that are relevant to their own circumstances and activities. For example, the static five-year perspective suggested for climate-related targets in E1 paragraph 24 will not be relevant for all entities. It is not possible to force the individual circumstances for all entities into the same model for measuring progress. This will be highly dependent on available technologies, production methods etc. The information will be of more value to users if the entities are not forced into a one-size-fits-all type of model.

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

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

Please explain why

For some disclosures, these time horizons may be relevant. For others, it should be up to the reporting entity to make its own assessment on the time perspective that illustrates the strategy and circumstances of that particular entity.

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

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
- (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

> Disclosure requirements in DP 1-1 to DP 1-3 are very detailed. 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.
>
> This will influence the relevance of the information. In addition, the application guidance contains requirements of what the undertaking "shall do" that target more than disclosures. For example, we cannot see the reason why reference to international frameworks as standards of conduct should not be acceptable if reporting entities actually apply such frameworks as policies. The purpose of the disclosure principle should be to reflect the actual activities of the reporting entity.
>
> Actions 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
- (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

Disclosure requirements in DP 1-1 to DP 1-3 are very detailed. Questions regarding principles vs what should be presented on policies, targets etc 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
- (selected) 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

Disclosure requirements in DP 1-1 to DP 1-3 are very detailed. 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.

Further, the description of this principle is overly granular and applying it may imply disclosure of business sensitive information. The principle needs to better reflect how business is conducted and companies are managed in order for reporting entities to provide meaningful information.

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?

- ○ 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)

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
- [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 European business community calls for 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.

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: §5b: 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.

For part I: the EU Better Regulation Agenda has not been considered.

For part J: by deleting the rebuttable presumption, making the principles for assessing materiality clearer, and by reconsidering the level of detail in individual disclosure requirements.

Overarching comment: From a user perspective, the sustainability information bears the risk of becoming repetitive, boilerplate disclosures with low information value and relevance.

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).

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

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

Overarching comment: 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 in several different ways and allows greater flexibility for companies in the descriptions of their plans. The standards should stick with the language of the directive.

Furthermore, 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 and level of assurance, given which criteria, applying which accreditation procedure? Indeed, the current private initiatives to assess companies’ targets are valuable initiatives, but in case companies’ responsibility using these methods is challenged based on the CSRD text, those private initiatives will not provide any legal arguments if they are not enshrined into EU or international legislation. In this regard, prospective scenarios’ analysis should be key and left to the initiative of each company.

On the representations and the ability to assure data, the proposals for speculative quantitative information regarding the financial impact of future physical and transition risks as well as detailed breakdown of scope 3 data across the value chain will be difficult to verify. 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 thereby 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.

Several of the proposed standards call for a level of granularity which would be unduly burdensome for companies, 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.

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

For part B and F: Local impacts do not correspond to a sum of authorized emissions for all installations. Setting up a global volume of emissions at group level and not installation by installation 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. On the one hand, it is challenging to track and trace value chain metrics, and have that information assured. It can also become problematic to collect this information in the time frame that entities have set for the production or their annual reports.

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, 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 covers also the emissions into soil through the use of the undertaking’s products and/or services. However, it will be hard 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.

For part 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.

For part 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.

For part E: Especially financial information may raise confidentiality issues when referring to actions associated to incidents / accidents.

For part G: Besides the non-meaningful information to be disclosed, we wish to highlight that 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).

For 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 environment. For instance, 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 the way this local data can be accessible would seem much more preferable.

For part I: The EU legislation is well considered but not respected: the application of BREFs and the emission limit values set by local authorities reflect on the state of the environment of each installation (at local level). On the contrary, the standard includes data requirements that are not comparable across the EU due to different definitions. Considering the lack of / immature standards to measure pollution at global level, it is suggested that the general qualitative disclosures is then supplemented by sector specific disclosures / guidance and phasing in as metrics are mature.

Another element to take into account is the alignment of this standard 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 then has a direct critical impact on the innovation and competitiveness of companies for the production of sustainable products, which are needed, among other things, for the successful implementation of the Green Deal.

Last but not least, to ensure better consistency with European legislation, hazardous characteristics requiring reporting should not be defined in sustainability reporting in anticipation of decisions yet to be made in the CLP, REACH regulations or the Ecodesign Regulation.

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

For 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.

For 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.

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

For 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).

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

For part I: Proposal for Deforestation regulation, RED II, Climate change taxonomy, EU Timber regulation (Birds and habitats directive? Natura 2000?). Different definitions and sustainability criteria must be in line with existing legislation (see “additional comments” section under ESRS4 comments)

For part J: Different definitions and sustainability criteria must be in line with existing legislation and with global international definitions. ESRS 4 should be in line with Global compact, which is generally accepted framework for reporting

Overarching comment: It will take years to develop a policy, strategy and targets around this and even longer to create the collection of a quality that can be used. Especially problems with E4 are related to chapters 3,5,6 and 7 and value chain reporting. Also, it is hard to assess cross-over impacts (when an entity prioritizes one specie, but this may have negative impact on others). It is recommended to focus on the basics first, namely prioritising strategy and policies while developing standards and metrics (to be disclosed at a later stage). Not following this staggered / phased implementation will lead to very immature reporting and not recognize that principles are still under development. To solve this problem, we would recommend focusing on sector specific standards with specific metrics.

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

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

Overarching comment: 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.

For 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.

For 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. Therefore, it will be difficult to assess the impact of those products. Our recommendation is to preserve business secrets and confidential information.

For part G: In line with the CSRD objectives, the ESRS 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).

For part H: The proposed requirements will trigger a huge need to update the data availability within countries in a way to measure baseline, plan, manage and verify the progress. Such granular requirements will therefore require updates on people, technologies and processes. We do not see the benefits outweighing the reporting costs: requiring too many details and information across the value chain will create excessive additional costs while a company may still be able to set up relevant waste recovery solutions.

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.

For 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. Definitions shall be aligned with EU legislation and relevant EN/ISO standards.

For 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.

In this sense, we encourage an assessment of what is the status based on the current availability of data of the already involved companies and a representative sample of companies that will fall now in the category to report.

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

For 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 due to GDPR.

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

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).

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

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

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)	○	◉	○	○	○
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 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

As a general comment, 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. adoption of new policies and internal rules, restructuring of risk management processes etc). The disclosures are overly granular and disproportionate.

We have seen little evidence that the CSRD strikes the right balance between additional workload and 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.

Furthermore, 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 in this regard awarded by company law systems.

Overall, the proposed disclosure standards 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 for new mandatory disclosure standards applicable for both listed and unlisted companies. This is mainly due to the will of 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 standards). In particular, as for the issues regarding both listed and non-listed companies:

- for listed companies, the current text of the application guidance seems to explicitly allow for cross-referencing only to other sections of the management report that are clearly identified as addressing the specific disclosure requirement, 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, so being 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 also for unlisted companies would introduce a high level of uncertainty of the standards' definitions.

Regarding the overreliance of the proposed G1 disclosure standards on international accepted metrics (i.e. GRI), while an alignment with international is needed and beneficial, the standards setter should limit to duplicate only 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 that is inconsistent with a level 1 measure. As for the mandate provided by the CSRD to develop standards on governance factors, this shall be interpreted in a stricter way, as referred to essential governance information that are functional to the disclosure on the sustainability; in fact, the EFRAG interpretation of the general governance factors is beyond the disclosure requirements of article 19a and 29a of the CSRD, thus resulting in an overlap of pre-existing rules, the misalignment of their scope and introduction of mandatory requirements that do not have a legal basis.

Finally, the specific content of G1 disclosure requirement poses some specific problems with regard to company groups. According to the CSRD, the sustainability reporting shall be provided by the parent undertaking through the consolidated sustainability reporting (new art. 29a of CSRD) information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position; with regard to the G1 scope of information it should be cleared if the information about the company's bodies is always to be referred and limited to the parent undertaking.

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)			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 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

- 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.

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
- (x) 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
- (x) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

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

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).

Please explain why

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 light 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?

Size of reporting entity. Most entities that will report under ESRS do not report under NFRD (large unlisted entities). It is important that EFRAG pays particular attention to ensure that its sustainability reporting standards meet the particular needs of the companies that are now in the scope of CSRD, but were not covered by NFRD, which compared to larger listed corporates already in scope of NFRD, have much less resources and experience for sustainability reporting.

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

To ensure adequate time to develop standards of high quality and to await alignment with ISSB we believe that EFRAG should work in the following order going forward:

1. Prioritize the information needed to fulfill the requirements of SFDR. Keep in mind that the indicators demanded by financial institutions as a consequence of that regulation requires limited KPI’s from non-financial entities. Several of them are binary in nature.
2. Develop workable principles for materiality and other central reporting concepts within ESRS 1-2. The rebuttable presumption needs to be reconsidered.
3. Draft topic standards with regard to the agreed principles without gold plating CSRD and as much as possible in line with ISSB standards.
4. Develop sector-specific standards without gold plating CSRD and as much as possible in line with ISSB standards.

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

Contact

[Contact Form]